



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

**CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2015 and 2014**

## **INDEPENDENT AUDITORS' REPORT**

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

### **Report on the Consolidated 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 position as of June 30, 2015 and 2014, 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 Consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial position of the Center for Urban Community Services, Inc. and its wholly-controlled entities as of June 30, 2015 and 2014, 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 15, 2015

# CENTER FOR URBAN COMMUNITY SERVICES, INC.

## Consolidated Statements of Financial Position

	June 30,	
	<u>2015</u>	<u>2014</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 5,318,927	\$ 4,617,466
Investments	1,464,832	1,481,760
Government grants receivable	4,209,512	3,448,836
Contributions receivable	1,011,001	1,741,443
Accounts receivable	618,759	894,401
Notes receivable from limited partnerships	47,625,187	39,896,596
Prepaid expenses	328,476	269,761
Property and equipment, net	10,850,837	10,823,077
Other assets	<u>79,026</u>	<u>375,632</u>
	<u>\$ 71,506,557</u>	<u>\$ 63,548,972</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 3,524,981	\$ 3,670,139
Refundable advances	1,596,044	891,924
Notes payable	<u>47,758,786</u>	<u>43,657,094</u>
Total liabilities	<u>52,879,811</u>	<u>48,219,157</u>
Commitments and contingencies (Note N)		
Net assets:		
Unrestricted - undesignated	16,113,868	12,018,372
Unrestricted - designated for operations	<u>1,464,832</u>	<u>1,481,760</u>
Total unrestricted	17,578,700	13,500,132
Temporarily restricted	<u>1,048,046</u>	<u>1,829,683</u>
Total net assets	<u>18,626,746</u>	<u>15,329,815</u>
	<u>\$ 71,506,557</u>	<u>\$ 63,548,972</u>

# CENTER FOR URBAN COMMUNITY SERVICES, INC.

## Consolidated Statements of Activities

	Year Ended June 30,					
	2015			2014		
	Total Unrestricted	Temporarily Restricted	Total	Total Unrestricted	Temporarily Restricted	Total
<b>Operating activities:</b>						
<b>Public support and revenue:</b>						
Grants and contracts	\$ 34,850,412		\$ 34,850,412	\$ 30,639,135		\$ 30,639,135
Program service fees	3,735,917		3,735,917	2,997,531		2,997,531
Contributions (including in-kind contributions of \$28,502 and \$81,827 in 2015 and 2014, respectively)	374,843	\$ 809,551	1,184,394	102,272	\$ 1,722,512	1,824,784
Management fees	447,269		447,269	498,878		498,878
Investment income	4,344		4,344	125,948		125,948
Other income	180,743		180,743	464,088		464,088
Total public support and revenue before release from restrictions	39,593,528	809,551	40,403,079	34,827,852	1,722,512	36,550,364
Net assets released from restrictions	1,591,188	(1,591,188)	0	1,692,580	(1,692,580)	0
Total public support and revenue	41,184,716	(781,637)	40,403,079	36,520,432	29,932	36,550,364
<b>Expenses:</b>						
Program services:						
Supportive housing	16,016,162		16,016,162	15,798,582		15,798,582
Outreach and transitional	8,942,162		8,942,162	6,972,596		6,972,596
Project for psychiatric outreach to the homeless	4,186,126		4,186,126	3,839,116		3,839,116
Training and technical assistance	3,846,573		3,846,573	4,061,933		4,061,933
Vocational	1,206,618		1,206,618	1,287,624		1,287,624
Intensive wellness	806,839		806,839	448,664		448,664
Research	156,313		156,313	138,134		138,134
Total program services	35,160,793		35,160,793	32,546,649		32,546,649
Supporting services:						
Management and general	4,376,307		4,376,307	3,855,949		3,855,949
Fund-raising	267,990		267,990	214,626		214,626
Total expenses	39,805,090		39,805,090	36,617,224		36,617,224
Change in net assets from operations	1,379,626	(781,637)	597,989	(96,792)	29,932	(66,860)
<b>Non-operating activities:</b>						
Forgiveness of debt	2,698,942		2,698,942			
Gain on interest-rate-swap agreement				195,798		195,798
<b>Change in net assets</b>	4,078,568	(781,637)	3,296,931	99,006	29,932	128,938
Net assets at beginning of year	13,500,132	1,829,683	15,329,815	13,401,126	1,799,751	15,200,877
<b>Net assets at end of year</b>	\$ 17,578,700	\$ 1,048,046	\$ 18,626,746	\$ 13,500,132	\$ 1,829,683	\$ 15,329,815

See notes to consolidated financial statements

# CENTER FOR URBAN COMMUNITY SERVICES, INC.

## Consolidated Statement of Functional Expenses Year Ended June 30, 2015 (with summarized financial information for 2014)

	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	2015	2014
Salaries	\$ 8,715,911	\$ 4,088,303	\$ 3,096,041	\$ 2,330,464	\$ 974,070	\$ 488,501	\$ 59,430	\$ 19,752,720	\$ 2,020,775	\$ 158,928	\$ 21,932,423	\$ 20,671,086
Fringe benefits	<u>2,935,394</u>	<u>1,250,439</u>	<u>665,248</u>	<u>715,364</u>	<u>116,228</u>	<u>122,677</u>	<u>70,489</u>	<u>5,875,839</u>	<u>581,724</u>	<u>29,210</u>	<u>6,486,773</u>	<u>6,147,405</u>
	11,651,305	5,338,742	3,761,289	3,045,828	1,090,298	611,178	129,919	25,628,559	2,602,499	188,138	28,419,196	26,818,491
Occupancy	1,282,952	1,229,730	34,559	65,673				2,612,914	11,818		2,624,732	2,215,734
Professional fees	22,213	528,382	5,407	164,849	180	74,706	16,537	812,274	491,882	27,018	1,331,174	1,203,457
Donated services		10,302	18,200					28,502			28,502	81,827
Equipment												
Expenses	97,366	72,908	159	1,439	4,194	6,266	2,542	184,874	13,968	5,678	204,520	117,212
Staff and client travel	22,742	41,132	542	67,888	3,140	8,365		143,809	18,217	718	162,744	205,879
Depreciation	288,754	149,025	94,047	145,001	19,002	8,506		704,335	235,333	1,378	941,046	901,981
Program costs	1,590,965	81,413	23,016	35,855	44,378	532	5,284	1,781,443	161,582	17,140	1,960,165	1,666,684
Repairs and maintenance	421,841	764,860	6,682	51,237	14,062	1,136		1,259,818	61,233		1,321,051	1,036,376
Supplies and materials	338,244	618,359	99,281	61,741	26,868	11,415	1,575	1,157,483	59,583	10,041	1,227,107	1,026,859
Communications	158,143	41,524	7,750	40,141	1,397	4,101	190	253,246	30,573	1,180	284,999	243,928
Other	<u>141,637</u>	<u>65,785</u>	<u>135,194</u>	<u>166,921</u>	<u>3,099</u>	<u>80,634</u>	<u>266</u>	<u>593,536</u>	<u>689,619</u>	<u>16,699</u>	<u>1,299,854</u>	<u>1,098,796</u>
Total expenses	<u>\$ 16,016,162</u>	<u>\$ 8,942,162</u>	<u>\$ 4,186,126</u>	<u>\$ 3,846,573</u>	<u>\$ 1,206,618</u>	<u>\$ 806,839</u>	<u>\$ 156,313</u>	<u>\$ 35,160,793</u>	<u>\$ 4,376,307</u>	<u>\$ 267,990</u>	<u>\$ 39,805,090</u>	<u>\$ 36,617,224</u>

# CENTER FOR URBAN COMMUNITY SERVICES, INC.

## Consolidated Statement of Functional Expenses Year Ended June 30, 2014

	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 2014
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
Fringe benefits	<u>2,926,842</u>	<u>1,075,615</u>	<u>645,413</u>	<u>752,052</u>	<u>123,498</u>	<u>25,820</u>	<u>72,648</u>	<u>5,621,888</u>	<u>507,671</u>	<u>17,846</u>	<u>6,147,405</u>
	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
Occupancy	1,244,690	836,528	11,935	60,112	3,999			2,157,264	58,470		2,215,734
Professional fees	147,505	293,033	16,246	172,562	195	134,782	27,109	791,432	387,527	24,498	1,203,457
Donated services	69,727		12,100					81,827			81,827
Equipment expenses	60,676	18,611	11,268	12,863	2,892	1,558		107,868	8,805	539	117,212
Staff and client travel	54,280	50,837	755	55,731	20,294	1,742	10	183,649	22,011	219	205,879
Depreciation	372,056	135,564	102,710	132,027	2,729	1,217		746,303	154,912	766	901,981
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
Repairs and maintenance	413,113	453,349	7,575	69,379	13,815	862		958,093	78,283		1,036,376
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
Communications	140,312	34,144	6,101	32,182	4,586	1,126		218,451	24,970	507	243,928
Other	<u>192,495</u>	<u>52,524</u>	<u>122,779</u>	<u>150,434</u>	<u>3,406</u>	<u>115</u>	<u>384</u>	<u>522,137</u>	<u>564,309</u>	<u>12,350</u>	<u>1,098,796</u>
Total expenses	<u>\$ 15,798,582</u>	<u>\$ 6,972,596</u>	<u>\$ 3,839,116</u>	<u>\$ 4,061,933</u>	<u>\$ 1,287,624</u>	<u>\$ 448,664</u>	<u>\$ 138,134</u>	<u>\$ 32,546,649</u>	<u>\$ 3,855,949</u>	<u>\$ 214,626</u>	<u>\$ 36,617,224</u>

See notes to consolidated financial statements

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

**Consolidated Statements of Cash Flows**

	Year Ended June 30,	
	<u>2015</u>	<u>2014</u>
<b>Cash flows from operating activities:</b>		
Increase in net assets	\$ 3,296,931	\$ 128,938
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Depreciation	941,046	901,981
Net realized and unrealized losses (gains) on investments	67,407	(59,512)
Forgiveness of debt	(2,698,942)	
Gain on interest-rate-swap agreement		(195,798)
Changes in:		
Government grants receivable	(760,676)	(172,500)
Contributions receivable	730,442	(472,818)
Accounts receivable	275,642	(103,361)
Prepaid expenses	(58,715)	(23,748)
Other assets	296,606	(369,399)
Accounts payable and accrued expenses	(145,158)	(835,821)
Refundable advances	<u>704,120</u>	<u>(271,161)</u>
Net cash provided by (used in) operating activities	<u>2,648,703</u>	<u>(1,473,199)</u>
<b>Cash flows from investing activities:</b>		
Acquisitions of property and equipment	(968,806)	(600,978)
Distribution of property to Arthur Avenue L.P.		3,197,631
Purchases of investments	(177,207)	(478,025)
Proceeds from sales of investments	126,728	440,276
Loans extended for notes receivable	<u>(7,728,591)</u>	<u>(10,727,295)</u>
Net cash used in investing activities	<u>(8,747,876)</u>	<u>(8,168,391)</u>
<b>Cash flows from financing activities:</b>		
Proceeds received from new note payable	6,355,000	
Proceeds received from notes payable	6,899,306	10,956,455
Payments made on new note payable	(112,614)	
Payments made on notes payable		(3,294,408)
Refunding on notes payable	<u>(6,341,058)</u>	
Net cash provided by financing activities	<u>6,800,634</u>	<u>7,662,047</u>
<b>Net change in cash and cash equivalents</b>	<b>701,461</b>	<b>(1,979,543)</b>
Cash and cash equivalents - beginning of year	<u>4,617,466</u>	<u>6,597,009</u>
<b>Cash and cash equivalents - end of year</b>	<b><u>\$ 5,318,927</u></b>	<b><u>\$ 4,617,466</u></b>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for interest	<u>\$ 260,478</u>	<u>\$ 337,670</u>

## CENTER FOR URBAN COMMUNITY SERVICES, INC.

### Notes to Consolidated Financial Statements June 30, 2015 and 2014

#### 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 twenty 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.



# CENTER FOR URBAN COMMUNITY SERVICES, INC.

## Notes to Consolidated Financial Statements June 30, 2015 and 2014

### 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. Investment transactions are recorded on a trade-date basis. Realized gains and losses on assets sold, and unrealized appreciation or depreciation on investments held are reported in the accompanying statements of activities. The earnings from dividends and interest are recognized when earned.

#### [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.

Management evaluates the recoverability of the investment in long-lived assets on an on-going basis and recognized any impairment in the year of determination. Long-lived assets were tested for impairment as of June 30, 2015 and 2014, respectively, and in the opinion of management, there were no impairments. It is reasonably possible that relevant conditions could change in the near term and necessitate a change in management's estimate of the recoverability of these assets.

#### [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.

# CENTER FOR URBAN COMMUNITY SERVICES, INC.

## Notes to Consolidated Financial Statements June 30, 2015 and 2014

### 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 2015 and 2014 were approximately \$29,000 and \$82,000, 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 \$1,464,832 and \$1,481,760 of the unrestricted net assets in fiscal-years 2015 and 2014, 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 \$403,711 and \$406,656 in fiscal-years 2015 and 2014, 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 forgiveness of debt in fiscal-year 2015 and the gain on the interest-rate-swap agreement in fiscal-year 2014 were recognized as non-operating activities.

#### [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.

## CENTER FOR URBAN COMMUNITY SERVICES, INC.

### Notes to Consolidated Financial Statements June 30, 2015 and 2014

#### 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 has not had, and is not anticipated to have, a material impact on CUCS's consolidated financial statements.

##### [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 consolidated financial statements, that may be required as the result of all events or transactions that occur after fiscal year-end through December 15, 2015, the date the consolidated financial statements were available to be issued.

##### [14] Reclassification:

Certain information in the prior fiscal-year's consolidated 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, 2015 and 2014, contributions receivable of \$1,011,001 and \$1,741,443, 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>2015</u>	<u>2014</u>
Medicaid	\$ 268,510	\$ 357,528
Federal	358,823	822,301
New York City	<u>3,582,179</u>	<u>2,269,007</u>
	<u>\$ 4,209,512</u>	<u>\$ 3,448,836</u>

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

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

**Notes to Consolidated Financial Statements  
June 30, 2015 and 2014**

**NOTE D - INVESTMENTS**

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

	June 30,			
	2015		2014	
	Cost	Fair Value	Cost	Fair Value
Money-market funds	\$ 7,972	\$ 7,972	\$ 16,446	\$ 16,446
Equity mutual funds	109,902	140,264	96,346	132,100
Fixed-income mutual funds	<u>1,343,053</u>	<u>1,316,596</u>	<u>1,290,316</u>	<u>1,333,214</u>
	<u>\$ 1,460,927</u>	<u>\$ 1,464,832</u>	<u>\$ 1,403,108</u>	<u>\$ 1,481,760</u>

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

	Year Ended June 30,	
	2015	2014
Interest and dividends	\$ 71,751	\$ 66,436
Net unrealized (losses) gains	(74,747)	50,526
Net realized gains	7,340	8,986
Gain on interest-rate-swap agreement	<u>                    </u>	<u>195,798</u>
Net return on investments	<u>\$ 4,344</u>	<u>\$ 321,746</u>
Net investment income	\$ 4,344	\$ 125,948
Gain on interest-rate-swap agreement	<u>                    </u>	<u>195,798</u>
Net return on investments	<u>\$ 4,344</u>	<u>\$ 321,746</u>

ASC Topic 820 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. CUCS currently does not have any Level 2 assets.

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.

## CENTER FOR URBAN COMMUNITY SERVICES, INC.

### Notes to Consolidated Financial Statements June 30, 2015 and 2014

#### 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 2015 and 2014, there were no transfers among Levels 1, 2 and 3.

The investments held by CUCS at each fiscal year-end are Level 1 investments.

#### NOTE E - NOTES RECEIVABLE

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

	<u>June 30,</u>	
	<u>2015</u>	<u>2014</u>
1510 L.P (see Note H[1])	\$ 9,856,208	\$ 9,856,208
Lenniger L.P. (see Note H[2])	19,716,220	19,716,220
Arthur Avenue L.P. (see Note H[3])	<u>18,052,759</u>	<u>10,324,168</u>
	<u>\$ 47,625,187</u>	<u>\$ 39,896,596</u>

#### NOTE F - PROPERTY AND EQUIPMENT

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

	<u>June 30,</u>	
	<u>2015</u>	<u>2014</u>
Land	\$ 796,640	\$ 796,640
Building and improvements	12,097,052	11,892,628
Furniture and fixtures	498,401	318,634
Equipment	<u>1,819,860</u>	<u>1,619,334</u>
	15,211,953	14,627,236
Less accumulated depreciation	<u>(4,393,398)</u>	<u>(3,804,159)</u>
	10,818,555	10,823,077
Construction-in-progress	<u>32,282</u>	<u>                    </u>
	<u>\$ 10,850,837</u>	<u>\$ 10,823,077</u>

Depreciation expense for fiscal-years 2015 and 2014 was \$941,046 and \$901,981, respectively.

During fiscal-years 2015 and 2014, CUCS wrote-off \$351,807 and \$396,178 of fully depreciated assets.

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

**Notes to Consolidated Financial Statements  
June 30, 2015 and 2014**

**NOTE G - NOTES PAYABLE**

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

	<u>June 30,</u>	
	<u>2015</u>	<u>2014</u>
Build NYC Resource Corporation, to Initiatives bearing interest at 4.35% requiring monthly principal and interest payments over 25 years, due in July 2039	<b>\$ 6,242,386</b>	
New York City Department of Housing Preservation and Development 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 H[2])	<b>19,716,220</b>	<b>\$ 19,716,220</b>
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])	<b>4,576,706</b>	<b>4,576,706</b>
New York City Housing Development Corporation to CUCS-HDFC III, bearing interest at 1.00%, due in June 2047 (see Note H[3])	<b>10,092,234</b>	<b>3,192,928</b>
New York City Housing Development Corporation to CUCS-HDFC III, bearing interest at 1.00%, due in June 2047 (see Note H[3])	<b>111,240</b>	<b>111,240</b>
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])	<b><u>7,020,000</u></b>	<b><u>7,020,000</u></b>
	<b><u>47,758,786</u></b>	<b><u>34,617,094</u></b>
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>
Senior Building Loan note, bearing interest at LIBOR plus 1.6%, requiring interest-only payments, due in January 2037		<b>1,311,894</b>
Junior Building Loan note, bearing interest at 0.5%, requiring interest-only payments, due in January 2037		<b>2,105,098</b>
Project Loan note, bearing interest at 0.5%, requiring interest-only payments, due in January 2037		<b>133,402</b>
C Loan note, bearing interest at 0.5%, requiring interest-only payments, due in January 2037		<b><u>1,850,000</u></b>
		<b>10,890,000</b>
C Loan note lent by the Center and eliminated in consolidation		<b><u>(1,850,000)</u></b>
Total note payable commitments with New Markets Investment XXI, LLC		<b><u>9,040,000</u></b>
	<b><u>\$ 47,758,786</u></b>	<b><u>\$ 43,657,094</u></b>

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 has recognized approximately \$2,700,000 as forgiveness of debt upon the satisfaction of the tax credit investor's loan.

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 a result, CUCS recognized a gain of \$195,798 on the interest-rate-swap agreement.

## CENTER FOR URBAN COMMUNITY SERVICES, INC.

### Notes to Consolidated Financial Statements June 30, 2015 and 2014

#### NOTE G - NOTES PAYABLE (CONTINUED)

Certain covenants exist under the terms of these loans. As of June 30, 2015 and June 30, 2014, CUCS is not in violation of any of these covenants.

The approximate annual principal payments due on notes payable in each of the five years subsequent to June 30, 2015 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>
2016	\$ 7,293,000
2017	266,000
2018	259,000
2019	251,000
2020	244,000

#### 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, 2015 and 2014, 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, 2015 and 2014, CUCS reported a note payable of \$4,576,706 in each year, 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.

## CENTER FOR URBAN COMMUNITY SERVICES, INC.

### Notes to Consolidated Financial Statements June 30, 2015 and 2014

#### NOTE H - 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"). 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, 2015 and 2014, CUCS has reported, in the accompanying consolidated statements of financial position, a note receivable of \$19,716,220 in each fiscal year, due from Lenniger L.P., and a note payable of \$19,716,220 in each fiscal year, 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 is being 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; (iii) a loan from the New York State Homeless Housing Assistance Corporation in the principal amount of \$3,825,000 and (iv) a grant from New York State Office of Mental Health (OMH) in the principal amount of \$2,099,652.

As a result of this financing, at June 30, 2015 and 2014, CUCS has reported, in the accompanying consolidated statements of financial position, a note receivable of \$17,223,473 and \$10,324,168, respectively, due from Arthur Avenue L.P., and notes payable totaling \$17,223,473 and \$10,324,168, respectively, representing the existing drawdown on the construction loans.

In fiscal-year 2015, CUCS received a state aid grant from OMH in the amount of \$2,099,652, for the construction of the Arthur Avenue project which was loaned to Arthur Avenue L.P. At June 30, 2015, CUCS has an additional note receivable due from Arthur Avenue L.P. of \$829,285. See note N[5] for terms of the note agreement.



## CENTER FOR URBAN COMMUNITY SERVICES, INC.

### Notes to Consolidated Financial Statements June 30, 2015 and 2014

#### NOTE I - TEMPORARILY RESTRICTED NET ASSETS

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

	June 30,	
	2015	2014
Supportive housing	\$ 50,000	\$ 222,578
Research and development support	44,396	216,789
PPOH	421,281	421,281
Training and technical assistance	189,828	364,081
Intensive wellness	342,541	510,503
Property development		94,451
	<u>\$ 1,048,046</u>	<u>\$ 1,829,683</u>

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

	Year Ended June 30,	
	2015	2014
Supportive housing	\$ 188,578	\$ 109,962
Research and development support	216,789	307,292
PPOH	400,000	400,032
Training and technical assistance	333,408	446,732
Intensive wellness	357,962	295,499
Property development	94,451	133,063
	<u>\$ 1,591,188</u>	<u>\$ 1,692,580</u>

#### 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 2015 and 2014 was \$709,869 and \$657,700, respectively.

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

**Notes to Consolidated Financial Statements  
June 30, 2015 and 2014**

**NOTE K - SPECIAL-PURPOSE ENTITIES**

In fiscal-years 2015 and 2014, 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, 2015				
	<u>CUCS-HDFC</u>	<u>CUCS-HDFC II</u>	<u>CUCS-HDFC III</u>	<u>Initiatives</u>	<u>Janian</u>
Support and revenue	\$ 0	\$ 0	\$ 64,800	\$ 5,356,054	\$ 3,608,573
Expenses	\$ 0	\$ 650	\$ 308	\$ 1,054,120	\$ 3,633,996

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

**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 2015, 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, 2014	\$ 276,187
Deposits	5,785,734
Transfers to the primary account	<u>(5,784,129)</u>
Balance as of June 30, 2015	<u>\$ 277,792</u>
Primary account:	
Balance as of June 30, 2014	\$ 50,115
Transfers from the client accounts	2,889,137
Disbursements	<u>(2,895,636)</u>
Balance as of June 30, 2015	<u>\$ 43,616</u>

## CENTER FOR URBAN COMMUNITY SERVICES, INC.

### Notes to Consolidated Financial Statements June 30, 2015 and 2014

#### NOTE M - CONCENTRATION OF CREDIT RISK

CUCS received grants from various governmental agencies in the amount of approximately \$30,800,000 and \$26,400,000 for the fiscal-years ended June 30, 2015 and 2014, respectively. Such grants represented approximately 71% of total public support and revenue for fiscal-years 2015 and 2014.

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, 2015, CUCS was obligated under various operating leases expiring through 2020. For fiscal-years subsequent to fiscal-year 2015, minimum annual future rental commitments under the lease agreements are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2016	\$ 1,791,935
2017	1,423,600
2018	1,157,650
2019	1,140,213
2020	<u>574,317</u>
	<u>\$ 6,087,715</u>

Total rent expense for fiscal-years 2015 and 2014 were approximately \$1,946,000 and \$1,566,000, respectively.

##### [2] Audits by funding sources:

In the course of a business, CUCS's government grants are regularly subject to government audits. As of June 30, 2015, a provision of \$325,000 has been made for any liabilities which may arise from such audits. In addition, during 2015 a CUCS government funding source was audited by the New York State Office of the State Comptroller and that audit included a CUCS contract. Although the final outcome of the audit has not been determined, CUCS's management and the funding source under audit believe the potential findings to be without merit. Nonetheless, if in the event an unfavorable outcome is estimable and probable, when appropriate CUCS will accrue any related loss in the consolidated and consolidating financial statements.

##### [3] Line of credit:

During fiscal-year 2015, as part of the re-financing transaction of the condominium located at 198 East 121st Street, CUCS obtained a line of credit from First Republic Bank ("FRB") for \$500,000. Subsequent to fiscal-year end, the line of credit from FRB was increased to \$1,000,000. In fiscal-year 2014, CUCS held a line of credit from JPMorgan Chase for \$750,000. There were no amounts borrowed in fiscal-years 2015 or 2014.

##### [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, 2015 and 2014, the amounts of the unreported accrued vacation obligation were \$924,110 and \$950,356, respectively.

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

**Notes to Consolidated Financial Statements  
June 30, 2015 and 2014**

**NOTE N - 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, 2015, the contingent liability for the Kelly Hotel was calculated at \$245,560, an amount which has not been reported in the accompanying consolidated financial statements.

In fiscal-year 2015, CUCS received a state aid grant from OMH in the amount of \$2,099,652, for the construction of the Arthur Avenue project. CUCS is contingently obligated to refund the amount of the grant if it does not manage the project in compliance with the grant's terms. However, OMH will reduce the potential amount due by an amount equal to 5% of the total for each full fiscal year (starting with fiscal-year the asset is placed in service) in which CUCS performs the obligation in accordance with the grant agreement.

At June 30, 2015, \$829,285 of the grant was recognized as revenue along with a note receivable from Arthur Avenue L.P. (see Note H[3]).

**[6] Other agreements:**

CUCS has entered into various contracts and agreements in the normal course of business operations.