CENTER FOR URBAN COMMUNITY SERVICES, INC.

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2012 and 2011

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Center for Urban Community Services, Inc.
New York, New York

We have audited the accompanying consolidated statements of financial position of the Center for Urban Community Services, Inc. and its wholly controlled entities (together, "CUCS") as of June 30, 2012 and 2011, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of CUCS'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 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 consolidated financial statements enumerated above present fairly, in all material respects, the financial position of the Center for Urban Community Services, Inc. and its wholly controlled entities as of June 30, 2012 and 2011, and the changes in their net assets and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

EisnerAmper LLP

New York, New York
December 17, 2012

CENTER FOR URBAN COMMUNITY SERVICES, INC.

Consolidated Statements of Financial Position

	June 30, 2012	June 30, 2011
ASSETS		
Cash and cash equivalents	**$ 4,550,017**	$ 4,342,965
Investments	**1,349,900**	1,265,442
Government grants receivable	**3,351,195**	1,695,809
Contributions receivable	**914,219**	912,067
Accounts receivable	**712,990**	1,219,471
Note receivable from limited partnership	**30,025,667**	27,083,302
Prepaid expenses	**299,903**	182,186
Property and equipment, net	**11,290,283**	11,048,766
Security deposits and other assets	**171,172**	65,455
	$ 52,665,346	$ 47,815,463
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	**$ 4,403,990**	$ 3,332,099
Refundable advances	**690,127**	566,785
Interest-rate-swap agreement	**510,552**	763,522
Notes payable	**32,942,106**	29,943,148
Total liabilities	**38,546,775**	34,605,554
Commitments and contingencies (Note M)		
Net assets:		
Unrestricted - undesignated	**11,672,110**	10,800,597
Unrestricted - designated for operations	**1,349,900**	1,282,602
Total unrestricted	**13,022,010**	12,083,199
Temporarily restricted	**1,096,561**	1,126,710
Total net assets	**14,118,571**	13,209,909
	$ 52,665,346	$ 47,815,463

CENTER FOR URBAN COMMUNITY SERVICES, INC.

Consolidated Statements of Activities

	Year Ended June 30,					
	2012			2011		
	Total Unrestricted	Temporarily Restricted	Total	Total Unrestricted	Temporarily Restricted	Total
Public support and revenue:						
Grants and contracts	**$ 27,024,354**		**$ 27,024,354**	$ 23,441,294		$ 23,441,294
Program service fees	**2,953,733**		**2,953,733**	2,459,390		2,459,390
Contributions	**293,036**	**$ 1,275,000**	**1,568,036**	224,286	$ 2,525,000	2,749,286
Special event (net of direct benefit to donors of $45,900)	**193,801**		**193,801**			
Management fees	**379,902**		**379,902**	408,670		408,670
Interest income	**14,806**		**14,806**	14,643		14,643
Investment income	**65,480**		**65,480**	86,958		86,958
Other income	**115,996**		**115,996**	454,181		454,181
Total public support and revenue before release from restrictions	**31,041,108**	**1,275,000**	**32,316,108**	27,089,422	2,525,000	29,614,422
Net assets released from restrictions	**1,305,149**	**(1,305,149)**	**0**	2,824,654	(2,824,654)	0
Total public support and revenue	**32,346,257**	**(30,149)**	**32,316,108**	29,914,076	(299,654)	29,614,422
Expenses:						
Program services:						
Supportive housing	**13,473,485**		**13,473,485**	12,508,009		12,508,009
Outreach and transitional	**5,985,935**		**5,985,935**	5,728,552		5,728,552
Project for Psychiatric Outreach to the Homeless	**3,168,817**		**3,168,817**	2,880,988		2,880,988
Training and technical assistance	**3,600,396**		**3,600,396**	3,019,305		3,019,305
Vocational	**1,387,374**		**1,387,374**	1,292,035		1,292,035
Research	**195,377**		**195,377**	260,814		260,814
Total program services	**27,811,384**		**27,811,384**	25,689,703		25,689,703
Supporting services:						
Fund-raising	**379,212**		**379,212**	259,487		259,487
Management and general	**3,469,820**		**3,469,820**	3,095,010		3,095,010
Total expenses	**31,660,416**		**31,660,416**	29,044,200		29,044,200
Change in net assets from operations	**685,841**	**(30,149)**	**655,692**	869,876	(299,654)	570,222
Gain on interest-rate-swap agreement	**252,970**		**252,970**	133,846		133,846
Change in net assets	**938,811**	**(30,149)**	**908,662**	1,003,722	(299,654)	704,068
Net assets at beginning of year	**12,083,199**	**1,126,710**	**13,209,909**	11,079,477	1,426,364	12,505,841
Net assets at end of year	**$ 13,022,010**	**$ 1,096,561**	**$ 14,118,571**	$ 12,083,199	$ 1,126,710	$ 13,209,909

See notes to consolidated financial statements

CENTER FOR URBAN COMMUNITY SERVICES, INC.

Consolidated Statement of Functional Expenses
Year Ended June 30, 2012
(with summarized financial information for 2011)

	Program Services							Supporting Services		Total Expenses	
	Supportive Housing Services	Outreach and Transitional Services	Project for Psychiatric Outreach to the Homeless	Training and Technical Assistance	Vocational Services	Research	Total Program Services	Management and General	Fund-Raising	2012	2011
Salaries	$ 8,178,566	$ 3,199,770	$ 2,271,748	$ 2,045,294	$ 1,008,101	$ 130,631	$16,834,110	$ 1,725,464	$ 156,243	$ 18,715,817	$ 17,578,386
Fringe benefits	2,358,958	922,915	577,988	589,928	290,769	37,678	4,778,236	497,678	45,065	5,320,979	4,800,337
	10,537,524	4,122,685	2,849,736	2,635,222	1,298,870	168,309	21,612,346	2,223,142	201,308	24,036,796	22,378,723
Occupancy	1,268,230	300,408	10,083	49,806	7,942		1,636,469	46,191	13,662	1,696,322	1,431,674
Professional fees	15,977	203,158	33,162	264,352	195	7,809	524,653	199,616	68,223	792,492	794,683
Donated services	123,912		44,400				168,312			168,312	54,305
Equipment expenses	109,667	36,485	1,100	20,193	487		167,932	12,618	240	180,790	79,268
Staff and client travel	53,323	42,411	244	95,961	11,961	1,121	205,021	8,671	129	213,821	150,850
Depreciation	222,260	183,518	58,390	155,126	1,634	20	620,948	140,417	16	761,381	677,884
Program costs	125,786	48,758	9,097	47,021	12,300	8,728	251,690	127,736	1,591	381,017	335,329
Repairs and maintenance	385,491	412,751	7,236	55,481	12,736		873,695	39,000	207	912,902	884,570
Supplies and materials	401,797	436,389	18,603	76,746	30,636	8,280	972,451	62,482	9,661	1,044,594	911,931
Communications	119,120	36,787	8,668	30,908	7,677	110	203,270	23,699	16,685	243,654	228,403
Other	110,398	162,585	128,098	169,580	2,936	1,000	574,597	586,248	67,490	1,228,335	1,116,580
Total expenses	$ 13,473,485	$ 5,985,935	$ 3,168,817	$ 3,600,396	$ 1,387,374	$ 195,377	$27,811,384	$ 3,469,820	$ 379,212	$ 31,660,416	$ 29,044,200

See notes to consolidated financial statements

CENTER FOR URBAN COMMUNITY SERVICES, INC.

Consolidated Statement of Functional Expenses
Year Ended June 30, 2011

	Program Services							Supporting Services		
	Supportive Housing Services	Outreach and Transitional Services	Project for Psychiatric Outreach to the Homeless	Training and Technical Assistance	Vocational Services	Research	Total Program Services	Management and General	Fund-Raising	Total Expenses 2011
Salaries	$ 7,622,177	$ 3,282,241	$ 2,043,085	$ 1,815,065	$ 948,166	$ 154,743	$ 15,865,477	$ 1,594,256	$ 118,653	$ 17,578,386
Fringe benefits	2,081,478	896,320	557,929	495,661	258,927	42,258	4,332,573	435,362	32,402	4,800,337
	9,703,655	4,178,561	2,601,014	2,310,726	1,207,093	197,001	20,198,050	2,029,618	151,055	22,378,723
Occupancy	981,140	120,243	7,765	28,575	7,532		1,145,255	286,419		1,431,674
Professional fees	4,410	219,619	44,000	254,631	205	45,716	568,581	177,489	48,613	794,683
Donated services			47,200				47,200	7,105		54,305
Equipment expenses	44,239	14,468	3,663	10,432	593	166	73,561	5,707		79,268
Staff and client travel	58,504	43,611	100	25,006	13,362	1,277	141,860	8,945	45	150,850
Depreciation	364,716	120,272	38,499	101,975	6,660	20	632,142	45,726	16	677,884
Program costs	145,417	62,786	7,727	56,105	8,514	10,721	291,270	41,218	2,841	335,329
Repairs and maintenance	342,585	447,291	7,204	41,308	9,275		847,663	36,907		884,570
Supplies and materials	317,121	422,709	11,280	66,915	26,738	5,862	850,625	52,485	8,821	911,931
Communications	114,901	38,137	5,353	28,173	7,431	51	194,046	21,735	12,622	228,403
Other	431,321	60,855	107,183	95,459	4,632		699,450	381,656	35,474	1,116,580
Total expenses	$ 12,508,009	$ 5,728,552	$ 2,880,988	$ 3,019,305	$ 1,292,035	$ 260,814	$ 25,689,703	$ 3,095,010	$ 259,487	$ 29,044,200

CENTER FOR URBAN COMMUNITY SERVICES, INC.

Consolidated Statements of Cash Flows

	Year Ended June 30, 2012	Year Ended June 30, 2011
Cash flows from operating activities:		
Change in net assets	**$ 908,662**	$ 704,068
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	**761,381**	677,884
Net realized and unrealized gains on investments	**(21,986)**	(34,054)
Gain on interest-rate-swap agreement	**(252,970)**	(133,846)
Changes in:		
Government grants receivable	**(1,655,386)**	431,777
Contributions receivable	**(2,152)**	(461,267)
Accounts receivable	**506,481**	(607,776)
Prepaid expenses	**(117,718)**	258,127
Security deposits and other assets	**(105,717)**	15,800
Accounts payable and accrued expenses	**1,071,891**	476,380
Refundable advances	**123,341**	128,193
Net cash provided by operating activities	**1,215,827**	1,455,286
Cash flows from investing activities:		
Acquisitions of property and equipment	**(1,002,897)**	(287,156)
Purchases of investments	**(247,353)**	(192,152)
Proceeds from sales of investments	**184,881**	127,386
Net cash used in investing activities	**(1,065,369)**	(351,922)
Cash flows from financing activities:		
Proceeds from borrowings	**3,023,959**	11,104,776
Mortgage notes disbursements	**(2,942,365)**	(11,809,110)
Repayment of loans	**(25,000)**	(25,000)
Net cash provided by (used in) financing activities	**56,594**	(729,334)
Net increase in cash and cash equivalents	**207,052**	374,030
Cash and cash equivalents - beginning of year	**4,342,965**	3,968,935
Cash and cash equivalents - end of year	**$ 4,550,017**	$ 4,342,965
Supplemental disclosure of cash flow information:		
Cash paid for interest	**$ 563,104**	$ 491,398

NOTE A - THE ORGANIZATION AND ITS SIGNIFICANT ACCOUNTING POLICIES

[1] The Organization:

The accompanying consolidated financial statements include the financial positions and changes in net assets and cash flows of the Center for Urban Community Services, Inc. (the "Center"), CUCS Housing Development Fund Corporation ("CUCS-HDFC"), CUCS Initiatives, Inc., CUCS Housing Development Fund Corporation II ("CUCS-HDFC II") and Janian Medical Care P.C. (the "PC"), the five of which are described below. As used herein, the term "CUCS" refers to the five entities collectively.

The Center was incorporated in the State of New York in 1994 as a tax-exempt, not-for-profit organization, with its primary purpose being to create comprehensive, effective housing and service programs for homeless and low-income people, particularly those suffering from serious mental illness, HIV/AIDS, and other disabling conditions. CUCS sponsors nineteen service sites throughout Manhattan, Brooklyn and the Bronx, which include (i) transitional living communities; (ii) an outreach program; (iii) a job training and employment program; (iv) a training, consultation and housing information services department; (v) a permanent supportive housing program; and (vi) psychiatric outreach to the homeless.

CUCS-HDFC was incorporated in 2004 as a not-for-profit corporation in the State of New York for the development of low-income housing in the Bronx. As described in Note G[1], CUCS-HDFC is the sole owner of 1510 Southern Boulevard, GP, Inc., which in turn owns a small percentage of a limited partnership.

CUCS Initiatives, Inc. is a not-for-profit corporation, incorporated in the State of New York which was formed in August 2005 and commenced operations in fiscal-year 2007. CUCS Initiatives, Inc. was formed for the purpose of providing relief to the poor, distressed, and underprivileged through development in impoverished neighborhoods in the City of New York.

CUCS-HDFC II is a not-for-profit corporation, incorporated in the State of New York, which was formed in February 2008 for the development of low-income housing. As described in Note G[2], CUCS-HDFC II is the sole owner of Lenniger Residences, GP, Inc., which in turn owns a small percentage of a limited partnership.

The PC is a corporation incorporated in the State of New York which was formed in 2012 to provide an updated legal, administrative and management structure to support and streamline ongoing operations and to allow for the expansion of primary health care services.

The entities collectively are exempt from federal income taxes under the provisions of Section 501(c)(3) of the U.S. Internal Revenue Code, and from state and local taxes under comparable laws.

All inter-entity amounts have been eliminated in consolidation.

[2] Financial reporting:

(a) Basis of accounting:

The accompanying consolidated financial statements have been prepared using the accrual basis of accounting and conform to accounting principles generally accepted in the United States of America as applicable to not-for-profit organizations.

(b) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the 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.

NOTE A - THE ORGANIZATION AND ITS SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[2] Financial reporting: (continued)

(c) Cash and cash equivalents:

CUCS considers highly liquid financial investments, purchased with a maturity of three months or less, to be cash equivalents, except for those money-market funds and certificates of deposit held in the investment portfolio.

(d) Investments:

The investments in the accompanying consolidated statements of financial position consist primarily of money-market funds and actively traded mutual funds, and are reported at their fair values at fiscal year-end. Net investment income and realized and unrealized gains and losses on investments during the fiscal year are reported in the accompanying consolidated statements of activities.

A derivative financial instrument, consisting of an interest-rate-swap contract accounted for as a cash-flow hedge, is measured at its fair value. The effective portion of changes in the fair value of cash-flow hedges are recognized as part of unrealized appreciation (depreciation) in the fair value of investments in the accompanying consolidated statements of activities. Any ineffectiveness of the contract would be recognized in the consolidated statements of activities as a loss on swap agreement (see Note F).

(e) Property and equipment:

Property and equipment are stated at either their original costs or their fair values at the dates of donation. Depreciation is calculated using the straight-line method over the estimated useful lives of the respective assets, which range from 3 to 50 years. Building and leasehold improvements are capitalized and amortized using the straight-line method over the remaining lease term, or the useful lives of the improvements, whichever is shorter.

(f) Revenue recognition:

Revenue from contracts and grants is recognized when costs are incurred or other services are performed and requisitions for reimbursement are submitted. Contracts and grants received in advance are recorded as advances from governmental agencies, and revenue is deferred until the related expenses are incurred. Program service fees are recognized based upon services rendered in accordance with contractual provisions.

Contributions are recognized as income at the earlier of the receipt of (i) cash or other assets or (ii) unconditional pledges. Contributions are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or when the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted and reported as net assets released from restrictions.

Gifts of goods and equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as temporarily restricted support. In the absence of explicit donor stipulations about the length of time for which long-lived assets must be maintained, CUCS reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Donated services are valued at an average hourly rate for legal and psychiatric sessions. Total donated services for fiscal year 2012 and and 2011 were approximately $170,000 and $55,000, respectively.

NOTE A - THE ORGANIZATION AND ITS SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[2] Financial reporting: (continued)

(g) Net assets:

The net assets are classified as follows:

(i) Unrestricted:

Unrestricted net assets represent those resources that are not subject to donor-imposed restrictions and are available for general use.

(ii) Unrestricted - board-designated:

Through a resolution, the Board of Directors has designated $1,349,900 and $1,282,602 of the unrestricted net assets in fiscal-years 2012 and 2011, respectively, to be maintained in a special operating reserve. Any income generated by this special reserve fund may be used for unrestricted operations. Included in the unrestricted board-designated amounts are $361,672 and $333,001 in fiscal-years 2012 and 2011, respectively, for the George Brager Memorial Scholarship Fund.

(iii) Temporarily restricted:

Temporarily restricted net assets represent those resources that are subject to donor-imposed stipulations that will be met by the actions of the organization or the passage of time. Net assets released from restrictions represent the satisfaction of the restricted purpose specified by the donor.

(h) Functional allocation of expenses:

Expenses are classified according to the programs for which they were incurred and are summarized on a functional basis in the accompanying consolidated statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services in reasonable ratios determined by management.

(i) Income tax uncertainties:

CUCS is subject to the provisions of the Financial Accounting Standards Board's Accounting Standards Codification ("ASC") Topic 740-10-05 relating to the accounting and reporting for uncertainty in income taxes. Because of CUCS's general tax exempt status, ASC Topic 740-10-05 has not had, and is not expected to have, a material impact on CUCS's consolidated financial statements.

(j) Fair-value measurements:

CUCS reports a fair-value measurement of all applicable financial assets and liabilities, including investments, grants and contributions receivable and short-term payables.

(k) Subsequent events:

CUCS considers the accounting treatments, and the related disclosures in the current fiscal-year's consolidated financial statements, that may be required as the result of all events or transactions that occur after the fiscal year-end through the date of the independent auditors' report.

NOTE B - CONTRIBUTIONS RECEIVABLE

Unconditional amounts pledged to CUCS, but not yet collected as of the fiscal year-end, have been recorded as contributions receivable. At June 30, 2012 and 2011, contributions receivable of $914,219 and $912,067, respectively, were estimated to be collected in the subsequent fiscal year.

NOTE B - CONTRIBUTIONS RECEIVABLE (CONTINUED)

Management considers all contributions to be fully collectible; accordingly, no allowance for doubtful amounts has been established.

NOTE C - GOVERNMENT GRANTS RECEIVABLE

At each fiscal year-end, amounts due to CUCS from governmental agencies, in support of client services and under the terms of agreements signed with various federal and city agencies, were as follows:

	June 30,	
	2012	**2011**
Federal	**$ 875,406**	$ 36,512
New York City	**2,475,789**	1,659,297
	$ 3,351,195	$ 1,695,809

Based on prior history, management considers these receivables to be fully collectible; accordingly, no allowance for doubtful amounts has been established.

NOTE D - INVESTMENTS

At each fiscal year-end, investments consisted of the following:

	June 30,			
	2012		**2011**	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Money-market funds	**$ 21,368**	**$ 21,368**	$ 18,671	$ 18,671
Equity mutual funds	**64,008**	**77,467**	64,317	81,207
Fixed income mutual funds	**1,203,586**	**1,251,065**	1,136,575	1,165,564
	$ 1,288,962	**$ 1,349,900**	$ 1,219,563	$ 1,265,442

During each fiscal-year, net investment earnings consisted of the following:

	Year Ended June 30,	
	2012	**2011**
Interest and dividends	**$ 43,494**	$ 52,904
Net unrealized gains	**15,059**	23,357
Net realized gains	**6,927**	10,697
Net return on investment	**$ 65,480**	$ 86,958

NOTE D - INVESTMENTS (CONTINUED)

ASC Topic 820-10-05 establishes a three-level valuation hierarchy of fair-value measurements. These valuation techniques are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect market assumptions. These two types of inputs create the following fair-value hierarchy:

Level 1 - Valuations are based on observable inputs that reflect quoted market prices in active markets for identical assets and liabilities at the reporting date.

Level 2 - Valuations are based on (i) quoted prices for similar assets or liabilities in active markets, or (ii) quoted prices for identical or similar assets or liabilities in markets that are not active, or (iii) pricing inputs other than quoted prices that are directly or indirectly observable at the reporting date. Level 2 assets include those securities that are redeemable at or near the balance sheet date and for which a model was derived for valuation.

Level 3 - Fair value is determined based on pricing inputs that are unobservable and includes situations where (i) there is little, if any, market activity for the asset or liability, or (ii) the underlying investments of which cannot be independently valued, or (iii) they cannot be immediately redeemed at or near the fiscal year-end.

The following tables summarize the fair values of CUCS's investments at each fiscal year-end in accordance with these fair values:

	June 30, 2012		
	Level 1	**Level 2**	**Total**
Money-market funds	**$ 21,368**		**$ 21,368**
Equity mutual funds	**77,467**		**77,467**
Fixed income mutual funds		**$ 1,251,065**	**1,251,065**
Total	**$ 98,835**	**$ 1,251,065**	**$ 1,349,900**

	June 30, 2011		
	Level 1	**Level 2**	**Total**
Money-market funds	$ 18,671		$ 18,671
Equity mutual funds	81,207		81,207
Fixed income mutual funds		$ 1,165,564	1,165,564
Total	$ 99,878	$ 1,165,564	$ 1,265,442

CENTER FOR URBAN COMMUNITY SERVICES, INC.

Notes to Consolidated Financial Statements
June 30, 2012 and 2011

NOTE E - PROPERTY AND EQUIPMENT

At each fiscal year-end, property and equipment consisted of the following:

	June 30, 2012	June 30, 2011
Land	**$ 796,640**	$ 796,640
Building and improvements	**11,152,051**	11,048,162
Furniture and fixtures	**340,057**	604,560
Equipment	**1,447,563**	1,387,358
	13,736,311	13,836,720
Less accumulated depreciation	**(2,446,028)**	(2,787,954)
	$ 11,290,283	$ 11,048,766

During fiscal-year 2012, CUCS removed from its accounting records $1,103,000 in the costs of fully depreciated assets. There were no such write-offs in 2011.

NOTE F - NOTES PAYABLE

At each fiscal year-end, notes payable consisted of the following:

	June 30, 2012	June 30, 2011
Note payable commitments for CUCS Initiatives with New Markets Investment XXI, LLC:		
Acquisition Loan note, bearing interest at LIBOR plus 1.6%, requiring interest-only payments, due in January 2037	**$ 5,489,606**	$ 5,489,606
Senior Building Loan note, bearing interest at LIBOR plus 1.6%, requiring interest-only payments, due in January 2037	**1,311,894**	1,311,894
Junior Building Loan note, bearing interest at 0.5%, requiring interest only payments, due in January 2037	**2,105,098**	2,105,098
Project Loan note, bearing interest at 0.5%, requiring interest only payments, due in January 2037	**133,402**	133,402
C Loan note, bearing interest at 0.5%, requiring interest only payments, due in January 2037	**1,850,000**	1,850,000
Total note payable commitments with New Markets Investment XXI, LLC	**10,890,000**	10,890,000
City of New York Department of Housing Preservation and Development ("HPD") to CUCS-HDFC II, due on the 270th day following substantial completion of the project and converted from a construction loan to a permanent loan (see Note G[2])	**19,285,400**	16,261,442
Dormitory Authority of the State of New York ("DASNY") to CUCS-HDFC, bearing interest at 5.3%, due in December 2032 (see Note G[1])	**4,591,706**	4,591,706
Loan payable, unsecured, noninterest-bearing, $25,000, due fiscal-year 2013	**25,000**	50,000
	34,792,106	31,793,148
C Loan note lent by the Center and eliminated in consolidation	**(1,850,000)**	(1,850,000)
	$ 32,942,106	$ 29,943,148

NOTE F - NOTES PAYABLE (CONTINUED)

Maturity dates for the CUCS Initiatives, Inc. notes for the Acquisition Loan and the Senior Building Loan can be accelerated by the payee on or after the seventh anniversary of the date of the original note, provided all five notes are simultaneously accelerated. Should the payee elect to accelerate maturity, the principal amounts of the Junior Building Loan, Project Loan and C Loan notes would be discounted to approximately 5% of the outstanding principal balances.

For the Acquisition Loan note and Senior Building Loan note, CUCS Initiatives, Inc. entered into a fixed-for-floating interest-rate-swap agreement with JPMorgan Chase to convert the floating component (LIBOR) of the interest rate to a fixed rate of 5.25%. The effective date of the agreement is March 1, 2007, for an amount equal to a notional amount of $6,801,500. As of June 30, 2012 and 2011, the swap had an estimated net fair value of $(510,552) and $(763,522), respectively. The swap's fair value represented CUCS Initiatives, Inc.'s maximum credit exposure should the counterparty to this transaction fail to perform to the terms of the swap agreement.

NOTE G - RELATED-PARTY TRANSACTIONS

[1] In fiscal-year 2006, CUCS received a state aid grant from the New York State Office of Mental Health ("OMH"), in the amount of $8,461,562, for the development of a property located in The Bronx, New York. Proceeds received for the acquisition of the land and construction of the facility, in the amount of $4,985,654, were recognized as revenue.

In July 2009, 1510 Southern Boulevard Residence, GP, Inc. ("1510 Inc.") was organized as a New York corporation to acquire, own, finance, construct, develop, lease, manage, and operate real property owned by 1510 Southern Boulevard Residence, L.P. ("1510 L.P."), a New York State limited partnership. The sole owner of 1510 Inc. is CUCS-HDFC. 1510 Inc. is the general partner of 1510 L.P. and holds a .01% interest in the partnership.

In September 2009, CUCS-HDFC and 1510 L.P. financed the remaining construction through (i) a loan from the Dormitory Authority of the State of New York ("DASNY"), in the principal amount of $9,562,000, that was funded with proceeds from the sale of private activity tax-exempt bonds ("DASNY Loan"), the proceeds from which were lent by DASNY through OMH to CUCS-HDFC and, in turn, by CUCS-HDFC to 1510 L.P.; (ii) an equity investment made by an Investor Limited Partner in connection with the sale of federal low-income housing tax credits generated by the project; and (iii) advances by CUCS of $294,209. As long as the project continues to qualify for reimbursement payments pursuant to the New York State Mental Hygiene Law, such payments will be applied to the loan by OMH on behalf of the borrowers, to reduce the obligation. The loan from CUCS-HDFC to 1510 L.P. accrues interest at .01% per annum and is due on its 40th anniversary.

At the time of financing, CUCS-HDFC conveyed beneficial title to the real property, referred to above, located at 1510 Southern Boulevard, The Bronx, to 1510 L.P. in exchange for a mortgage note receivable (as referenced above). At closing, DASNY disbursed the DASNY Loan to (i) repay the original amount of the OMH grant funds of $5,070,544, representing the initial cost of the property plus development costs; (ii) an amount of $4,066,034 directly into 1510 L.P.; and (iii) $425,422 representing various closing costs.

As a result of this financing, as of June 30, 2012 and 2011, respectively, CUCS has reported in its consolidated statements of financial position a note receivable of $9,856,208 due from 1510 L.P. As of June 30, 2012 and 2011, CUCS reported a note payable of $4,591,706, representing the balance of the DASNY Loan that was not originally considered part of the state aid grant. At the end of the project's regulatory period, it is expected that CUCS-HDFC will, in satisfaction of the mortgage note, reacquire beneficial title to the property for a nominal cost and have satisfied its obligation under the DASNY Loan being paid by OMH.

NOTE G - RELATED-PARTY TRANSACTIONS (CONTINUED)

[2] In December 2009, Lenniger Residences, GP, Inc. ("Lenniger Inc.") was organized as a New York corporation to acquire, own, finance, construct, develop, lease, manage and operate real property owned by Lenniger Residences, L.P. ("Lenniger L.P."), a New York State limited partnership. The sole owner of Lenniger Inc. is CUCS-HDFC II. Lenniger Inc. is the general partner of Lenniger L.P. and holds a .01% interest in the partnership.

In May 2008, CUCS-HDFC II financed the purchase of 2013-2017 Hughes Avenue, The Bronx ("2013 Hughes Avenue") Note F. In December 2009, beneficial title in 2013 Hughes Avenue was transferred to Lenniger L.P. in exchange for a mortgage note receivable.

The project construction was financed through (a) a loan from HPD in the principal amount of $20,039,954 (the "HPD Loan") that was funded with (i) funds provided under the federal HOME Investments Partnership Program of $11,151,468, and (ii) ARRA TCAP program for $8,888,486; (b) an equity investment made by the limited partners of Lenniger L.P. in the amount of $7,931,250; (c) a grant from the New York State Energy Research and Development Authority ("NYSERDA") in the amount of $40,000; and (d) a private grant from Enterprise Green ("Enterprise") in the amount of $25,000.

As a result of this financing, at June 30, 2012 and 2011, CUCS has reported, in the accompanying consolidated statements of financial position, a note receivable of $20,169,458 and $17,227,094, respectively, due from Lenniger L.P., and a note payable of $19,285,400, and $16,261,442, respectively, representing the existing drawdown on the HPD Loan.

NOTE H - TEMPORARILY RESTRICTED NET ASSETS

At each fiscal year-end, temporarily restricted net assets consisted of the following:

	June 30,	
	2012	**2011**
Supportive housing	**$ 280,000**	$ 255,000
Research and development support	**325,000**	400,000
PPOH	**326,710**	326,710
Training and technical assistance	**89,851**	145,000
Intensive wellness	**75,000**	
	$ 1,096,561	$ 1,126,710

During each fiscal-year, net assets released from restrictions consisted of the following:

	Year Ended June 30,	
	2012	**2011**
Supportive housing	**$ 340,000**	$ 378,413
Research and development support	**400,000**	400,000
Outreach and transitional services		1,270,000
PPOH	**400,000**	400,000
Training and technical assistance	**165,149**	376,241
	$ 1,305,149	$ 2,824,654

NOTE I - RETIREMENT PLANS

CUCS provides a defined-contribution retirement 403(b) program for all full-time employees, and the PC provides a 401(k) plan. Employer contributions are available to all employees after two full years of service. Total pension expense for fiscal-years 2012 and 2011 was $760,164 and $643,338, respectively.

NOTE J - SPECIAL-PURPOSE ENTITIES

In fiscal-years 2012 and 2011, CUCS-HDFC did not record any support and revenue but had expenses of $500 and $755 for fiscal-years 2012 and 2011, respectively. In fiscal-years 2012 and 2011, respectively, CUCS-HDFC II recorded support and revenue of $755 and $144,030, with expenses of $560 and $1,442 for fiscal-years 2012 and 2011, respectively. In fiscal-years 2012 and 2011, CUCS Initiatives, Inc. reported support and revenue of $1,059,898 and $783,832 and expenses of $948,487 and $882,271, respectively. In fiscal-year 2012, the PC reported support and revenue of $1,494,787 and expenses of $1,374,587.

NOTE K - CLIENT/REPRESENTATIVE PAYEE ACCOUNT

CUCS acts as a representative for funds paid to over 100 clients who receive services from CUCS. Cash received on behalf of the clients are initially deposited in individual "client" accounts at Citibank. Depending on the level of clients' needs for funds, a portion is subsequently transferred to a primary account. Payments for rents and for certain personal needs of the clients are made from the primary account. Interest, if any, is accumulated in the individual client accounts. During fiscal-year 2012, the activity in these accounts, which are not included in the accompanying consolidated financial statements, was as follows:

Client accounts:	
Balance as of June 30, 2011	$ 344,935
Deposits	4,313,710
Transfers to the primary account	(4,231,529)
Balance as of June 30, 2012	$ 427,116
Primary account:	
Balance as of June 30, 2011	$ 12,918
Transfers from the client accounts	4,231,529
Disbursements	(4,231,911)
Balance as of June 30, 2012	$ 12,536

NOTE L - CONCENTRATION OF CREDIT RISK

Financial instruments that potentially expose CUCS to a concentration of credit risk consist primarily of cash accounts with major financial institutions in amounts that are in excess of FDIC insurance limits. Management believes that the credit risk to these accounts is minimal.

NOTE M - COMMITMENTS AND CONTINGENCIES

[1] Operating leases:

CUCS leases office space for its administrative and program needs under several operating lease agreements which provide for, among other matters, the payment of the base rent, plus escalations and certain operating expenses. In September 2007, CUCS sublet its office space at 120 Wall Street in

NOTE M - COMMITMENTS AND CONTINGENCIES (CONTINUED)

[1] Operating leases: (continued)

Manhattan and moved its administrative and program offices to 198 East 121st Street. The minimum future rental payments and operating expenses as of June 30, 2012 are as follows:

Year Ending June 30,	Amount
2013	$ 771,561
2014	726,131
2015	708,318
2016	696,604
	$ 2,902,614

During fiscal-year 2011, CUCS terminated the lease for office space at 120 Wall Street before its due date, resulting in a final payment to the landlord of approximately $593,000 and an additional net expense of $263,000 when netted against payments from the sublessor and other funds. Total rent expense for each of the fiscal-years 2012 and 2011 was $1,192,001 and $738,658, respectively.

[2] Potential audits by funding sources:

Certain government grants may be subject to audit by the funding sources. To date, a provision of approximately $285,000 has been made for any liabilities which may arise from such audits. Disallowances or adjustments to this provision would be reported in the consolidated financial statements in the years of settlement.

[3] Line of credit:

During fiscal-year 2007, as part of the transaction to obtain financing for the purchase of the condominium located at 198 East 121st Street, CUCS obtained a line of credit from JPMorgan Chase for $750,000. There were no amounts borrowed as of June 30, 2012.

[4] Accrued vacation:

Based on their tenure, CUCS's employees are entitled to be paid for unused vacation time if they leave the organization's employ. Accordingly, at each fiscal year-end, CUCS acknowledges a maximum liability for the amount that would be incurred if employees with such unused vacation were to leave. At June 30, 2012 and 2011, the amounts of the unreported accrued vacation obligation were $767,380 and $744,017, respectively.

[5] State aid grants:

In fiscal-year 2002, CUCS received a state aid grant from OMH in the amount of $701,600, for the purchase of the Kelly Hotel in Manhattan. The grant was recognized fully as revenue in the fiscal year it was awarded. CUCS is contingently obligated to refund the amount of the grant if it does not manage the hotel in compliance with the grant's terms. However, OMH reduces the potential amount due by an amount equal to 5% of the total for each full fiscal year (starting with fiscal-year 2003) in which CUCS performs the obligation in accordance with the grant agreement.

At June 30, 2012, the contingent liability for the Kelly Hotel was calculated at $350,800. This has not been reflected in the accompanying consolidated financial statements.

NOTE N - SUBSEQUENT EVENT

Subsequent to fiscal-year 2012, CUCS-HDFC III was incorporated as a not-for-profit in the State of New York for the development of low-income housing.