CENTER FOR URBAN COMMUNITY SERVICES, INC.

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014 and 2013

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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 financial statements of the Center for Urban Community Services, Inc. and its wholly-controlled entities (together, "CUCS"), which comprise the consolidated statements of financial condition as of June 30, 2014 and 2013, 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 consolidated 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, 2014 and 2013, 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.

EisnerAmper LLP

New York, New York
December 9, 2014

CENTER FOR URBAN COMMUNITY SERVICES, INC.

Consolidated Statements of Financial Position

	June 30, 2014	June 30, 2013
ASSETS		
Cash and cash equivalents	**$ 4,617,466**	$ 6,597,009
Investments	**1,481,760**	1,384,499
Government grants receivable	**3,448,836**	3,276,336
Contributions receivable	**1,741,443**	1,268,625
Accounts receivable	**894,401**	791,040
Notes receivable from limited partnerships	**39,896,596**	29,169,301
Prepaid expenses	**269,761**	246,013
Property and equipment, net	**10,823,077**	14,321,711
Other assets	**375,632**	6,233
	$ 63,548,972	$ 57,060,767
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	**$ 3,670,139**	$ 4,505,960
Refundable advances	**891,924**	1,163,085
Notes payable	**43,657,094**	35,995,047
Interest-rate-swap agreement		195,798
Total liabilities	**48,219,157**	41,859,890
Commitments and contingencies (Note N)		
Net assets:		
Unrestricted - undesignated	**12,018,372**	12,016,627
Unrestricted - designated for operations	**1,481,760**	1,384,499
Total unrestricted	**13,500,132**	13,401,126
Temporarily restricted	**1,829,683**	1,799,751
Total net assets	**15,329,815**	15,200,877
	$ 63,548,972	$ 57,060,767

CENTER FOR URBAN COMMUNITY SERVICES, INC.

Consolidated Statements of Activities

	2014 Total Unrestricted	2014 Temporarily Restricted	2014 Total	2013 Total Unrestricted	2013 Temporarily Restricted	2013 Total
	Year Ended June 30,					
Public support and revenue:						
Grants and contracts	**$ 30,639,135**		**$ 30,639,135**	$ 30,412,028		$ 30,412,028
Program service fees	**2,997,531**		**2,997,531**	3,017,367		3,017,367
Contributions (including in-kind contributions of $81,827 and $120,341 in 2014 and 2013, respectively)	**102,272**	**$ 1,722,512**	**1,824,784**	232,770	$ 1,899,757	2,132,527
Special event (net of direct benefit to donors of $33,840 in 2013)				101,134		101,134
Management fees	**498,878**		**498,878**	415,851		415,851
Investment income	**125,948**		**125,948**	47,910		47,910
Other income	**464,088**		**464,088**	99,302		99,302
Total public support and revenue before release from restrictions	**34,827,852**	**1,722,512**	**36,550,364**	34,326,362	1,899,757	36,226,119
Net assets released from restrictions	**1,692,580**	**(1,692,580)**	**0**	1,196,567	(1,196,567)	0
Total public support and revenue	**36,520,432**	**29,932**	**36,550,364**	35,522,929	703,190	36,226,119
Expenses:						
Program services:						
Supportive housing	**15,798,582**		**15,798,582**	15,610,298		15,610,298
Outreach and transitional	**6,972,596**		**6,972,596**	6,488,774		6,488,774
Project for Psychiatric Outreach to the Homeless	**3,839,116**		**3,839,116**	3,295,300		3,295,300
Training and technical assistance	**4,061,933**		**4,061,933**	4,122,921		4,122,921
Vocational	**1,287,624**		**1,287,624**	1,496,672		1,496,672
Intensive wellness	**448,664**		**448,664**	172,383		172,383
Research	**138,134**		**138,134**	134,359		134,359
Total program services	**32,546,649**		**32,546,649**	31,320,707		31,320,707
Supporting services:						
Management and general	**3,855,949**		**3,855,949**	3,649,793		3,649,793
Fund-raising	**214,626**		**214,626**	488,067		488,067
Total expenses	**36,617,224**		**36,617,224**	35,458,567		35,458,567
Change in net assets from operations	**(96,792)**	**29,932**	**(66,860)**	64,362	703,190	767,552
Gain on interest-rate-swap agreement	**195,798**		**195,798**	314,754		314,754
Increase in net assets	**99,006**	**29,932**	**128,938**	379,116	703,190	1,082,306
Net assets at beginning of year	**13,401,126**	**1,799,751**	**15,200,877**	13,022,010	1,096,561	14,118,571
Net assets at end of year	**$ 13,500,132**	**$ 1,829,683**	**$ 15,329,815**	$ 13,401,126	$ 1,799,751	$ 15,200,877

See notes to consolidated financial statements

CENTER FOR URBAN COMMUNITY SERVICES, INC.

Consolidated Statement of Functional Expenses
Year Ended June 30, 2014
(with summarized financial information for 2013)

	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	2014	2013
Salaries	$ 8,510,165	$ 3,526,960	$ 2,777,478	$ 2,477,619	$ 1,066,204	$ 277,888	$ 36,429	$ 18,672,743	$ 1,875,182	$ 123,161	$ 20,671,086	$ 20,054,242
Fringe benefits	2,926,842	1,075,615	645,413	752,052	123,498	25,820	72,648	5,621,888	507,671	17,846	6,147,405	5,925,277
	11,437,007	4,602,575	3,422,891	3,229,671	1,189,702	303,708	109,077	24,294,631	2,382,853	141,007	26,818,491	25,979,519
Occupancy	1,244,690	836,528	11,935	60,112	3,999			2,157,264	58,470		2,215,734	2,279,271
Professional fees	147,505	293,033	16,246	172,562	195	134,782	27,109	791,432	387,527	24,498	1,203,457	1,056,215
Donated services	69,727		12,100					81,827			81,827	120,341
Equipment expenses	60,676	18,611	11,268	12,863	2,892	1,558		107,868	8,805	539	117,212	102,689
Staff and client travel	54,280	50,837	755	55,731	20,294	1,742	10	183,649	22,011	219	205,879	191,656
Depreciation	372,056	135,564	102,710	132,027	2,729	1,217		746,303	154,912	766	901,981	852,328
Program costs	1,352,434	56,646	35,394	64,997	12,495	1,266		1,523,232	118,635	24,817	1,666,684	1,614,510
Repairs and maintenance	413,113	453,349	7,575	69,379	13,815	862		958,093	78,283		1,036,376	966,512
Supplies and materials	314,287	438,785	89,362	81,975	33,511	2,288	1,554	961,762	55,174	9,923	1,026,859	991,497
Communications	140,312	34,144	6,101	32,182	4,586	1,126		218,451	24,970	507	243,928	250,735
Other	192,495	52,524	122,779	150,434	3,406	115	384	522,137	564,309	12,350	1,098,796	1,053,294
Total expenses	$ 15,798,582	$ 6,972,596	$ 3,839,116	$ 4,061,933	$ 1,287,624	$ 448,664	$ 138,134	$ 32,546,649	$ 3,855,949	$ 214,626	$ 36,617,224	$ 35,458,567

CENTER FOR URBAN COMMUNITY SERVICES, INC.

Consolidated Statement of Functional Expenses
Year Ended June 30, 2013

	Program Services								Supporting Services		
	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	Total Expenses 2013
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
Fringe benefits	2,686,662	924,238	542,373	736,532	327,884	38,606	27,402	5,283,697	574,009	67,571	5,925,277
	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
Occupancy	1,146,182	824,565	9,996	49,109	5,295			2,035,147	195,590	48,534	2,279,271
Professional fees	12,551	545,242	44,531	280,093	165	1,267	10,714	894,563	107,771	53,881	1,056,215
Donated services	100,641		19,700					120,341			120,341
Equipment expenses	44,723	20,448	3,763	11,739	6,093	2,536	230	89,532	13,157		102,689
Staff and client travel	64,550	48,361	1,525	52,656	14,345	352	1,834	183,623	7,679	354	191,656
Depreciation	351,572	114,653	105,961	144,522	2,170		20	718,898	133,286	144	852,328
Program costs	1,384,456	58,358	12,208	38,926	15,774	275	195	1,510,192	104,318		1,614,510
Repairs and maintenance	402,540	424,567	5,731	59,799	12,874	1,075		906,586	59,926		966,512
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
Communications	130,007	35,638	6,489	28,066	8,121	77	222	208,620	25,625	16,490	250,735
Other	162,874	38,694	37,541	252,973	2,859		1,000	495,941	486,899	70,454	1,053,294
Total expenses	$ 15,610,298	$ 6,488,774	$ 3,295,300	$ 4,122,921	$ 1,496,672	$ 172,383	$ 134,359	$ 31,320,707	$ 3,649,793	$ 488,067	$ 35,458,567

CENTER FOR URBAN COMMUNITY SERVICES, INC.

Consolidated Statements of Cash Flows

	Year Ended June 30, 2014	Year Ended June 30, 2013
Cash flows from operating activities:		
Increase in net assets	**$ 128,938**	$ 1,082,306
Adjustments to reconcile increase in net assets to net cash (used in) provided by operating activities:		
Depreciation	**901,981**	852,328
Net realized and unrealized (gains) losses on investments	**(59,512)**	26,438
Gain on interest-rate-swap agreement	**(195,798)**	(314,754)
Changes in:		
Government grants receivable	**(172,500)**	74,859
Contributions receivable	**(472,818)**	(354,406)
Accounts receivable	**(103,361)**	(78,050)
Prepaid expenses	**(23,748)**	53,890
Other assets	**(369,399)**	164,940
Accounts payable and accrued expenses	**(835,821)**	101,971
Refundable advances	**(271,161)**	472,958
Net cash (used in) provided by operating activities	**(1,473,199)**	2,082,480
Cash flows from investing activities:		
Acquisitions of property and equipment	**(600,978)**	(3,883,756)
Distribution of property to Arthur Avenue L.P.	**3,197,631**	
Purchases of investments	**(478,025)**	(548,023)
Proceeds from sales of investments	**440,276**	486,986
Net cash provided by (used in) investing activities	**2,558,904**	(3,944,793)
Cash flows from financing activities:		
Proceeds received from repayment of notes receivable		856,365
Proceeds received from notes payable	**10,956,455**	3,077,940
Loans extended for notes receivable	**(10,727,295)**	
Payments made on notes payable	**(3,294,408)**	(25,000)
Net cash (used in) provided by financing activities	**(3,065,248)**	3,909,305
Net change in cash and cash equivalents	**(1,979,543)**	2,046,992
Cash and cash equivalents - beginning of year	**6,597,009**	4,550,017
Cash and cash equivalents - end of year	**$ 4,617,466**	$ 6,597,009
Supplemental disclosure of cash flow information:		
Cash paid for interest	**$ 337,670**	$ 493,119

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 H[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 H[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. As described in Note H[3], CUCS-HDFC III is the sole owner of Arthur Avenue Residences, GP, Inc., which in turn owns a small percentage of a limited partnership.

The PC is a not-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 CUCS entities described above 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] 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.

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

[3] 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.

[4] 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.

[5] Investments:

The investments in the accompanying consolidated statements of financial position consist primarily of money-market funds and actively traded mutual funds, and they 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, was measured at its fair value at June 30, 2013. During the year ended June 30, 2014, this instrument was not renewed.

[6] Property and equipment:

Property and equipment are stated at either their original costs or their fair values at the dates of donation. CUCS capitalizes property and equipment that have a cost greater than $1,500. 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.

[7] 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.

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

[7] 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 2014 and 2013 were approximately $82,000 and $120,000, respectively.

[8] Net assets:

The net assets are classified as follows:

a) *Unrestricted:*

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

b) *Unrestricted - board-designated:*

The Board of Directors has designated $1,481,760 and $1,384,499 of the unrestricted net assets in fiscal-years 2014 and 2013, 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 $406,656 and $381,667 in fiscal-years 2014 and 2013, respectively, for the George Brager Memorial Scholarship Fund.

c) *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 purposes specified by the donors.

[9] Measure of operations:

CUCS includes in its measure of operations all revenue and expenses that are an integral part of its programs and support activities. The gain on the interest-rate-swap agreement was recognized as a non-operating activity.

[10] 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.

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

[11] Income tax uncertainties:

CUCS is subject to the provisions of the Financial Accounting Standards Board's (the "FASB") Accounting Standards Codification ("ASC") Topic 740, Income Taxes, as it relates to 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 anticipated to have, a material impact on CUCS's consolidated financial statements.

The annual compliance and tax filings of CUCS for 2011, 2012, and 2013 are subject to examination by the Internal Revenue Service, as well as by other various state and local authorities, generally for three years after they are submitted.

[12] 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.

[13] Subsequent events:

CUCS considered all of the accounting treatments, and the related disclosures in the current fiscal-year's financial statements, that may be required as the result of all events or transactions that occur after fiscal year-end through December 9, 2014, the date of the independent auditors' report.

[14] Reclassification:

Certain information in the prior fiscal-year's financial statements has been reclassified to conform with the current fiscal-year's presentation.

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, 2014 and 2013, contributions receivable of $1,741,443 and $1,268,625, 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:

	June 30,	
	2014	**2013**
Medicaid	**$ 357,528**	$ 169,737
Federal	**822,301**	216,092
New York City	**2,269,007**	2,890,507
	$ 3,448,836	$ 3,276,336

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,			
	2014		2013	
	Cost	Fair Value	Cost	Fair Value
Money-market funds	**$ 16,446**	**$ 16,446**	$ 13,577	$ 13,577
Equity mutual funds	**96,346**	**132,100**	97,136	116,326
Fixed-income mutual funds	**1,290,316**	**1,333,214**	1,245,660	1,254,596
	1,403,108	**1,481,760**	1,356,373	1,384,499
Interest-rate-swap-agreement				(195,798)
	$ 1,403,108	**$ 1,481,760**	$ 1,356,373	$ 1,188,701

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

	Year Ended June 30,	
	2014	2013
Interest and dividends	**$ 66,436**	$ 74,348
Net unrealized gains (losses)	**50,526**	(32,812)
Net realized gains	**8,986**	6,374
Gain on interest-rate-swap agreement	**195,798**	314,754
Net return on investments	**$ 321,746**	$ 362,664
Net investment income	**$ 125,948**	$ 47,910
Gain on interest-rate-swap agreement	**195,798**	314,754
Net return on investments	**$ 321,746**	$ 362,664

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, (ii) the investments cannot be independently valued, or (iii) the investments cannot be immediately redeemed at or near the fiscal year-end. CUCS currently does not have any Level 3 assets.

NOTE D - INVESTMENTS (CONTINUED)

The availability of market data is monitored to assess the appropriate classification of financial instruments within the fair-value hierarchy. Changes in economic conditions or valuation techniques may require the transfer of financial instruments from one level to another. In such instances, the transfer is reported at the beginning of the reporting period. For fiscal-years 2014 and 2013, there were no transfers among Levels 1, 2 and 3.

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

	June 30, 2014		
	Level 1	**Level 2**	**Total**
Money-market funds	**$ 16,446**		**$ 16,446**
Equity mutual funds	**132,100**		**132,100**
Fixed-income mutual funds		**$ 1,333,214**	**1,333,214**
Total	**$ 148,546**	**$ 1,333,214**	**$ 1,481,760**

	June 30, 2013		
	Level 1	**Level 2**	**Total**
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		(195,798)	(195,798)
Total	$ 129,903	$ 1,058,798	$ 1,188,701

NOTE E - NOTES RECEIVABLE

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

	June 30,	
	2014	**2013**
1510 L.P (see Note H[1])	**$ 9,856,208**	$ 9,856,208
Lenniger L.P. (see Note H[2])	**19,716,220**	19,313,093
Arthur Avenue L.P. (see Note H[3])	**10,324,168**	
	$ 39,896,596	$ 29,169,301

NOTE F - PROPERTY AND EQUIPMENT

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

	June 30,	
	2014	**2013**
Land	**$ 796,640**	$ 3,322,428
Building and improvements	**11,892,628**	11,718,493
Furniture and fixtures	**318,634**	366,873
Equipment	**1,619,334**	1,540,430
	14,627,236	16,948,224
Less accumulated depreciation	**(3,804,159)**	(3,298,356)
	10,823,077	13,649,868
Construction-in-progress		671,843
	$ 10,823,077	$ 14,321,711

During fiscal-year 2014, CUCS-HDFC III transferred property consisting of land and construction-in-progress for 2116-2128 Arthur Avenue, to Arthur Avenue, L.P., as described in Note H[3], in the amount of $3,197,631. In addition, during fiscal-year 2014 CUCS wrote-off $396,178 in fully depreciated assets.

NOTE G - NOTES PAYABLE

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

	June 30, 2014	June 30, 2013
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	**$ 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
New York City Department of Housing Preservation and Development 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 H[2])	**19,716,220**	19,313,093
Dormitory Authority of the State of New York ("DASNY") to CUCS-HDFC, bearing interest at 5.3%, due in December 2032 (see Note H[1])	**4,576,706**	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% (see Note H[3])	**0**	3,050,248
New York City Housing Development Corporation to CUCS-HDFC III, bearing interest at 1.00%, due in June 2047 (see Note H[3])	**3,192,928**	
New York City Housing Development Corporation to CUCS-HDFC III, bearing interest at 1.00%, due in June 2047 (see Note H[3])	**111,240**	
New York City Department of Housing Preservation and Development to CUCS-HDFC III, bearing interest at 0.00% due June 30, 2016 (see Note H[3])	**7,020,000**	
	45,507,094	37,845,047
C Loan note lent by the Center and eliminated in consolidation	**(1,850,000)**	(1,850,000)
	$ 43,657,094	$ 35,995,047

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 (see Note O).

NOTE G - NOTES PAYABLE (CONTINUED)

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 was March 1, 2007, for an amount equal to a notional amount of $6,801,500. During fiscal-year 2014, CUCS elected not to extend the interest-rate-swap agreement. As of June 30, 2013, the interest-rate-swap agreement had an estimated net fair value of $(195,798). 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.

NOTE H - 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 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, 2014 and 2013, 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, 2014 and 2013, CUCS reported a note payable of $4,576,706 and $4,591,706, respectively, 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.

NOTE H - RELATED-PARTY TRANSACTIONS (CONTINUED)

[2] (continued):

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.

As a result of this financing, at June 30, 2014 and 2013, CUCS has reported, in the accompanying consolidated statements of financial position, a note receivable of $19,716,220 and $19,313,093, respectively, due from Lenniger L.P., and a note payable of $19,716,220, and $19,313,093, respectively, representing the existing drawdown on the HPD Loan.

[3] In December 2013, Arthur Avenue Residence, GP, Inc. ("Arthur Avenue Inc.") was organized as a New York corporation to acquire, own, finance, construct, develop, lease, manage and operate real property owned by Arthur Avenue Residence, L.P. ("Arthur Avenue L.P."), a New York State limited partnership. The sole owner of Arthur Avenue Inc. is CUCS-HDFC III. Arthur Avenue Inc. is the general partner of Arthur Avenue L.P. and holds a .01% interest in the partnership.

In July 2012, CUCS-HDFC III financed the purchase of 2116-2128 Arthur Avenue, The Bronx ("Arthur Avenue") with a loan from the New York City Acquisition Fund, LLC. In December 2013, Arthur Avenue construction financing was obtained and the New York City Acquisition Fund, LLC financing was repaid.

The project construction will be financed through (i) two loans from the New York City Housing Development Corporation in the principal amounts of $19,435,000 and $7,020,000; (ii) a loan from the New York City Department of Housing Preservation and Development in the principal amount of $7,560,000; and (iii) a loan from the New York State Homeless Housing Assistance Corporation in the principal amount of $3,825,000.

As a result of this financing, at June 30, 2014, CUCS has reported, in the accompanying consolidated statements of financial position, a note receivable of $10,324,168 due from Arthur Avenue L.P., and a note payable of $10,324,168, representing the existing drawdown on the construction loans.

NOTE I - TEMPORARILY RESTRICTED NET ASSETS

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

	June 30,	
	2014	**2013**
Supportive housing	**$ 222,578**	$ 360,815
Research and development support	**216,789**	304,081
PPOH	**421,281**	421,313
Training and technical assistance	**364,081**	122,540
Intensive wellness	**510,503**	591,002
Property development	**94,451**	
	$ 1,829,683	$ 1,799,751

NOTE I - TEMPORARILY RESTRICTED NET ASSETS (CONTINUED)

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

	Year Ended June 30, 2014	Year Ended June 30, 2013
Supportive housing	**$ 109,962**	$ 369,187
Research and development support	**307,292**	345,919
PPOH	**400,032**	305,392
Training and technical assistance	**446,732**	117,314
Intensive wellness	**295,499**	58,755
Property development	**133,063**	
	$ 1,692,580	$ 1,196,567

NOTE J- 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 2014 and 2013 was $657,700 and $664,153, respectively.

NOTE K - SPECIAL-PURPOSE ENTITIES

In fiscal-years 2014 and 2013, 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:

Year Ended June 30, 2014	CUCS-HDFC	CUCS-HDFC II	CUCS-HDFC III	Initiatives	Janian
(Support and revenue)	**$ 500**	**$ 62**		**$ 1,229,670**	**$ 3,292,869**
Expenses	**$ 584**	**$ 633**	**$ 225**	**$ 830,028**	**$ 3,342,132**

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

NOTE L - 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 is initially deposited in individual "client" accounts at Citibank. Depending on the level of a client's 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 2014, 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, 2013	$ 306,198
Deposits	5,467,984
Transfers to the primary account	(5,497,995)
Balance as of June 30, 2014	$ 276,187
Primary account:	
Balance as of June 30, 2013	$ 52,083
Transfers from the client accounts	2,744,400
Disbursements	(2,746,368)
Balance as of June 30, 2014	$ 50,115

NOTE M - CONCENTRATION OF CREDIT RISK

CUCS received grants from various governmental agencies in the amount of approximately $26,400,000 and $25,600,000 for the fiscal-years ended June 30, 2014 and 2013, respectively. Such grants represented approximately 72% of total public support and revenue for fiscal-years 2014 and 2013.

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 N - COMMITMENTS AND CONTINGENCIES

[1] Operating leases:

At June 30, 2014, CUCS was obligated under various operating leases expiring through 2017. For fiscal-years subsequent to fiscal-year 2014, minimum annual future rental commitments under the lease agreements are as follows:

Year Ending June 30,	Amount
2015	$ 836,669
2016	835,616
2017	821,053
	$ 2,493,338

Total rent expense for fiscal-years 2014 and 2013 was approximately $1,566,000 and $1,483,000, respectively.

NOTE N - COMMITMENTS AND CONTINGENCIES (CONTINUED)

[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 in fiscal-years 2014 or 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, 2014 and 2013, the amounts of the unreported accrued vacation obligation were $950,356 and $873,102, 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, 2014, the contingent liability for the Kelly Hotel was calculated at $280,640, an amount which has not been reported in the accompanying consolidated financial statements.

NOTE O - SUBSEQUENT EVENT

In fiscal-year 2015, Initiatives accelerated the maturity dates on its notes payable and refinanced the existing debt with tax-exempt bond financing. The terms of the financing are a fully amortizing 25-year loan at 4.35%. As a result of the refinancing, CUCS will recognize approximately $2,600,000 as forgiveness of debt upon the satisfaction of the tax credit investor's loan (see Note G).