



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

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2017 and 2016

INDEPENDENT AUDITORS' REPORT

The 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, 2017 and 2016, 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 auditors consider 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, 2017 and 2016, 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 4, 2017

CENTER FOR URBAN COMMUNITY SERVICES, INC.

Consolidated Statements of Financial Position

	June 30,	
	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents	\$ 3,367,880	\$ 2,580,872
Investments	1,544,874	1,470,543
Government grants receivable	6,671,226	6,384,294
Contributions receivable	745,000	965,000
Accounts receivable	1,048,223	1,622,477
Notes receivable from limited partnerships	49,096,864	58,711,637
Prepaid expenses	583,159	377,600
Property and equipment, net	17,996,825	16,020,078
Other assets	433,256	283,256
	<u>\$ 81,487,307</u>	<u>\$ 88,415,757</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 4,272,630	\$ 4,780,978
Refundable advances	3,401,062	1,676,405
Notes payable	54,292,319	62,900,343
	<u>61,966,011</u>	<u>69,357,726</u>
Total liabilities		
Commitments and contingencies (Note L)		
Net assets:		
Unrestricted - undesignated	16,683,766	15,954,812
Unrestricted - designated for operations	1,544,874	1,470,543
	<u>18,228,640</u>	<u>17,425,355</u>
Total unrestricted		
Temporarily restricted	1,292,656	1,632,676
	<u>19,521,296</u>	<u>19,058,031</u>
Total net assets		
	<u>\$ 81,487,307</u>	<u>\$ 88,415,757</u>

CENTER FOR URBAN COMMUNITY SERVICES, INC.

Consolidated Statements of Activities

Year Ended June 30,

	2017			2016		
	Total Unrestricted	Temporarily Restricted	Total	Total Unrestricted	Temporarily Restricted	Total
Public support and revenue:						
Grants and contracts	\$ 40,564,280		\$ 40,564,280	\$ 38,309,162		\$ 38,309,162
Program service fees	5,099,130		5,099,130	5,021,324		5,021,324
Contributions (including in-kind contributions of \$69,101 in 2016)	395,350	\$ 507,150	902,500	331,642	\$ 1,211,103	1,542,745
Special event (net of direct benefit to donors of \$40,308 and \$32,723 in 2017 and 2016, respectively)	203,342		203,342	193,826		193,826
Management fees	619,026		619,026	468,303		468,303
Investment income	86,483		86,483	12,283		12,283
Other income	1,044,527		1,044,527	159,502		159,502
Total public support and revenue before release from restrictions	48,012,138	507,150	48,519,288	44,496,042	1,211,103	45,707,145
Net assets released from restrictions	847,170	(847,170)	0	626,473	(626,473)	0
Total public support and revenue	48,859,308	(340,020)	48,519,288	45,122,515	584,630	45,707,145
Expenses:						
Program services:						
Supportive housing	17,613,153		17,613,153	17,472,496		17,472,496
Outreach and transitional	13,291,072		13,291,072	12,086,762		12,086,762
Project for psychiatric outreach to the homeless	5,823,068		5,823,068	5,015,912		5,015,912
Training and technical assistance	3,178,176		3,178,176	3,401,494		3,401,494
Vocational	1,035,404		1,035,404	1,092,944		1,092,944
Intensive wellness	2,061,713		2,061,713	1,514,842		1,514,842
Research	126,894		126,894	105,630		105,630
Total program services	43,129,480		43,129,480	40,690,080		40,690,080
Supporting services:						
Management and general	4,518,157		4,518,157	4,145,257		4,145,257
Fund-raising	408,386		408,386	440,523		440,523
Total expenses	48,056,023		48,056,023	45,275,860		45,275,860
Change in net assets	803,285	(340,020)	463,265	(153,345)	584,630	431,285
Net assets, beginning of year	17,425,355	1,632,676	19,058,031	17,578,700	1,048,046	18,626,746
Net assets, end of year	<u>\$ 18,228,640</u>	<u>\$ 1,292,656</u>	<u>\$ 19,521,296</u>	<u>\$ 17,425,355</u>	<u>\$ 1,632,676</u>	<u>\$ 19,058,031</u>

See notes to consolidated financial statements.

CENTER FOR URBAN COMMUNITY SERVICES, INC.

Consolidated Statement of Functional Expenses Year Ended June 30, 2017 (with summarized financial information for 2016)

	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	2017	2016
Salaries	\$ 9,682,570	\$ 5,481,570	\$ 4,363,093	\$ 1,787,683	\$ 782,238	\$ 1,378,468	\$ 86,750	\$ 23,562,372	\$ 2,073,397	\$ 255,039	\$ 25,890,808	\$ 24,659,765
Fringe benefits	<u>2,992,649</u>	<u>1,638,339</u>	<u>834,596</u>	<u>548,238</u>	<u>137,655</u>	<u>367,795</u>	<u>24,253</u>	<u>6,543,525</u>	<u>628,514</u>	<u>47,770</u>	<u>7,219,809</u>	<u>7,110,382</u>
	12,675,219	7,119,909	5,197,689	2,335,921	919,893	1,746,263	111,003	30,105,897	2,701,911	302,809	33,110,617	31,770,147
Occupancy	1,248,635	2,282,833	15,410	96,050		112,221		3,755,149	17,304	4,949	3,777,402	3,357,643
Professional fees	23,543	471,287	9,022	217,911	235	15,000	8,241	745,239	304,227	55,574	1,105,040	1,098,167
Donated services												69,101
Equipment expenses	183,672	63,923	28,076	7,679	14,937	21,003	1,647	320,937	34,171	2,426	357,534	185,387
Staff and client travel	17,923	27,686	170	21,184	1,345	9,006	38	77,352	19,226	318	96,896	122,306
Depreciation and amortization	234,951	248,933	29,864	173,123	21,608	70,105	5	778,589	224,932	631	1,004,152	938,621
Program costs	1,950,373	158,278	191,452	10,760	38,883	7,616	4,844	2,362,206	87,306	5,401	2,454,913	2,299,249
Repairs and maintenance	583,554	1,857,403	22,825	67,817	14,315	27,295	186	2,573,395	118,287	1,789	2,693,471	2,341,450
Supplies and materials	363,516	892,812	108,071	47,800	21,533	21,827	741	1,456,300	117,540	13,597	1,587,437	1,559,320
Communications	163,210	57,327	8,188	22,804	331	14,811	189	266,860	55,142	1,862	323,864	334,113
Other	<u>168,557</u>	<u>110,681</u>	<u>212,301</u>	<u>177,127</u>	<u>2,324</u>	<u>16,566</u>	<u>0</u>	<u>687,556</u>	<u>838,111</u>	<u>19,030</u>	<u>1,544,697</u>	<u>1,200,356</u>
Total expenses	<u>\$ 17,613,153</u>	<u>\$ 13,291,072</u>	<u>\$ 5,823,068</u>	<u>\$ 3,178,176</u>	<u>\$ 1,035,404</u>	<u>\$ 2,061,713</u>	<u>\$ 126,894</u>	<u>\$ 43,129,480</u>	<u>\$ 4,518,157</u>	<u>\$ 408,386</u>	<u>\$ 48,056,023</u>	<u>\$ 45,275,860</u>

See notes to consolidated financial statements.

CENTER FOR URBAN COMMUNITY SERVICES, INC.

Consolidated Statement of Functional Expenses Year Ended June 30, 2016

	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
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
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>
	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
Occupancy	1,233,662	1,975,534	38,555	48,631				3,296,382	56,511	4,750	3,357,643
Professional fees	19,186	454,431	4,519	195,435	260	49,815	6,991	730,637	315,984	51,546	1,098,167
Donated services		65,901	3,200					69,101			69,101
Equipment expenses	118,987	32,610	5,351	1,733	5,749	13,698	11	178,139	7,101	147	185,387
Staff and client travel	18,698	30,426	80	48,595	1,078	3,451		102,328	18,123	1,855	122,306
Depreciation and amortization	236,725	196,665	40,048	176,969	18,016	45,574		713,997	223,374	1,250	938,621
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
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
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
Communications	182,086	48,709	7,051	43,944	1,855	9,258	171	293,074	39,341	1,698	334,113
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>
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>

See notes to consolidated financial statements.

CENTER FOR URBAN COMMUNITY SERVICES, INC.

Consolidated Statements of Cash Flows

	Year Ended June 30,	
	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	\$ 463,265	\$ 431,285
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,004,152	938,621
Net realized and unrealized (gains) losses on investments	(37,655)	46,459
Changes in:		
Government grants receivable	(286,932)	(2,174,782)
Contributions receivable	220,000	46,001
Accounts receivable	574,254	(1,003,718)
Prepaid expenses	(205,559)	(49,124)
Other assets	(150,000)	(204,230)
Accounts payable and accrued expenses	(508,348)	1,255,997
Refundable advances	<u>1,724,657</u>	<u>80,361</u>
Net cash provided by (used in) operating activities	<u>2,797,834</u>	<u>(633,130)</u>
Cash flows from investing activities:		
Acquisitions of property and equipment	(2,980,899)	(6,107,862)
Purchases of investments	(1,071,043)	(65,101)
Proceeds from sales of investments	1,034,367	12,931
Loans extended for notes receivable		<u>(11,086,450)</u>
Net cash used in investing activities	<u>(3,017,575)</u>	<u>(17,246,482)</u>
Cash flows from financing activities:		
Proceeds received from notes payable	811,583	15,289,005
Proceeds received from line of credit	350,000	
Payments made on note payable	<u>(154,834)</u>	<u>(147,448)</u>
Net cash provided by financing activities	<u>1,006,749</u>	<u>15,141,557</u>
Net change in cash and cash equivalents	787,008	(2,738,055)
Cash and cash equivalents, beginning of year	<u>2,580,872</u>	<u>5,318,927</u>
Cash and cash equivalents, end of year	<u>\$ 3,367,880</u>	<u>\$ 2,580,872</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 265,722	\$ 272,574
In-kind contributions		\$ 69,101
Non-cash investing activities:		
Conversion of note receivable	\$ 9,614,773	
Non-cash financing activities:		
Conversion of note payable	\$ 9,614,773	

See notes to consolidated financial statements.

CENTER FOR URBAN COMMUNITY SERVICES, INC.

Notes to Consolidated Financial Statements June 30, 2017 and 2016

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 2017 for the development of low-income housing.

The PC is a not-for-profit corporation, incorporated in the State of New York, which was formed in 2012 to provide an updated legal, administrative and management structure to support and streamline ongoing operations and to allow for the expansion of primary health-care services.

The 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, 2017 and 2016

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 ("U.S. GAAP") as applicable to not-for-profit organizations.

[3] Use of estimates:

The preparation of financial statements in conformity with U.S. GAAP 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:

For financial reporting purposes, 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:

CUCS's investments in mutual funds are reported at their fair values in the consolidated statements of financial position based on quoted market prices, with a portion of cash and cash equivalents included as part of the investment portfolio.

Investment transactions are recorded on a trade-date basis. Realized gains and losses on investments sold, and unrealized appreciation and depreciation on investments held, are reported in the consolidated statements of activities as increases or decreases in unrestricted net assets unless their use is restricted on a temporary or permanent basis through donor stipulation. Realized gains and losses on investments are determined by comparison of the average cost of acquisition to proceeds at the time of disposition. Unrealized gains and losses on investments are determined by comparing the investment's cost to the fair value at the end of each year. The earnings from dividends and interest are recognized when earned.

[6] Property and equipment:

Property and equipment are reported at their original costs less accumulated depreciation or amortization. Depreciation for property and equipment purchased by CUCS at amounts greater than \$1,500 is calculated using the straight-line method over the estimated useful lives of the assets, which range from three to fifty 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. Minor costs for repairs and maintenance is expensed as incurred. 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, 2017 and 2016, 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.

CENTER FOR URBAN COMMUNITY SERVICES, INC.

Notes to Consolidated Financial Statements June 30, 2017 and 2016

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

[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.

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-year 2016 was approximately \$69,000. CUCS did not receive any donated services in fiscal-year 2017.

[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 \$1,544,874 and \$1,470,543 of the unrestricted net assets in fiscal-years 2017 and 2016, 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 \$419,856 and \$405,282 in fiscal-years 2017 and 2016, 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.

CENTER FOR URBAN COMMUNITY SERVICES, INC.

**Notes to Consolidated Financial Statements
June 30, 2017 and 2016**

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

[9] 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.

[10] 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.

[11] Recent accounting pronouncement:

In August 2016, the FASB issued Accounting Standards Update ("ASU") 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 amends 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 classes, (ii) investment returns, (iii) expense categorizations, (iv) liquidity and availability of resources, and (v) presentation of operating cash flows. This new reporting standard will be effective for fiscal years beginning after December 15, 2017. Management is currently evaluating the effect that this new guidance will have on CUCS's consolidated financial statements and related disclosures.

[12] Subsequent events:

CUCS has considered all of the accounting treatments, and the related disclosures in the current fiscal-year's consolidated financial statements, that would be required as the result of all events or transactions that occurred after June 30, 2017 through December 4, 2017, the date the consolidated financial statements were available to be issued.

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>2017</u>	<u>2016</u>
Medicaid	\$ 53,612	\$ 194,636
Federal	81,518	812,760
New York City	<u>6,536,096</u>	<u>5,376,898</u>
	<u>\$ 6,671,226</u>	<u>\$ 6,384,294</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, 2017 and 2016**

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, 2017 and 2016, contributions receivable of \$745,000 and \$965,000, 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 receivable 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 2017 or fiscal-year 2016.

NOTE C - INVESTMENTS

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

	June 30,			
	2017		2016	
	Fair Value	Cost	Fair Value	Cost
Money-market funds	\$ 30,003	\$ 30,003	\$ 2,021	\$ 2,021
Fixed-income mutual funds	1,514,871	1,518,160	1,325,682	1,395,754
Equity mutual funds			142,840	124,629
	<u>\$ 1,544,874</u>	<u>\$ 1,548,163</u>	<u>\$ 1,470,543</u>	<u>\$ 1,522,404</u>

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

	Year Ended June 30,	
	2017	2016
	Interest and dividends	\$ 48,828
Net unrealized gains	48,572	9,307
Net realized losses	<u>(10,917)</u>	<u>(55,766)</u>
Net return on investments	<u>\$ 86,483</u>	<u>\$ 12,283</u>

ASC Topic 820, *Fair Value Measurements*, 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:

CENTER FOR URBAN COMMUNITY SERVICES, INC.

Notes to Consolidated Financial Statements June 30, 2017 and 2016

NOTE C - INVESTMENTS (CONTINUED)

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 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 2017 and 2016, 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:

	June 30,	
	2017	2016
Land	\$ 5,596,640	\$ 5,596,640
Building and improvements	12,778,191	12,326,849
Furniture and fixtures	678,686	477,225
Equipment	<u>1,752,142</u>	<u>1,381,383</u>
	20,805,659	19,782,097
Less accumulated depreciation	<u>(5,320,557)</u>	<u>(4,504,974)</u>
	15,485,102	15,277,123
Construction-in-progress	<u>2,511,723</u>	<u>742,955</u>
	<u>\$ 17,996,825</u>	<u>\$ 16,020,078</u>

During fiscal-years 2017 and 2016, CUCS wrote-off \$188,569 and \$827,045 of fully depreciated assets, respectively.

CENTER FOR URBAN COMMUNITY SERVICES, INC.

Notes to Consolidated Financial Statements June 30, 2017 and 2016

NOTE E - NOTES PAYABLE

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

	<u>June 30,</u>	
	<u>2017</u>	<u>2016</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	\$ 5,940,104	\$ 6,094,938
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])	19,716,220	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])	4,576,706	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])	3,315,000	19,727,784
New York City Housing Development Corporation to CUCS-HDFC III, bearing interest at 1.00%, due in June 2047 (see Note F[3])	7,020,000	221,989
New York City Housing Development Corporation to CUCS-HDFC III, bearing interest at 1.00%, due in June 2047 (see Note F[3])	7,020,000	7,020,000
Corporation of Supportive Housing to CUCS, bearing interest at 6%, due the earlier of closing on construction financing or January 2018	500,000	500,000
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	<u>5,854,289</u>	<u>5,042,706</u>
	53,942,319	62,900,343
First Republic Bank to CUCS, line of credit up to \$3,000,000, at prime plus 50 basis points, paid monthly	<u>350,000</u>	<u> </u>
	<u>\$ 54,292,319</u>	<u>\$ 62,900,343</u>

Certain covenants exist under the terms of these loans. As of June 30, 2017 and June 30, 2016, 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, 2017 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>
2018	\$ 6,866,000
2019	169,000
2020	176,000
2021	185,000
2022	193,000

CENTER FOR URBAN COMMUNITY SERVICES, INC.

Notes to Consolidated Financial Statements June 30, 2017 and 2016

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 during 2006, 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"), with a 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 loaned 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 the Center 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, 2017 and 2016, 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, 2017 and 2016, 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, 2017 and 2016

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, 2017 and 2016, CUCS has reported, in the accompanying consolidated statements of financial position, a note receivable of \$19,721,204, 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] 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.

In May 2017, the project construction financing was converted to permanent financing and is now financed through (i) three loans from the New York City Housing Development Corporation in the principal amounts of \$3,315,000, \$7,020,000 and \$7,020,000, and (ii) a loan from the New York State Homeless Housing Assistance Corporation in the principal amount of \$3,825,000, and (iii) a grant from OMH in the principal amount of \$2,099,652.

As a result of this financing, at June 30, 2017 and 2016, CUCS has reported, in the accompanying consolidated statements of financial position, a note receivable of \$17,355,000 and \$26,969,773, respectively, due from Arthur Avenue L.P., and notes payable totaling \$17,355,000 and \$26,969,773, respectively, representing the project's permanent financing and a reduction of CUCS' project guarantee by \$9,614,773.

In fiscal-year 2016, CUCS also 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, 2017 and 2016, CUCS has reported in the accompanying consolidated statement of financial position a note receivable of \$64,800 due from Arthur Avenue L.P.

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, 2017 and 2016, CUCS has reported in the accompanying consolidated statement of financial position a note receivable of \$2,099,652, due from Arthur Avenue L.P. See Note L[5] for terms of the note agreement.

CENTER FOR URBAN COMMUNITY SERVICES, INC.

Notes to Consolidated Financial Statements June 30, 2017 and 2016

NOTE G - TEMPORARILY RESTRICTED NET ASSETS

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

	June 30,	
	2017	2016
Intensive wellness	\$ 796,090	\$ 721,297
Training and technical assistance	205,688	195,748
Supportive housing	187,250	224,488
Project for Psychiatric Outreach to the Homeless	97,676	420,586
Property development	5,952	5,952
Research and development support		64,605
	<u>\$ 1,292,656</u>	<u>\$ 1,632,676</u>

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

	Year Ended June 30,	
	2017	2016
Intensive wellness	\$ 246,707	\$ 108,802
Training and technical assistance	48,560	72,580
Supportive housing	66,712	
Project for Psychiatric Outreach to the Homeless	420,586	400,695
Research and development support	64,605	44,396
	<u>\$ 847,170</u>	<u>\$ 626,473</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 2017 and 2016 was \$696,413 and \$929,413, respectively.

CENTER FOR URBAN COMMUNITY SERVICES, INC.

**Notes to Consolidated Financial Statements
June 30, 2017 and 2016**

NOTE I - SPECIAL-PURPOSE ENTITIES

In fiscal-years 2017 and 2016, 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, 2017					
	CUCS-HDFC	CUCS-HDFC II	CUCS-HDFC III	CUCS-HDFC IV	Initiatives	PC
Support and revenue	\$ 499	\$ 499	\$ 500	\$ 500	\$ 803,274	\$ 6,298,959
Expenses		\$ 4,800	\$ 336		\$ 779,347	\$ 5,867,403

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

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 2017, 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, 2016	\$ 194,301
Deposits	5,127,143
Transfers to the primary account	<u>(4,944,050)</u>
Balance as of June 30, 2017	<u>\$ 377,394</u>
Primary account:	
Balance as of June 30, 2016	\$ 37,441
Transfers from the client accounts	2,189,122
Disbursements	<u>(2,184,497)</u>
Balance as of June 30, 2017	<u>\$ 42,066</u>

NOTE K - CONCENTRATION OF CREDIT RISK

CUCS received grants from various governmental agencies in the amount of approximately \$36,100,000 and \$34,300,000 for the fiscal-years ended June 30, 2017 and 2016, respectively. Such grants represented approximately 73% and 76% of total public support and revenue for fiscal-years 2017 and 2016, respectively.

CENTER FOR URBAN COMMUNITY SERVICES, INC.

Notes to Consolidated Financial Statements June 30, 2017 and 2016

NOTE K - CONCENTRATION OF CREDIT RISK (CONTINUED)

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

NOTE L - COMMITMENTS AND CONTINGENCIES

[1] Operating leases:

At June 30, 2017, CUCS was obligated under various operating leases expiring through CUCS's fiscal-year 2022. For fiscal-years subsequent to fiscal-year 2017, minimum annual future rental commitments under the lease agreements are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2018	\$ 4,119,342
2019	4,102,698
2020	4,077,947
2021	4,077,947
2022	<u>2,747,388</u>
	<u>\$ 19,125,322</u>

Total rent expense for fiscal-years 2017 and 2016 was approximately \$3,121,000 and \$2,555,000, 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, 2017 and 2016, a provision of \$320,000 and \$324,000 has been made for any liabilities which may arise from such audits, respectively, and in the event of any disallowances or adjustments to this provision, the change would be reported in the consolidated financial statements in the years of settlement.

[3] 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, 2017 and 2016, the amounts of the unreported accrued vacation obligation were \$1,329,588 and \$1,223,280, respectively.

[4] 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, 2017, the contingent liability for the Kelly Hotel was calculated at \$175,400, 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, 2017 and 2016**

NOTE L - COMMITMENTS AND CONTINGENCIES (CONTINUED)

[4] State aid grants: (continued)

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, 2017, the contingent liability for the Arthur Avenue project was calculated at \$1,889,686, an amount which has not been reported in the accompanying consolidated financial statements.

[5] Other agreements:

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