



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

**CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2016 and 2015**

## **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, 2016 and 2015, 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 auditors' judgements, 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, 2016 and 2015, 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 6, 2016

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

**Consolidated Statements of Financial Position**

	June 30,	
	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,580,872	\$ 5,318,927
Investments	1,470,543	1,464,832
Government grants receivable	6,384,294	4,209,512
Contributions receivable	965,000	1,011,001
Accounts receivable	1,622,477	618,759
Notes receivable from limited partnerships	58,711,637	47,625,187
Prepaid expenses	377,600	328,476
Property and equipment, net	16,020,078	10,850,837
Other assets	<u>283,256</u>	<u>79,026</u>
	<b><u>\$ 88,415,757</u></b>	<b><u>\$ 71,506,557</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 4,780,978	\$ 3,524,981
Refundable advances	1,676,405	1,596,044
Notes payable	<u>62,900,343</u>	<u>47,758,786</u>
Total liabilities	<b><u>69,357,726</u></b>	<b><u>52,879,811</u></b>
Commitments and contingencies (Note L)		
Net assets:		
Unrestricted - undesignated	15,954,812	16,113,868
Unrestricted - designated for operations	<u>1,470,543</u>	<u>1,464,832</u>
Total unrestricted	<b>17,425,355</b>	17,578,700
Temporarily restricted	<u>1,632,676</u>	<u>1,048,046</u>
Total net assets	<b><u>19,058,031</u></b>	<b><u>18,626,746</u></b>
	<b><u>\$ 88,415,757</u></b>	<b><u>\$ 71,506,557</u></b>

# CENTER FOR URBAN COMMUNITY SERVICES, INC.

## Consolidated Statements of Activities

	Year Ended June 30,					
	2016			2015		
	Total Unrestricted	Temporarily Restricted	Total	Total Unrestricted	Temporarily Restricted	Total
<b>Operating activities:</b>						
Public support and revenue:						
Grants and contracts	\$ 38,309,162		\$ 38,309,162	\$ 34,850,412		\$ 34,850,412
Program service fees	5,021,324		5,021,324	3,735,917		3,735,917
Contributions (including in-kind contributions of \$69,101 and \$28,502 in 2016 and 2015, respectively)	331,642	\$ 1,211,103	1,542,745	374,843	\$ 809,551	1,184,394
Special event (net of direct benefit to donors of \$32,723)	193,826		193,826			
Management fees	468,303		468,303	447,269		447,269
Investment income	12,283		12,283	4,344		4,344
Other income	159,502		159,502	180,743		180,743
Total public support and revenue before release from restrictions	44,496,042	1,211,103	45,707,145	39,593,528	809,551	40,403,079
Net assets released from restrictions	626,473	(626,473)	0	1,591,188	(1,591,188)	0
Total public support and revenue	45,122,515	584,630	45,707,145	41,184,716	(781,637)	40,403,079
<b>Expenses:</b>						
Program services:						
Supportive housing	17,472,496		17,472,496	16,016,162		16,016,162
Outreach and transitional	12,086,762		12,086,762	8,942,162		8,942,162
Project for psychiatric outreach to the homeless	5,015,912		5,015,912	4,186,126		4,186,126
Training and technical assistance	3,401,494		3,401,494	3,846,573		3,846,573
Vocational	1,092,944		1,092,944	1,206,618		1,206,618
Intensive wellness	1,514,842		1,514,842	806,839		806,839
Research	105,630		105,630	156,313		156,313
Total program services	40,690,080		40,690,080	35,160,793		35,160,793
Supporting services:						
Management and general	4,145,257		4,145,257	4,376,307		4,376,307
Fund-raising	440,523		440,523	267,990		267,990
Total expenses	45,275,860		45,275,860	39,805,090		39,805,090
Change in net assets from operations	(153,345)	584,630	431,285	1,379,626	(781,637)	597,989
<b>Non-operating activities:</b>						
Forgiveness of debt				2,698,942		2,698,942
<b>Change in net assets</b>	(153,345)	584,630	431,285	4,078,568	(781,637)	3,296,931
Net assets at beginning of year	17,578,700	1,048,046	18,626,746	13,500,132	1,829,683	15,329,815
<b>Net assets at end of year</b>	\$ 17,425,355	\$ 1,632,676	\$ 19,058,031	\$ 17,578,700	\$ 1,048,046	\$ 18,626,746

See notes to consolidated financial statements.

# CENTER FOR URBAN COMMUNITY SERVICES, INC.

Consolidated Statement of Functional Expenses  
 Year Ended June 30, 2016  
 (with summarized financial information for 2015)

	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	2016	2015
Salaries	\$ 9,595,424	\$ 5,044,517	\$ 3,562,531	\$ 1,964,635	\$ 874,347	\$ 1,066,426	\$ 70,988	\$ 22,178,868	\$ 2,193,485	\$ 287,412	\$ 24,659,765	\$ 21,932,423
Fringe benefits	<u>3,069,203</u>	<u>1,512,594</u>	<u>924,663</u>	<u>606,946</u>	<u>113,757</u>	<u>288,996</u>	<u>8,296</u>	<u>6,524,455</u>	<u>525,572</u>	<u>60,355</u>	<u>7,110,382</u>	<u>6,486,773</u>
	12,664,627	6,557,111	4,487,194	2,571,581	988,104	1,355,422	79,284	28,703,323	2,719,057	347,767	31,770,147	28,419,196
Occupancy	1,233,662	1,975,534	38,555	48,631				3,296,382	56,511	4,750	3,357,643	2,624,732
Professional fees	19,186	454,431	4,519	195,435	260	49,815	6,991	730,637	315,984	51,546	1,098,167	1,331,174
Donated services		65,901	3,200					69,101			69,101	28,502
Equipment expenses	118,987	32,610	5,351	1,733	5,749	13,698	11	178,139	7,101	147	185,387	204,520
Staff and client travel	18,698	30,426	80	48,595	1,078	3,451		102,328	18,123	1,855	122,306	162,744
Depreciation and amortization	236,725	196,665	40,048	176,969	18,016	45,574		713,997	223,374	1,250	938,621	941,046
Program costs	1,854,360	122,699	130,703	28,815	32,825	9,209	16,103	2,194,714	101,681	2,854	2,299,249	1,960,165
Repairs and maintenance	560,920	1,614,828	10,685	58,086	16,679	4,271	109	2,265,578	75,721	151	2,341,450	1,321,051
Supplies and materials	409,081	917,824	47,195	47,638	26,071	15,446	2,828	1,466,083	82,823	10,414	1,559,320	1,227,107
Communications	182,086	48,709	7,051	43,944	1,855	9,258	171	293,074	39,341	1,698	334,113	284,999
Other	<u>174,164</u>	<u>70,024</u>	<u>241,331</u>	<u>180,067</u>	<u>2,307</u>	<u>8,698</u>	<u>133</u>	<u>676,724</u>	<u>505,541</u>	<u>18,091</u>	<u>1,200,356</u>	<u>1,299,854</u>
Total expenses	<u>\$ 17,472,496</u>	<u>\$ 12,086,762</u>	<u>\$ 5,015,912</u>	<u>\$ 3,401,494</u>	<u>\$ 1,092,944</u>	<u>\$ 1,514,842</u>	<u>\$ 105,630</u>	<u>\$ 40,690,080</u>	<u>\$ 4,145,257</u>	<u>\$ 440,523</u>	<u>\$ 45,275,860</u>	<u>\$ 39,805,090</u>

See notes to consolidated financial statements.

# CENTER FOR URBAN COMMUNITY SERVICES, INC.

Consolidated Statement of Functional Expenses  
Year Ended June 30, 2015

	Program Services							Supporting Services		Total Expenses 2015	
	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
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
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>
	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
Occupancy	1,282,952	1,229,730	34,559	65,673				2,612,914	11,818		2,624,732
Professional fees	22,213	528,382	5,407	164,849	180	74,706	16,537	812,274	491,882	27,018	1,331,174
Donated services		10,302	18,200					28,502			28,502
Equipment expenses	97,366	72,908	159	1,439	4,194	6,266	2,542	184,874	13,968	5,678	204,520
Staff and client travel	22,742	41,132	542	67,888	3,140	8,365		143,809	18,217	718	162,744
Depreciation and amortization	288,754	149,025	94,047	145,001	19,002	8,506		704,335	235,333	1,378	941,046
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
Repairs and maintenance	421,841	764,860	6,682	51,237	14,062	1,136		1,259,818	61,233		1,321,051
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
Communications	158,143	41,524	7,750	40,141	1,397	4,101	190	253,246	30,573	1,180	284,999
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>
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>

See notes to consolidated financial statements.

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

**Consolidated Statements of Cash Flows**

	Year Ended June 30,	
	<u>2016</u>	<u>2015</u>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 431,285	\$ 3,296,931
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	938,621	941,046
Net realized and unrealized losses on investments	46,459	67,407
Forgiveness of debt		(2,698,942)
Changes in:		
Government grants receivable	(2,174,782)	(760,676)
Contributions receivable	46,001	730,442
Accounts receivable	(1,003,718)	275,642
Prepaid expenses	(49,124)	(58,715)
Other assets	(204,230)	296,606
Accounts payable and accrued expenses	1,255,997	(145,158)
Refundable advances	<u>80,361</u>	<u>704,120</u>
Net cash (used in) provided by operating activities	<u>(633,130)</u>	<u>2,648,703</u>
<b>Cash flows from investing activities:</b>		
Acquisitions of property and equipment	(6,107,862)	(968,806)
Purchases of investments	(65,101)	(177,207)
Proceeds from sales of investments	12,931	126,728
Loans extended for notes receivable	<u>(11,086,450)</u>	<u>(7,728,591)</u>
Net cash used in investing activities	<u>(17,246,482)</u>	<u>(8,747,876)</u>
<b>Cash flows from financing activities:</b>		
Proceeds received from notes payable	15,289,005	13,254,306
Payments made on note payable	(147,448)	(112,614)
Refunding on notes payable		<u>(6,341,058)</u>
Net cash provided by financing activities	<u>15,141,557</u>	<u>6,800,634</u>
<b>Net change in cash and cash equivalents</b>	<b>(2,738,055)</b>	<b>701,461</b>
Cash and cash equivalents, beginning of year	<u>5,318,927</u>	<u>4,617,466</u>
<b>Cash and cash equivalents, end of year</b>	<b>\$ <u>2,580,872</u></b>	<b>\$ <u>5,318,927</u></b>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for interest	<u>\$ 272,574</u>	<u>\$ 260,478</u>
In-kind contributions	<u>\$ 69,101</u>	<u>\$ 28,502</u>

See notes to consolidated financial statements.

## CENTER FOR URBAN COMMUNITY SERVICES, INC.

### Notes to Consolidated Financial Statements June 30, 2016 and 2015

#### 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"), CUCS Housing Development Fund Corporation IV ("CUCS-HDFC IV") and Janian Medical Care P.C. (the "PC"), the seven of which are described below. As used herein, the term "CUCS" refers to the seven 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 20 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 F[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 F[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 F[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.

CUCS-HDFC IV is a not-for-profit corporation, incorporated in the State of New York, which was formed in March 2016 for the development of low-income housing.

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.



## CENTER FOR URBAN COMMUNITY SERVICES, INC.

### Notes to Consolidated Financial Statements June 30, 2016 and 2015

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

**[2] Basis of accounting:**

The accompanying consolidated financial statements of CUCS 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.

**[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 amount of assets, liabilities, revenues and expenses, as well as disclosure of contingent assets and liabilities. 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 ongoing basis and recognized any impairment in the year of determination. Long-lived assets were tested for impairment as of June 30, 2016 and 2015, 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. 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.

## CENTER FOR URBAN COMMUNITY SERVICES, INC.

### Notes to Consolidated Financial Statements June 30, 2016 and 2015

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

##### [7] Revenue recognition: (continued)

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 in the accompanying consolidated statements of activities as "net assets released from restrictions."

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

Those donated services that meet the requirements for recognition under generally accepted accounting principles are recorded as revenue and expense in the accompanying consolidated statements of activities, at amounts determined by management to be reasonable for obtaining such services, which are valued at an average hourly rate for legal and psychiatric sessions. Total donated services for fiscal-years 2016 and 2015 were approximately \$69,000 and \$29,000, 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 \$1,470,543 and \$1,464,832 of the unrestricted net assets in fiscal-years 2016 and 2015, 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 \$405,282 and \$403,711 in fiscal-years 2016 and 2015, 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. Temporarily restricted contributions, the requirements of which are met in the year of donation, are reported as unrestricted.

##### [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 was recognized as non-operating activities.

## CENTER FOR URBAN COMMUNITY SERVICES, INC.

### Notes to Consolidated Financial Statements June 30, 2016 and 2015

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

##### [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 using appropriate measurement methodologies determined by management.

##### [11] Income tax uncertainties:

CUCS follows 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] 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 6, 2016, the date the consolidated financial statements were available to be issued.

##### [13] New accounting pronouncement:

In August, 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 will amend financial-statement presentations and disclosures, with the goal of assisting not-for-profit organizations in providing more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. ASU 2016-14 includes qualitative and quantitative requirements in the following areas: (i) net asset classifications, (ii) investment returns, (iii) expense categorizations, (iv) liquidity and availability of resources, and (v) the presentation of operating cash flows. The new standard will be effective for annual reporting periods beginning after December 15, 2017. CUCS has chosen not to early adopt the new pronouncement.

#### NOTE B - RECEIVABLES

##### [1] 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>2016</u>	<u>2015</u>
Medicaid	\$ 194,636	\$ 268,510
Federal	812,760	358,823
New York City	<u>5,376,898</u>	<u>3,582,179</u>
	<u>\$ 6,384,294</u>	<u>\$ 4,209,512</u>

Management evaluates the collectability of government grants made, and accordingly, 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, 2016 and 2015**

**NOTE B - RECEIVABLES (CONTINUED)**

**[2] 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, 2016 and 2015, contributions receivable of \$965,000 and \$1,011,001, respectively, were estimated to be collected in the subsequent fiscal year.

Management evaluates the collectability of contributions made, and accordingly, considers all contributions to be fully collectible; accordingly, no allowance for doubtful amounts has been established.

**[3] Accounts receivable:**

At each fiscal year-end, accounts receivables consisted of amounts due to CUCS for exchange-type transactions. All amounts are due within one year. Based on management's past experience, management evaluated the collectability of its accounts receivables made, and accordingly no amounts were reserved as uncollectible in either fiscal-year 2016 or fiscal-year 2015.

**NOTE C - INVESTMENTS**

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

	June 30,			
	2016		2015	
	Fair Value	Cost	Fair Value	Cost
Money-market funds	\$ 2,021	\$ 2,021	\$ 7,972	\$ 7,972
Equity mutual funds	142,840	124,629	140,264	109,902
Fixed-income mutual funds	<u>1,325,682</u>	<u>1,395,754</u>	<u>1,316,596</u>	<u>1,343,053</u>
	<u>\$ 1,470,543</u>	<u>\$ 1,522,404</u>	<u>\$ 1,464,832</u>	<u>\$ 1,460,927</u>

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

	Year Ended June 30,	
	2016	2015
Interest and dividends	\$ 58,742	\$ 71,751
Net unrealized gains (losses)	9,307	(74,747)
Net realized (losses) gains	<u>(55,766)</u>	<u>7,340</u>
Net return on investments	<u>\$ 12,283</u>	<u>\$ 4,344</u>

ASC Topic 820, *Fair Value Measurements and Disclosures*, 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.

## CENTER FOR URBAN COMMUNITY SERVICES, INC.

### Notes to Consolidated Financial Statements June 30, 2016 and 2015

#### NOTE C - INVESTMENTS (CONTINUED)

Level 2 - Valuations are based on (i) quoted prices for similar investments, in active markets, or (ii) quoted prices for those 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 3 Valuations are based on pricing inputs that are unobservable and include situations where there is little, if any, market activity for the investments, or the investments cannot be independently valued.

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 2016 and 2015, there were no transfers among fair-value hierarchy levels.

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

#### NOTE D - PROPERTY AND EQUIPMENT

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

	<u>June 30,</u>	
	<u>2016</u>	<u>2015</u>
Land	\$ 5,596,640	\$ 796,640
Building and improvements	12,326,849	12,097,052
Furniture and fixtures	477,225	498,401
Equipment	<u>1,381,383</u>	<u>1,819,860</u>
	19,782,097	15,211,953
Less accumulated depreciation	<u>(4,504,974)</u>	<u>(4,393,398)</u>
	15,277,123	10,818,555
Construction-in-progress	<u>742,955</u>	<u>32,282</u>
	<u>\$ 16,020,078</u>	<u>\$ 10,850,837</u>

Depreciation and amortization expense for fiscal-years 2016 and 2015 was \$938,621 and \$941,046, respectively. During fiscal-years 2016 and 2015, CUCS wrote-off \$827,045 and \$351,807 of fully depreciated assets, respectively.

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

**Notes to Consolidated Financial Statements  
June 30, 2016 and 2015**

**NOTE E - NOTES PAYABLE**

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

	<u>June 30,</u>	
	<u>2016</u>	<u>2015</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>\$ 6,094,938</b>	\$ 6,242,386
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 F[2])	<b>19,716,220</b>	19,716,220
Dormitory Authority of the State of New York to CUCS-HDFC, bearing interest at 5.3%, due in December 2032 (see Note F[1])	<b>4,576,706</b>	4,576,706
New York City Housing Development Corporation to CUCS-HDFC III, bearing interest at 1.00%, due in June 2047 (see Note F[3])	<b>19,727,784</b>	10,092,234
New York City Housing Development Corporation to CUCS-HDFC III, bearing interest at 1.00%, due in June 2047 (see Note F[3])	<b>221,989</b>	111,240
New York City Department of Housing Preservation and Development to CUCS-HDFC III, bearing interest at 0.00%, due June 19, 2017 (see Note F[3])	<b>7,020,000</b>	7,020,000
Corporation of Supportive Housing to CUCS, bearing interest at 6%, due the earlier of closing on construction financing or November 2017	<b>500,000</b>	
New York City Acquisition Fund LLC to CUCS-HDFC IV, bearing interest at LIBOR plus 405 basis points due the earlier of closing on construction financing or January 2018	<b>5,042,706</b>	
	<b><u>\$ 62,900,343</u></b>	<b><u>\$ 47,758,786</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.

Certain covenants exist under the terms of these loans. As of June 30, 2016 and June 30, 2015, 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, 2016 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>
2017	\$ 7,175,000
2018	5,705,000
2019	169,000
2020	176,000
2021	185,000

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

### **Notes to Consolidated Financial Statements June 30, 2016 and 2015**

#### **NOTE F - RELATED-PARTY TRANSACTIONS**

##### **[1] 1510 L.P.**

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

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

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

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

As a result of this financing, as of June 30, 2016 and 2015, 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, 2016 and 2015, 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.

##### **[2] Lenniger L.P.**

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.

## CENTER FOR URBAN COMMUNITY SERVICES, INC.

### Notes to Consolidated Financial Statements June 30, 2016 and 2015

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

##### [2] Lenniger L.P. (continued)

The project construction was financed through (i) a loan from the New York City Department of Housing Preservation and Development ("HPD") in the principal amount of \$20,039,954 (the "HPD Loan") that was funded with funds provided by (a) 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 in the amount of \$25,000.

As a result of this financing, at June 30, 2016 and 2015, CUCS has reported, in the accompanying consolidated statements of financial position, a note receivable of \$19,721,204 and \$19,716,220, respectively, 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] Arthur Avenue L.P.

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 HPD 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 OMH in the principal amount of \$2,099,652.

As a result of this financing, at June 30, 2016 and 2015, CUCS has reported, in the accompanying consolidated statements of financial position, a note receivable of \$26,969,773 and \$17,223,473, respectively, due from Arthur Avenue L.P., and notes payable totaling \$26,969,773 and \$17,223,473, respectively, representing the existing drawdown on the construction loans.

In fiscal-year 2015, CUCS also 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, 2016 and 2015, CUCS has reported in the accompanying consolidated statement of financial position a note receivable of \$2,099,652 and \$829,286, respectively, due from Arthur Avenue L.P. See Note L[5] for terms of the note agreement.

In addition, during fiscal-year 2016, CUCS received a grant from NYSERDA in the amount of \$129,600, in connection with the construction of the Arthur Avenue project, which was loaned to Arthur Avenue L.P. At June 30, 2016, CUCS has reported in the accompanying consolidated statement of financial position an additional note receivable of \$64,800 due from Arthur Avenue L.P.



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

**Notes to Consolidated Financial Statements  
June 30, 2016 and 2015**

**NOTE G - TEMPORARILY RESTRICTED NET ASSETS**

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

	<u>June 30,</u>	
	<u>2016</u>	<u>2015</u>
Supportive housing	\$ 224,488	\$ 50,000
Research and development support	64,605	44,396
Project for Psychiatric Outreach to the Homeless	420,586	421,281
Training and technical assistance	195,748	189,828
Intensive wellness	721,297	342,541
Property development	<u>5,952</u>	<u>          </u>
	<u>\$ 1,632,676</u>	<u>\$ 1,048,046</u>

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

	<u>Year Ended June 30,</u>	
	<u>2016</u>	<u>2015</u>
Supportive housing		\$ 188,578
Research and development support	\$ 44,396	216,789
Project for Psychiatric Outreach to the Homeless	400,695	400,000
Training and technical assistance	72,580	333,408
Intensive wellness	108,802	357,962
Property development	<u>          </u>	<u>94,451</u>
	<u>\$ 626,473</u>	<u>\$ 1,591,188</u>

**NOTE H - RETIREMENT PLANS**

The Center 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 2016 and 2015 was \$929,413 and \$709,869, respectively.

**NOTE I - SPECIAL-PURPOSE ENTITIES**

In fiscal-years 2016 and 2015, 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:

	<u>Year Ended June 30, 2016</u>					
	<u>CUCS-HDFC</u>	<u>CUCS-HDFC II</u>	<u>CUCS-HDFC III</u>	<u>CUCS-HDFC IV</u>	<u>Initiatives</u>	<u>PC</u>
Support and revenue	\$ 0	\$ 0	\$ 0	\$ 0	\$ 803,274	\$ 4,756,219
Expenses	\$ 100	\$ 1,500	\$ 318	\$ 0	\$ 768,990	\$ 4,869,272

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

**Notes to Consolidated Financial Statements  
June 30, 2016 and 2015**

**NOTE I - SPECIAL-PURPOSE ENTITIES (CONTINUED)**

	Year Ended June 30, 2015				
	<u>CUCS-HDFC</u>	<u>CUCS-HDFC II</u>	<u>CUCS-HDFC III</u>	<u>Initiatives</u>	<u>PC</u>
Support and revenue	\$ 0	\$ 0	\$ 64,800	\$ 5,356,054	\$ 3,608,573
Expenses	\$ 0	\$ 650	\$ 308	\$ 1,054,120	\$ 3,633,996

**NOTE J - 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 2016, 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, 2015	\$ 277,792
Deposits	5,721,965
Transfers to the primary account	<u>(5,805,456)</u>
Balance as of June 30, 2016	<u>\$ 194,301</u>
Primary account:	
Balance as of June 30, 2015	\$ 43,616
Transfers from the client accounts	2,886,603
Disbursements	<u>(2,892,778)</u>
Balance as of June 30, 2016	<u>\$ 37,441</u>

**NOTE K - CONCENTRATION OF CREDIT RISK**

CUCS received grants from various governmental agencies in the amount of approximately \$34,300,000 and \$30,800,000 for the fiscal-years ended June 30, 2016 and 2015, respectively. Such grants represented approximately 76% and 71% of total public support and revenue for fiscal-years 2016 and 2015, respectively.

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.

# CENTER FOR URBAN COMMUNITY SERVICES, INC.

## Notes to Consolidated Financial Statements June 30, 2016 and 2015

### NOTE L - COMMITMENTS AND CONTINGENCIES

#### [1] Operating leases:

At June 30, 2016, CUCS was obligated under various operating leases expiring through CUCS's fiscal-year 2021. For fiscal-years subsequent to fiscal-year 2016, minimum annual future rental commitments under the lease agreements are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2017	\$ 1,486,390
2018	1,226,390
2019	1,202,590
2020	1,174,830
2021	<u>1,113,540</u>
	<u>\$ 6,203,740</u>

Total rent expense for fiscal-years 2016 and 2015 was approximately \$2,555,000 and \$1,946,000, respectively.

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

In the course of business, CUCS's government grants are regularly subject to government audits. As of June 30, 2016 and 2015, a provision of \$324,000 and \$325,000 has been made for any liabilities which may arise from such audits, respectively. 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:

In fiscal-years 2016 and 2015, CUCS held a line-of-credit from First Republic Bank for \$1,000,000, respectively. The line-of-credit is subject to a fixed interest rate of 4% per annum. There were no amounts borrowed in fiscal-years 2016 or 2015.

#### [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, 2016 and 2015, the amounts of the unreported accrued vacation obligation were \$1,223,280 and \$924,110, 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, 2016, the contingent liability for the Kelly Hotel was calculated at \$210,480, an amount which has not been reported in the accompanying consolidated financial statements.

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

**Notes to Consolidated Financial Statements  
June 30, 2016 and 2015**

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

**[5] State aid grants:**

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, 2016, the contingent liability for the Arthur Avenue project was calculated at \$1,994,669, an amount which has not been reported in the accompanying consolidated financial statements.

**[6] Other agreements:**

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

**NOTE M - SUBSEQUENT EVENT**

Subsequent to fiscal-year end, CUCS entered into two purchase agreements for property located in Brooklyn and Manhattan, aggregating approximately \$26,850,000, for the development of transitional housing.