EISNERAMPER

CENTER FOR URBAN COMMUNITY SERVICES, INC.

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2018 and 2017

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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, 2018 and 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, 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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

EisnerAmper LLP

EISNERAMPER LLP
New York, New York
December 14, 2018

CENTER FOR URBAN COMMUNITY SERVICES, INC.

Consolidated Statements of Financial Position

	June 30, 2018	June 30, 2017
ASSETS		
Cash and cash equivalents	**$ 2,605,579**	$ 3,367,880
Government grants receivable	**22,218,389**	6,671,226
Contributions receivable	**809,000**	745,000
Accounts receivable	**1,950,350**	1,048,223
Investments	**1,561,177**	1,544,874
Notes receivable from limited partnerships	**49,039,029**	49,096,864
Prepaid expenses	**314,996**	583,159
Property and equipment, net	**18,285,947**	17,996,825
Other assets	**95,991**	433,256
	$ 96,880,458	$ 81,487,307
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	**$ 7,979,540**	$ 4,272,630
Refundable advances	**13,489,640**	3,401,062
Notes payable	**55,888,685**	54,292,319
Total liabilities	**77,357,865**	61,966,011
Commitments and contingencies (Note M)		
Net assets:		
Unrestricted - undesignated	**17,191,116**	16,683,766
Unrestricted - designated for operations	**1,561,177**	1,544,874
Total unrestricted	**18,752,293**	18,228,640
Temporarily restricted	**770,300**	1,292,656
Total net assets	**19,522,593**	19,521,296
	$ 96,880,458	$ 81,487,307

CENTER FOR URBAN COMMUNITY SERVICES, INC.

Consolidated Statements of Activities

	Year Ended June 30,					
	2018			2017		
	Total Unrestricted	**Temporarily Restricted**	**Total**	**Total Unrestricted**	**Temporarily Restricted**	**Total**
Operating activities:						
Public support and revenue:						
Grant and contracts	**$ 54,316,107**		**$ 54,316,107**	$ 40,564,280		$ 40,564,280
Program service fees	**6,586,384**		**6,586,384**	5,099,130		5,099,130
Contributions	**375,703**	**$ 770,300**	**1,146,003**	395,350	$ 507,150	902,500
Special event (net of direct benefit to donors of $39,563 and $32,723 in 2018 and 2017, respectively)	**193,104**		**193,104**	203,342		203,342
Management fees	**248,316**		**248,316**	619,026		619,026
Investment income	**36,409**		**36,409**	86,483		86,483
Loss on disposal of property and equipment	**(776,407)**		**(776,407)**			
Other income	**261,377**		**261,377**	1,044,527		1,044,527
Total public support and revenue before release from restrictions	**61,240,993**	**770,300**	**62,011,293**	48,012,138	507,150	48,519,288
Net assets released from restrictions	**1,292,656**	**(1,292,656)**	**0**	847,170	(847,170)	0
Total public support and revenue	**62,533,649**	**(522,356)**	**62,011,293**	48,859,308	(340,020)	48,519,288
Expenses:						
Program services:						
Supportive housing	**17,691,606**		**17,691,606**	17,613,153		17,613,153
Outreach and transitional	**25,413,887**		**25,413,887**	13,291,072		13,291,072
Project for psychiatric outreach to the homeless	**7,423,535**		**7,423,535**	5,823,068		5,823,068
Training and technical assistance	**3,734,920**		**3,734,920**	3,178,176		3,178,176
Vocational	**913,769**		**913,769**	1,035,404		1,035,404
Intensive wellness	**2,182,161**		**2,182,161**	2,061,713		2,061,713
Research	**224,486**		**224,486**	126,894		126,894
Total program services	**57,584,364**		**57,584,364**	43,129,480		43,129,480
Supporting services:						
Management and general	**4,903,508**		**4,903,508**	4,518,157		4,518,157
Fund-raising	**546,755**		**546,755**	408,386		408,386
Total expenses	**63,034,627**		**63,034,627**	48,056,023		48,056,023
Change in net assets from operating activities	**(500,978)**	**(522,356)**	**(1,023,334)**	803,285	(340,020)	463,265
Non-operating activities:						
In-kind donation	**5,994,925**		**5,994,925**			
Loss on transfer of asset	**(4,970,294)**		**(4,970,294)**			
Change in net assets	**523,653**	**(522,356)**	**1,297**	803,285	(340,020)	463,265
Net assets, beginning of year	**18,228,640**	**1,292,656**	**19,521,296**	17,425,355	1,632,676	19,058,031
Net assets, end of year	**$ 18,752,293**	**$ 770,300**	**$ 19,522,593**	$ 18,228,640	$ 1,292,656	$ 19,521,296

See notes to consolidated financial statements.

CENTER FOR URBAN COMMUNITY SERVICES, INC.

Consolidated Statement of Functional Expenses
Year Ended June 30, 2018
(with summarized financial information for 2017)

	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	2018	2017
Salaries	$ 9,730,669	$ 7,203,595	$ 5,382,787	$ 2,041,397	$ 639,461	$ 1,438,318	$ 186,745	$ 26,622,972	$ 2,496,213	$ 306,593	$ 29,425,778	$ 25,890,808
Fringe benefits	2,749,806	2,024,809	1,229,527	591,358	174,825	401,218	27,280	7,198,823	774,764	56,076	8,029,663	7,219,809
	12,480,475	9,228,404	6,612,314	2,632,755	814,286	1,839,536	214,025	33,821,795	3,270,977	362,669	37,455,441	33,110,617
Occupancy	1,122,381	4,626,082	30,772	22,848		142,766		5,944,849	161,045	30,401	6,136,295	3,777,402
Professional fees	24,617	4,263	171	515,745	180	245	2,220	547,441	268,364	102,161	917,966	1,105,040
Equipment expenses	122,883	53,433	13,176	6,966	1,827	615		198,900	25,995	42	224,937	357,534
Staff and client travel	18,284	40,448	145	23,965	1,088	10,386	20	94,336	20,159	547	115,042	96,896
Depreciation and amortization	227,775	343,645	27,407	165,337	5,657	96,873		866,694	252,887		1,119,581	1,004,152
Subcontractor costs	1,907,387	7,791,826	304,488	38,445	38,627	5,061	6,850	10,092,684	51,276	277	10,144,237	2,454,913
Repairs and maintenance	465,211	1,989,414	18,911	65,623	15,724	23,756		2,578,639	102,715	1,349	2,682,703	2,693,471
Supplies and materials	1,013,072	1,141,000	108,644	61,625	31,120	37,934	1,361	2,394,756	139,901	20,766	2,555,423	1,587,437
Communications	146,189	71,602	9,548	34,598	331	21,639	10	283,917	36,970	2,139	323,026	323,864
Other	163,332	123,770	297,959	167,013	4,929	3,350		760,353	573,219	26,404	1,359,976	1,544,697
Total expenses	$ 17,691,606	$ 25,413,887	$ 7,423,535	$ 3,734,920	$ 913,769	$ 2,182,161	$ 224,486	$ 57,584,364	$ 4,903,508	$ 546,755	$ 63,034,627	$ 48,056,023

CENTER FOR URBAN COMMUNITY SERVICES, INC.

Consolidated Statement of Functional Expenses
Year Ended June 30, 2017

	Program Services								Supporting Services		
	Supportive Housing Services	Outreach and Transitional Services	Project for Psychiatric Outreach to the Homeless	Training and Technical Assistance	Vocational Services	Intensive Wellness	Research	Total Program Services	Management and General	Fund-Raising	Total Expenses
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
Fringe benefits	2,992,649	1,638,339	834,596	548,238	137,655	367,795	24,253	6,543,525	628,514	47,770	7,219,809
	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
Occupancy	1,248,635	2,282,833	15,410	96,050		112,221		3,755,149	17,304	4,949	3,777,402
Professional fees	23,543	471,287	9,022	217,911	235	15,000	8,241	745,239	304,227	55,574	1,105,040
Equipment expenses	183,672	63,923	28,076	7,679	14,937	21,003	1,647	320,937	34,171	2,426	357,534
Staff and client travel	17,923	27,686	170	21,184	1,345	9,006	38	77,352	19,226	318	96,896
Depreciation and amortization	234,951	248,933	29,864	173,123	21,608	70,105	5	778,589	224,932	631	1,004,152
Subcontractor 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
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
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
Communications	163,210	57,327	8,188	22,804	331	14,811	189	266,860	55,142	1,862	323,864
Other	168,557	110,681	212,301	177,127	2,324	16,566	0	687,556	838,111	19,030	1,544,697
Total expenses	$ 17,613,153	$ 13,291,072	$ 5,823,068	$ 3,178,176	$ 1,035,404	$ 2,061,713	$ 126,894	$ 43,129,480	$ 4,518,157	$ 408,386	$ 48,056,023

See notes to consolidated financial statements.

CENTER FOR URBAN COMMUNITY SERVICES, INC.

Consolidated Statements of Cash Flows

	Year Ended June 30, 2018	Year Ended June 30, 2017
Cash flows from operating activities:		
Change in net assets	**$ 1,297**	$ 463,265
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	**1,119,581**	1,004,152
Net realized and unrealized losses (gains) on investments	**12,056**	(37,655)
Loss on disposal of property and equipment	**776,407**	
In-kind contribution	**(5,994,925)**	
Loss on transfer of asset	**4,970,294**	
Changes in:		
Government grants receivable	**(15,547,163)**	(286,932)
Contributions receivable	**(64,000)**	220,000
Accounts receivable	**(902,127)**	574,254
Prepaid expenses	**268,163**	(205,559)
Other assets	**337,265**	(150,000)
Accounts payable and accrued expenses	**4,543,004**	(508,348)
Refundable advances	**10,088,578**	1,724,657
Net cash (used in) provided by operating activities	**(391,570)**	2,797,834
Cash flows from investing activities:		
Acquisitions of property and equipment	**(3,740,569)**	(2,980,899)
Purchases of investments	**(394,259)**	(1,071,043)
Proceeds from sales of investments	**365,900**	1,034,367
Net cash used in investing activities	**(3,768,928)**	(3,017,575)
Cash flows from financing activities:		
Proceeds received from line of credit	**5,950,000**	350,000
Payments made on line of credit	**(2,750,000)**	
Proceeds received from notes payable	**360,000**	811,583
Payments made on notes payable	**(161,803)**	(154,834)
Net cash provided by financing activities	**3,398,197**	1,006,749
Net change in cash and cash equivalents	**(762,301)**	787,008
Cash and cash equivalents, beginning of year	**3,367,880**	2,580,872
Cash and cash equivalents, end of year	**$ 2,605,579**	$ 3,367,880
Supplemental disclosure of cash flow information:		
Cash paid for interest	**$ 276,399**	$ 265,722
In-kind contributions	**$ 5,994,925**	
Loss on transfer of asset	**$ 4,970,294**	
Non-cash investing activities:		
Conversion of note receivable - DASNY	**$ 4,576,706**	
Distribution of property to 127th Street LLC	**$ 7,550,384**	
Loans extended for notes receivable - 127th Street LLC	**$ 9,489,164**	
Conversion of note receivable - HDC		$ 9,614,773
Non-cash financing activities:		
Loans extended for notes receivable - HDC	**$ 9,489,164**	
Conversion of note payable - DASNY	**$ 4,576,706**	
Conversion of note payable - NYCAF	**$ 6,214,289**	
Conversion of note payable - CSH	**$ 500,000**	
Conversion of note payable - HDC		$ 9,614,773

See notes to consolidated financial statements.

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.

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

[2] Basis of accounting:

The 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 gains, 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. Cash and cash equivalents held part of the investment portfolio are also included in the balance reported as investments.

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 $2,500 is calculated using the straight-line method over the estimated useful lives of the assets, which range from three 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. 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, 2018 and 2017, 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.

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 refundable 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 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 U.S. GAAP are recorded as revenue and expense in the 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. CUCS did not receive any donated services in fiscal-years 2018 and 2017.

In 2018, CUCS paid approximately $1,900,000 and received land and building with an estimated fair-value of approximately $7,900,000 and has been recognized as an in-kind donation of approximately $5,900,000 in the consolidated statement of activities. The contributed land and building has been recorded at its fair-value at the date of donation. In the absence of a donor stipulation on how long the asset must be used, the contribution of land and building was recorded as unrestricted support.

[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 $1,561,177 and $1,544,874 of the unrestricted net assets in fiscal-years 2018 and 2017, 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 $423,636 and $419,856 in fiscal-years 2018 and 2017, respectively, for the George Brager Memorial Scholarship Fund.

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

[8] Net assets: (continued)

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] 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 consolidated statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services using appropriate measurement methodologies determined by management.

[10] 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. In-kind donation and loss on transfer of assets are reported as non-operating activities.

[11] Income tax uncertainties:

CUCS is subject to the provisions of the Financial Accounting Standards Board's (the "FASB") Accounting Standards Codification ("ASC") Topic 740, *Income Taxes*, as it relates to accounting and reporting for uncertainty in income taxes. CUCS is subject to potential unrelated business income tax relating to transportation fringe benefits as required under the Tax Cuts and Jobs Act of 2017. Because of CUCS's general tax-exempt status, management believes ASC Topic 740 has not had, and is not expected to have, a material impact on CUCS's consolidated financial statements.

[12] Upcoming accounting change:

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 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. CUCS will adopt the pronouncement for fiscal-year 2019.

[13] Subsequent events:

CUCS has evaluated subsequent events through December 14, 2018, the date on which the consolidated financial statements are available to be issued.

CENTER FOR URBAN COMMUNITY SERVICES, INC.

Notes to Consolidated Financial Statements
June 30, 2018 and 2017

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:

	June 30, 2018	June 30, 2017
Medicaid	**$ 63,093**	$ 53,612
Federal	**62,482**	81,518
New York City	**21,576,131**	6,536,096
New York State	**516,683**	
	$ 22,218,389	$ 6,671,226

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.

[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, 2018 and 2017, contributions receivable of $809,000 and $745,000, 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 2018 or fiscal-year 2017.

NOTE C - INVESTMENTS

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

	June 30, 2018		June 30, 2017	
	Fair Value	Cost	Fair Value	Cost
Money-market funds	**$ 59,746**	**$ 59,746**	$ 30,003	$ 30,003
Fixed-income mutual funds	**1,501,431**	**1,501,783**	1,514,871	1,518,160
	$ 1,561,177	**$ 1,561,529**	$ 1,544,874	$ 1,548,163

NOTE C - INVESTMENTS (CONTINUED)

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

	Year Ended June 30, 2018	Year Ended June 30, 2017
Interest and dividends	**$ 48,465**	$ 48,828
Net unrealized gains	**2,937**	48,572
Net realized losses	**(14,993)**	(10,917)
Net investment income	**$ 36,409**	$ 86,483

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:

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 2018 and 2017, 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, 2018	June 30, 2017
Land	**$ 1,340,640**	$ 5,596,640
Building and improvements	**18,781,772**	12,778,191
Furniture and fixtures	**708,158**	678,686
Equipment	**1,528,837**	1,752,142
	22,359,407	20,805,659
Less: accumulated depreciation	**(5,327,777)**	(5,320,557)
	17,031,630	15,485,102
Construction-in-progress	**1,254,314**	2,511,723
	$ 18,285,944	$ 17,996,825

NOTE D - PROPERTY AND EQUIPMENT (CONTINUED)

During 2018, CUCS relocated a transitional service site and transferred another transitional service site to a low-income tax credit project it is sponsoring, resulting in a loss on disposal of $776,407. Further, during fiscal-years 2018 and 2017, CUCS wrote off $335,954 and $188,569 of fully depreciated assets no longer in service, respectively.

NOTE E - NOTES PAYABLE

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

	June 30, 2018	June 30, 2017
Build NYC Resource Corporation to Initiatives bearing interest at 4.35% requiring monthly principal and interest payments over 25 years, due in July 2039	**$ 5,778,301**	$ 5,940,104
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
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**	3,315,000
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
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
New York City Housing Development Corporation to CUCS-HDFC IV, bearing interest at 2.75%, due in May 2022 (see Note F[4])	**9,489,164**	
Dormitory Authority of the State of New York to CUCS-HDFC, bearing interest at 5.3%, due in December 2032 (see Note F[1])	**0**	4,576,706
Corporation of Supportive Housing ("CSH") to CUCS, bearing interest at 6.00%, due the earlier of closing on construction financing or January 2018	**0**	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	**0**	5,854,289
	52,338,685	53,942,319
First Republic Bank to CUCS, line of credit up to $6,000,000, at prime rate plus 50 basis points, paid monthly	**3,550,000**	350,000
	$ 55,888,685	$ 54,292,319

Certain covenants exist under the terms of these loans. As of June 30, 2018 and June 30, 2017, CUCS is not in violation of any of these covenants.

NOTE E - NOTES PAYABLE (CONTINUED)

The approximate annual principal payments due on notes payable in each of the five years subsequent to June 30, 2018 are as follows:

Year Ending June 30,	Principal
2019	$ 3,719,000
2020	176,000
2021	185,000
2022	193,000
2023	202,000

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, were recognized as revenue.

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

In September 2009, CUCS-HDFC and 1510 L.P. financed the remaining construction through (i) a loan from the Dormitory Authority of the State of New York ("DASNY"), 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.

In November 2017, in accordance with the regulatory agreement and consent of OMH, 1510 L.P. transferred the property and related services contract to another homeless housing provider. As a result of this transfer, CUCS-HDFC was discharged from its interest in the note receivable of $9,547,000 and was released from its interest in the note payable of $4,576,706, representing the balance of the DASNY Loan that was not originally considered part of the state aid grant. A loss on the transfer of $4,970,294 was reported in the consolidated statement of activities for fiscal-year 2018.

NOTE F - RELATED-PARTY TRANSACTIONS (CONTINUED)

[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.

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, 2018 and 2017, CUCS has reported, in the 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 Residences, 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 ("NYCAF"). In December 2013, Arthur Avenue construction financing was obtained and the New York City Acquisition Fund, LLC financing was repaid.

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, 2018 and 2017, CUCS has reported in the consolidated statement of financial position a note receivable of $2,099,652, due from Arthur Avenue L.P.

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, 2018 and 2017, CUCS has reported in the accompanying consolidated statement of financial position a note receivable of $64,800 due from Arthur Avenue L.P.

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, respectively, 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.

NOTE F - RELATED-PARTY TRANSACTIONS (CONTINUED)

[3] Arthur Avenue L.P. (continued)

As a result of this financing, at June 30, 2018 and 2017, CUCS has reported, in the consolidated statements of financial position, a note receivable of $17,355,000 in each fiscal-year, due from Arthur Avenue L.P., and notes payable totaling $17,355,000, each year respectively, representing the project's permanent financing. During fiscal-year 2017, the note receivable and note payable were each reduced by $9,614,773, respectively, due to CUCS's project guarantee.

[4] CUCS West 127th Street LLC

In April 2018, CUCS West 127th Street MM Inc. ("127th Street Inc.") was organized as a New York corporation to acquire, own, finance, construct, develop, lease, manage and operate real property owned by CUCS West 127th Street LLC ("127th Street LLC"), a New York State limited liability company. The sole owner of 127th Street Inc. is CUCS-HDFC IV. 127th Street Inc. is the managing member of 127th Street LLC. and holds a .01% interest in the company.

In June 2018, the New York City Housing Development Corporation ("HDC") agreed to provide construction and permanent financing. The construction of the project will be financed through (i) three mortgage loans from HDC totaling approximately $60,000,000, (ii) a mortgage loan from New York State Housing and Assistance Corporation of $7,750,000, (iii) an equity investment of approximately $14,000,000 by the tax-credit investor and (iv) various sponsor loans totaling approximately $4,000,000. The total construction cost of the project is estimated to be $86,000,000. At closing, HDC distributed $9,489,164 to assist in the construction and permanent financing and is included as a note payable in the consolidated statement of financial position. In addition, at closing, CUCS-HDFC IV conveyed beneficial title to the real property, located at West 127th Street in Manhattan, to 127th Street LLC, in exchange for a note receivable of $9,489,164 and is reported in the consolidated statements of financial position

NOTE G - REFUNDABLE ADVANCES

CUCS has received funding relating to certain contracts and grants from various government agencies prior to CUCS performing the related services as required by those contracts. At June 30, 2018 and 2017, amounts relating to fund received in advance were $13,489,640 and $3,401,062, respectively.

NOTE H - TEMPORARILY RESTRICTED NET ASSETS

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

	June 30,	
	2018	**2017**
Intensive wellness	**$ 770,300**	$ 796,090
Training and technical assistance		205,688
Supportive housing		187,250
Project for Psychiatric Outreach to the Homeless		97,676
Property development		5,952
	$ 770,300	$ 1,292,656

NOTE H - TEMPORARILY RESTRICTED NET ASSETS (CONTINUED)

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

	Year Ended June 30, 2018	Year Ended June 30, 2017
Intensive wellness	**$ 796,090**	$ 246,707
Training and technical assistance	**205,688**	48,560
Supportive housing	**187,250**	66,712
Project for Psychiatric Outreach to the Homeless	**97,676**	420,586
Research and development support		64,605
Property development	**5,952**	
	$ 1,292,656	$ 847,170

NOTE I - 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 2018 and 2017 was $1,013,811 and $696,413, respectively.

NOTE J - SPECIAL-PURPOSE ENTITIES

In fiscal-years 2018 and 2017, 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, 2018

	CUCS-HDFC	CUCS-HDFC II	CUCS-HDFC III	CUCS-HDFC IV	Initiatives	PC
Support and revenue	**$ 0**	**$ 500**	**$ 65,300**	**$ 0**	**$ 803,274**	**$ 7,650,485**
Expenses	**$ 0**	**$ 0**	**$ 251**	**$ 5,000**	**$ 730,167**	**$ 7,509,892**

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	$ 0	$ 4,800	$ 336	$ 0	$ 779,347	$ 5,867,403

NOTE K - CLIENT/REPRESENTATIVE PAYEE ACCOUNT

CUCS acts as a representative for funds paid to over 100 clients who receive services from CUCS. Cash received on behalf of the clients 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 2018, the activity in these accounts, which is not included in the accompanying consolidated financial statements, was as follows:

Client accounts:	
Balance as of June 30, 2017	$ 377,394
Deposits	4,093,998
Transfers to the primary account	(4,011,192)
Balance as of June 30, 2018	$ 460,200
Primary account:	
Balance as of June 30, 2017	$ 42,066
Transfers from the client accounts	1,499,792
Disbursements	(1,496,952)
Balance as of June 30, 2018	**$ 44,906**

NOTE L - CONCENTRATION OF CREDIT RISK

CUCS received grants from various governmental agencies in the amounts of approximately $52,100,000 and $36,100,000 for the fiscal-years ended June 30, 2018 and 2017, respectively. Such grants represented approximately 84% and 73% of total public support and revenue for fiscal-years 2018 and 2017, 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 federally insured limits. Management believes that the credit risk to these accounts is minimal.

NOTE M - COMMITMENTS AND CONTINGENCIES

[1] Operating leases:

At June 30, 2018, CUCS was obligated under various operating leases expiring through CUCS's fiscal-year 2023. For fiscal-years subsequent to fiscal-year 2018, minimum annual future rental commitments under the lease agreements are as follows:

Year Ending June 30,	Amount
2019	4,420,074
2020	4,418,396
2021	4,411,552
2022	4,398,100
2023	4,398,100
	$ 22,046,222

Total rent expense for fiscal-years 2018 and 2017 was approximately $5,489,993 and $3,121,000, respectively.

NOTE M - COMMITMENTS AND CONTINGENCIES (CONTINUED)

[2] Audits by funding sources:

In the course of business, CUCS's government grants are regularly subject to government audits. As of June 30, 2018 and 2017, a provision of $610,000 and $320,000 was made for any liabilities that 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, 2018 and 2017, the amounts of the unreported accrued vacation obligation were $1,353,195 and $1,329,588, 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, 2018, the contingent liability for the Kelly Hotel was calculated at $140,320, an amount which has not been reported in the accompanying consolidated financial statements.

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

At June 30, 2018, the contingent liability for the Arthur Avenue project was calculated at $1,784,704, an amount which has not been reported in the accompanying consolidated financial statements as CUCS has been in compliance with the project award.