



**CENTER FOR URBAN COMMUNITY  
SERVICES, INC.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2013 and 2012**

## **INDEPENDENT AUDITORS' REPORT**

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

### **Report on the Financial Statements**

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, 2013 and 2012, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Financial Statements***

CUCS's management is responsible for the preparation and fair presentation of these consolidated 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.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these consolidated 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain 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 organization'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 organization'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 accounting 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.

### ***Opinion***

In our opinion, the consolidated financial statements referred to 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, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.



New York, New York  
December 11, 2013

# CENTER FOR URBAN COMMUNITY SERVICES, INC.

## Consolidated Statements of Financial Position

	June 30,	
	<u>2013</u>	<u>2012</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 6,597,009	\$ 4,550,017
Investments	1,384,499	1,349,900
Government grants receivable	3,276,336	3,351,195
Contributions receivable	1,268,625	914,219
Accounts receivable	791,040	712,990
Note receivable from limited partnership	29,169,301	30,025,667
Prepaid expenses	246,013	299,903
Property and equipment, net	14,321,711	11,290,283
Other assets	6,233	171,172
	<u>\$ 57,060,767</u>	<u>\$ 52,665,346</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 4,505,960	\$ 4,403,990
Refundable advances	1,163,085	690,127
Interest-rate-swap agreement	195,798	510,552
Notes payable	<u>35,995,047</u>	<u>32,942,106</u>
Total liabilities	<u>41,859,890</u>	<u>38,546,775</u>
Commitments and contingencies (Note M)		
Net assets:		
Unrestricted - undesignated	12,016,627	11,672,110
Unrestricted - designated for operations	<u>1,384,499</u>	<u>1,349,900</u>
Total unrestricted	13,401,126	13,022,010
Temporarily restricted	<u>1,799,751</u>	<u>1,096,561</u>
Total net assets	<u>15,200,877</u>	<u>14,118,571</u>
	<u>\$ 57,060,767</u>	<u>\$ 52,665,346</u>

# CENTER FOR URBAN COMMUNITY SERVICES, INC.

## Consolidated Statements of Activities

	Year Ended June 30,					
	2013			2012		
	Total Unrestricted	Temporarily Restricted	Total	Total Unrestricted	Temporarily Restricted	Total
<b>Public support and revenue:</b>						
Grants and contracts	\$ 27,797,863		\$ 27,797,863	\$ 27,024,354		\$ 27,024,354
Program service fees	3,017,367		3,017,367	2,953,733		2,953,733
Contributions (including in-kind contributions of \$120,341 and \$168,312 in 2013 and 2012, respectively)	1,607,769	\$ 1,899,757	3,507,526	293,036	\$ 1,275,000	1,568,036
Special event (net of direct benefit to donors of \$33,840 and \$45,900 in 2013 and 2012, respectively)	101,134		101,134	193,801		193,801
Management fees	415,851		415,851	379,902		379,902
Interest income	14,033		14,033	14,806		14,806
Investment income	33,877		33,877	65,480		65,480
Other income	99,301		99,301	115,996		115,996
Total public support and revenue before release from restrictions	33,087,195	1,899,757	34,986,952	31,041,108	1,275,000	32,316,108
Net assets released from restrictions	1,196,567	(1,196,567)	0	1,305,149	(1,305,149)	0
Total public support and revenue	34,283,762	703,190	34,986,952	32,346,257	(30,149)	32,316,108
<b>Expenses:</b>						
Program services:						
Supportive housing	14,371,132		14,371,132	13,473,485		13,473,485
Outreach and transitional	6,488,774		6,488,774	5,985,935		5,985,935
Project for Psychiatric Outreach to the Homeless	3,295,300		3,295,300	3,168,817		3,168,817
Training and technical assistance	4,122,921		4,122,921	3,600,396		3,600,396
Vocational	1,496,672		1,496,672	1,387,374		1,387,374
Intensive wellness	172,383		172,383			
Research	134,359		134,359	195,377		195,377
Total program services	30,081,541		30,081,541	27,811,384		27,811,384
Supporting services:						
Management and general	3,649,793		3,649,793	3,469,820		3,469,820
Fund-raising	488,067		488,067	379,212		379,212
Total expenses	34,219,401		34,219,401	31,660,416		31,660,416
Change in net assets from operations	64,361	703,190	767,551	685,841	(30,149)	655,692
Gain on interest-rate-swap agreement	314,755		314,755	252,970		252,970
<b>Change in net assets</b>	379,116	703,190	1,082,306	938,811	(30,149)	908,662
Net assets at beginning of year	13,022,010	1,096,561	14,118,571	12,083,199	1,126,710	13,209,909
<b>Net assets at end of year</b>	\$ 13,401,126	\$ 1,799,751	\$ 15,200,877	\$ 13,022,010	\$ 1,096,561	\$ 14,118,571

See notes to consolidated financial statements

**CENTER FOR URBAN COMMUNITY SERVICES, INC.**

**Consolidated Statement of Functional Expenses**  
**Year Ended June 30, 2013**  
(with summarized financial information for 2012)

	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	Intensive Wellness	Research	Total Program Services	Management and General	Fund-Raising	2013	2012
Salaries	\$ 8,765,928	\$ 3,015,565	\$ 2,491,126	\$ 2,403,125	\$ 1,069,808	\$ 125,963	\$ 89,407	\$ 17,960,922	\$ 1,872,852	\$ 220,468	\$ 20,054,242	\$ 18,715,817
Fringe benefits	<u>2,686,662</u>	<u>924,238</u>	<u>542,373</u>	<u>736,532</u>	<u>327,884</u>	<u>38,606</u>	<u>27,402</u>	<u>5,283,697</u>	<u>574,009</u>	<u>67,571</u>	<u>5,925,277</u>	<u>5,320,979</u>
	11,452,590	3,939,803	3,033,499	3,139,657	1,397,692	164,569	116,809	23,244,619	2,446,861	288,039	25,979,519	24,036,796
Occupancy	1,146,182	824,565	9,996	49,109	5,295			2,035,147	195,590	48,534	2,279,271	1,696,322
Professional fees	12,551	545,242	44,531	280,093	165	1,267	10,714	894,563	107,771	53,881	1,056,215	792,492
Donated services	100,641		19,700					120,341			120,341	168,312
Equipment expenses	44,723	20,448	3,763	11,739	6,093	2,536	230	89,532	13,157		102,689	180,790
Staff and client travel	64,550	48,361	1,525	52,656	14,345	352	1,834	183,623	7,679	354	191,656	213,821
Depreciation	351,572	114,653	105,961	144,522	2,170		20	718,898	133,286	144	852,328	761,381
Program costs	145,290	58,358	12,208	38,926	15,774	275	195	271,026	104,318		375,344	381,017
Repairs and maintenance	402,540	424,567	5,731	59,799	12,874	1,075		906,586	59,926		966,512	912,902
Supplies and materials	357,612	438,445	14,356	65,381	31,284	2,232	3,335	912,645	68,681	10,171	991,497	1,044,594
Communications	130,007	35,638	6,489	28,066	8,121	77	222	208,620	25,625	16,490	250,735	243,654
Other	<u>162,874</u>	<u>38,694</u>	<u>37,541</u>	<u>252,973</u>	<u>2,859</u>		<u>1,000</u>	<u>495,941</u>	<u>486,899</u>	<u>70,454</u>	<u>1,053,294</u>	<u>1,228,335</u>
Total expenses	<u>\$ 14,371,132</u>	<u>\$ 6,488,774</u>	<u>\$ 3,295,300</u>	<u>\$ 4,122,921</u>	<u>\$ 1,496,672</u>	<u>\$ 172,383</u>	<u>\$ 134,359</u>	<u>\$ 30,081,541</u>	<u>\$ 3,649,793</u>	<u>\$ 488,067</u>	<u>\$ 34,219,401</u>	<u>\$ 31,660,416</u>

# CENTER FOR URBAN COMMUNITY SERVICES, INC.

## Consolidated Statement of Functional Expenses Year Ended June 30, 2012

	Program Services						Supporting Services		Total Expenses 2012	
	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
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
Fringe benefits	<u>2,358,958</u>	<u>922,915</u>	<u>577,988</u>	<u>589,928</u>	<u>290,769</u>	<u>37,678</u>	<u>4,778,236</u>	<u>497,678</u>	<u>45,065</u>	<u>5,320,979</u>
	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
Occupancy	1,268,230	300,408	10,083	49,806	7,942		1,636,469	46,191	13,662	1,696,322
Professional fees	15,977	203,158	33,162	264,352	195	7,809	524,653	199,616	68,223	792,492
Donated services	123,912		44,400				168,312			168,312
Equipment expenses	109,667	36,485	1,100	20,193	487		167,932	12,618	240	180,790
Staff and client travel	53,323	42,411	244	95,961	11,961	1,121	205,021	8,671	129	213,821
Depreciation	222,260	183,518	58,390	155,126	1,634	20	620,948	140,417	16	761,381
Program costs	125,786	48,758	9,097	47,021	12,300	8,728	251,690	127,736	1,591	381,017
Repairs and maintenance	385,491	412,751	7,236	55,481	12,736		873,695	39,000	207	912,902
Supplies and materials	401,797	436,389	18,603	76,746	30,636	8,280	972,451	62,482	9,661	1,044,594
Communications	119,120	36,787	8,668	30,908	7,677	110	203,270	23,699	16,685	243,654
Other	<u>110,398</u>	<u>162,585</u>	<u>128,098</u>	<u>169,580</u>	<u>2,936</u>	<u>1,000</u>	<u>574,597</u>	<u>586,248</u>	<u>67,490</u>	<u>1,228,335</u>
Total expenses	<u>\$ 13,473,485</u>	<u>\$ 5,985,935</u>	<u>\$ 3,168,817</u>	<u>\$ 3,600,396</u>	<u>\$ 1,387,374</u>	<u>\$ 195,377</u>	<u>\$ 27,811,384</u>	<u>\$ 3,469,820</u>	<u>\$ 379,212</u>	<u>\$ 31,660,416</u>

**CENTER FOR URBAN COMMUNITY SERVICES, INC.**

**Consolidated Statements of Cash Flows**

	Year Ended June 30,	
	<u>2013</u>	<u>2012</u>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 1,082,306	\$ 908,662
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	852,328	761,381
Net realized and unrealized (losses) gains on investments	26,438	(21,986)
Unrealized gain on interest-rate-swap agreement	(314,754)	(252,970)
Changes in:		
Government grants receivable	74,859	(1,655,386)
Contributions receivable	(354,406)	(2,152)
Accounts receivable	(78,050)	506,481
Prepaid expenses	53,890	(117,718)
Other assets	164,940	(105,717)
Accounts payable and accrued expenses	101,971	1,071,891
Refundable advances	<u>472,958</u>	<u>123,341</u>
Net cash provided by operating activities	<u>2,082,480</u>	<u>1,215,827</u>
<b>Cash flows from investing activities:</b>		
Acquisitions of property and equipment	(3,883,756)	(1,002,897)
Purchases of investments	(548,023)	(247,353)
Proceeds from sales of investments	<u>486,986</u>	<u>184,881</u>
Net cash used in investing activities	<u>(3,944,793)</u>	<u>(1,065,369)</u>
<b>Cash flows from financing activities:</b>		
Proceeds from borrowings	3,077,940	3,023,959
Proceeds from mortgage notes	856,365	
Mortgage notes disbursements		(2,942,365)
Repayment of loans	<u>(25,000)</u>	<u>(25,000)</u>
Net cash provided by financing activities	<u>3,909,305</u>	<u>56,594</u>
<b>Net increase in cash and cash equivalents</b>	<b>2,046,992</b>	<b>207,052</b>
Cash and cash equivalents - beginning of year	<u>4,550,017</u>	<u>4,342,965</u>
<b>Cash and cash equivalents - end of year</b>	<b><u>\$ 6,597,009</u></b>	<b><u>\$ 4,550,017</u></b>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for interest	<u>\$ 493,119</u>	<u>\$ 563,104</u>

## CENTER FOR URBAN COMMUNITY SERVICES, INC.

### Notes to Consolidated Financial Statements June 30, 2013 and 2012

#### 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. ("Initiatives"), CUCS Housing Development Fund Corporation II ("CUCS-HDFC II"), CUCS Housing Development Fund Corporation III ("CUCS-HDFC III"), and Janian Medical Care P.C. (the "PC"), the six of which are described below. As used herein, the term "CUCS" refers to the six 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.

Initiatives 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. Initiatives 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.

CUCS-HDFC III is a not-for-profit corporation, incorporated in the State of New York, which was formed in August 2012 for the development of low-income housing in the Bronx.

The PC is a for-profit corporation, incorporated in the State of New York and 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 PC is subject to federal and state taxes on earnings passed through to its shareholders.

With the exception of the PC, the CUCS described above entities 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.



## CENTER FOR URBAN COMMUNITY SERVICES, INC.

### Notes to Consolidated Financial Statements June 30, 2013 and 2012

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

##### [2] Financial reporting: (continued)

(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.

(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 cash balances in the money-market funds 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 they 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 the changes in the fair value of the cash-flow hedge is recognized as a non-operating activity 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. Land is not depreciated.

(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. Management fees are recognized based upon services rendered, in accordance with relative 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.

# CENTER FOR URBAN COMMUNITY SERVICES, INC.

## Notes to Consolidated Financial Statements June 30, 2013 and 2012

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

#### [2] Financial reporting: (continued)

(f) Revenue recognition: (continued)

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-years 2013 and 2012 were approximately \$120,000 and \$170,000, respectively.

(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:*

The Board of Directors has designated \$1,384,499 and \$1,349,900 of the unrestricted net assets in fiscal-years 2013 and 2012, respectively, to be maintained as 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 \$381,667 and \$361,672 in fiscal-years 2013 and 2012, 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.

**CENTER FOR URBAN COMMUNITY SERVICES, INC.**

**Notes to Consolidated Financial Statements  
June 30, 2013 and 2012**

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

**[2] Financial reporting: (continued)**

(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, 2013 and 2012, contributions receivable of \$1,268,625 and \$914,219, respectively, were estimated to be collected in the subsequent fiscal year.

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 with various federal and City of New York agencies, were as follows:

	<u>June 30,</u>	
	<u>2013</u>	<u>2012</u>
Federal	\$ 385,829	\$ 875,406
New York City	<u>2,890,507</u>	<u>2,475,789</u>
	<u>\$ 3,276,336</u>	<u>\$ 3,351,195</u>

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:

	<u>June 30,</u>			
	<u>2013</u>		<u>2012</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Money-market funds	\$ 13,577	\$ 13,577	\$ 21,368	\$ 21,368
Equity mutual funds	97,136	116,326	64,008	77,467
Fixed-income mutual funds	<u>1,245,660</u>	<u>1,254,596</u>	<u>1,203,586</u>	<u>1,251,065</u>
	<u>1,356,373</u>	<u>1,384,499</u>	<u>1,288,962</u>	<u>1,349,900</u>
Interest-rate-swap-agreement		<u>(195,798)</u>		<u>(510,552)</u>
	<u>\$ 1,356,373</u>	<u>\$ 1,188,701</u>	<u>\$ 1,288,962</u>	<u>\$ 839,348</u>

**CENTER FOR URBAN COMMUNITY SERVICES, INC.**

**Notes to Consolidated Financial Statements  
June 30, 2013 and 2012**

**NOTE D - INVESTMENTS (CONTINUED)**

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

	<u>Year Ended June 30,</u>	
	<u>2013</u>	<u>2012</u>
Interest and dividends	\$ 60,315	\$ 43,494
Net unrealized (losses)	(32,812)	15,059
Net realized gains	6,374	6,927
Gain on interest-rate-swap agreement	<u>314,755</u>	<u>252,970</u>
Net return on investments	<u>\$ 348,632</u>	<u>\$ 318,450</u>
Net investment gains	\$ 33,877	\$ 65,480
Gain on interest-rate-swap agreement	<u>314,755</u>	<u>252,970</u>
Net return on investments	<u>\$ 348,632</u>	<u>\$ 318,450</u>

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 those investments, or similar investments, at the reporting date.

Level 2 - Valuations are based on (i) quoted prices for those investments, or similar investments in active markets, or (ii) quoted prices for investments, or similar investments 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 investments cannot be independently valued, or (iii) the investments 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:

	<u>June 30, 2013</u>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Money-market funds	\$ 13,577		\$ 13,577
Equity mutual funds	116,326		116,326
Fixed-income mutual funds		\$ 1,254,596	1,254,596
Interest-rate-swap agreement		<u>(195,798)</u>	<u>(195,798)</u>
Total	<u>\$ 129,903</u>	<u>\$ 1,058,798</u>	<u>\$ 1,188,701</u>

**CENTER FOR URBAN COMMUNITY SERVICES, INC.**

**Notes to Consolidated Financial Statements  
June 30, 2013 and 2012**

**NOTE D - INVESTMENTS (CONTINUED)**

	<b>June 30, 2012</b>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Money-market funds	\$ 21,368		\$ 21,368
Equity mutual funds	77,467		77,467
Fixed-income mutual funds		\$ 1,251,065	1,251,065
Interest-rate-swap agreement		<u>(510,552)</u>	<u>(510,552)</u>
<b>Total</b>	<u>\$ 98,835</u>	<u>\$ 740,513</u>	<u>\$ 839,348</u>

**NOTE E - PROPERTY AND EQUIPMENT**

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

	<b>June 30,</b>	
	<u>2013</u>	<u>2012</u>
Land	\$ 3,322,428	\$ 796,640
Building and improvements	11,718,493	11,152,051
Furniture and fixtures	366,873	340,057
Equipment	<u>1,540,430</u>	<u>1,447,563</u>
	<b>16,948,224</b>	13,736,311
Less accumulated depreciation	<u>(3,298,356)</u>	<u>(2,446,028)</u>
	<b>13,649,868</b>	11,290,283
Construction-in-progress	<u>671,843</u>	<u>0</u>
	<u><b>\$ 14,321,711</b></u>	<u><b>\$ 11,290,283</b></u>

During fiscal-year 2012, CUCS removed from its accounting records \$1,103,000 of costs of fully depreciated assets.

## CENTER FOR URBAN COMMUNITY SERVICES, INC.

### Notes to Consolidated Financial Statements June 30, 2013 and 2012

#### NOTE F - NOTES PAYABLE

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

	<u>June 30,</u>	
	<u>2013</u>	<u>2012</u>
Note payable commitments for 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	<b>\$ 5,489,606</b>	\$ 5,489,606
Senior Building Loan note, bearing interest at LIBOR plus 1.6%, requiring interest-only payments, due in January 2037	<b>1,311,894</b>	1,311,894
Junior Building Loan note, bearing interest at 0.5%, requiring interest only payments, due in January 2037	<b>2,105,098</b>	2,105,098
Project Loan note, bearing interest at 0.5%, requiring interest only payments, due in January 2037	<b>133,402</b>	133,402
C Loan note, bearing interest at 0.5%, requiring interest only payments, due in January 2037	<b><u>1,850,000</u></b>	<u>1,850,000</u>
Total note payable commitments with New Markets Investment XXI, LLC	<b>10,890,000</b>	10,890,000
City of New York Department of Housing Preservation and Development ("HPD") to CUCS-HDFC II, due on the 270 <sup>th</sup> day following substantial completion of the project and converted from a construction loan to a permanent loan (see Note G[2])	<b>19,313,093</b>	19,285,400
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])	<b>4,591,706</b>	4,591,706
New York City Acquisition Fund, LLC to CUCS-HDFC III, due twenty-four months following closing including principal and interest at 5.09%	<b>3,050,248</b>	0
Loan payable, unsecured, noninterest-bearing, \$25,000, due fiscal-year 2013	<b><u>0</u></b>	<u>25,000</u>
	<b>37,845,047</b>	34,792,106
C Loan note lent by the Center and eliminated in consolidation	<b><u>(1,850,000)</u></b>	<u>(1,850,000)</u>
	<b><u>\$ 35,995,047</u></b>	<u>\$ 32,942,106</u>

Maturity dates for the Initiatives 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, Initiatives 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, 2013 and 2012, the swap had an estimated net fair value of \$(195,798) and \$(510,552), respectively. The swap's fair value represented Initiatives maximum credit exposure should the counterparty to this transaction fail to perform to the terms of the swap agreement.

## CENTER FOR URBAN COMMUNITY SERVICES, INC.

### Notes to Consolidated Financial Statements June 30, 2013 and 2012

#### 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, was 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 in 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) pay \$425,422 in various closing costs.

As a result of this financing, as of June 30, 2013 and 2012, 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, 2013 and 2012, 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.

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

## CENTER FOR URBAN COMMUNITY SERVICES, INC.

### Notes to Consolidated Financial Statements June 30, 2013 and 2012

#### NOTE G - RELATED-PARTY TRANSACTIONS (CONTINUED)

[2] As a result of this financing, at June 30, 2013 and 2012, CUCS has reported, in the accompanying consolidated statements of financial position, a note receivable of \$19,313,093 and \$20,169,458, respectively, due from Lenniger L.P., and a note payable of \$19,313,093, and \$19,285,400, 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,	
	2013	2012
Supportive housing	\$ 360,815	\$ 280,000
Research and development support	304,081	325,000
PPOH	421,313	326,710
Training and technical assistance	122,540	89,851
Intensive wellness	591,002	75,000
	<u>\$ 1,799,751</u>	<u>\$ 1,096,561</u>

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

	Year Ended June 30,	
	2013	2012
Supportive housing	\$ 369,187	\$ 340,000
Research and development support	345,919	400,000
PPOH	305,392	400,000
Training and technical assistance	117,314	165,149
Intensive wellness	58,755	
	<u>\$ 1,196,567</u>	<u>\$ 1,305,149</u>

#### NOTE I - RETIREMENT PLANS

CUCS provides a defined-contribution section 403(b) plan for all full-time employees, and the PC provides a section 401(k) plan for its workers. Employer contributions are available to all employees after two full years of service. Total pension expense for fiscal-years 2013 and 2012 was \$664,153 and 760,164, respectively.



**CENTER FOR URBAN COMMUNITY SERVICES, INC.**

**Notes to Consolidated Financial Statements  
June 30, 2013 and 2012**

**NOTE J - SPECIAL-PURPOSE ENTITIES**

In fiscal-years 2013 and 2012, the following entities of CUCS reported support and revenue and related expenses, which are subject to elimination in the consolidated financial statements, for each of its special purpose entities, as follows:

<b>Year Ended June 30, 2013</b>					
	<u>CUCS-HDFC</u>	<u>CUCS-HDFC II</u>	<u>CUCS-HDFC III</u>	<u>Initiatives</u>	<u>Janian</u>
Support and revenue	\$ 1,000			\$ 1,120,916	\$ 2,858,675
Expenses	\$ 750	\$ 740		\$ 953,408	\$ 2,860,959

  

<b>Year Ended June 30, 2012</b>					
	<u>CUCS-HDFC</u>	<u>CUCS-HDFC II</u>	<u>CUCS-HDFC III</u>	<u>Initiatives</u>	<u>Janian</u>
Support and revenue		\$ 755		\$ 1,059,898	\$ 1,494,787
Expenses	\$ 500	\$ 560		\$ 948,487	\$ 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 2013, 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, 2012	\$ 427,116
Deposits	4,556,291
Transfers to the primary account	<u>(4,529,522)</u>
Balance as of June 30, 2013	<u>\$ 453,885</u>
Primary account:	
Balance as of June 30, 2012	\$ 12,536
Transfers from the client accounts	4,529,522
Disbursements	<u>(4,532,375)</u>
Balance as of June 30, 2013	<u>\$ 9,683</u>

**NOTE L - CONCENTRATION OF CREDIT RISK**

CUCS received grants from various governmental agencies in the amount of approximately \$25,600,000 and \$23,700,000 for the fiscal-years ended June 30, 2013 and 2012, respectively. Such grants represented approximately 73% of total public support and revenue for both fiscal-years 2013 and 2012.

# CENTER FOR URBAN COMMUNITY SERVICES, INC.

## Notes to Consolidated Financial Statements June 30, 2013 and 2012

### NOTE L - CONCENTRATION OF CREDIT RISK (CONTINUED)

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:

At June 30, 2013, CUCS was obligated under various operating leases expiring through 2017. For years subsequent to fiscal-year 2013, minimum annual future rental commitments under the lease agreements are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2014	\$ 814,665
2015	745,252
2016	729,447
2017	<u>725,859</u>
	<u>\$ 3,015,223</u>

Total rent expense for fiscal-years 2013 and 2012 was approximately \$1,483,000 and \$1,192,000, 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, 2013.

#### [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, 2013 and 2012, the amounts of the unreported accrued vacation obligation were \$873,102 and \$767,380, respectively.

**CENTER FOR URBAN COMMUNITY SERVICES, INC.**

**Notes to Consolidated Financial Statements  
June 30, 2013 and 2012**

**NOTE M - COMMITMENTS AND CONTINGENCIES (CONTINUED)**

**[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, 2013, the contingent liability for the Kelly Hotel was calculated at \$315,720, an amount which has not been reported in the accompanying consolidated financial statements.