

**HUMAN SERVICES COUNCIL, INC.
AND SUBSIDIARY**

**Independent Auditors' Report
Consolidated Financial Statements**

June 30, 2015 and 2014

HUMAN SERVICES COUNCIL, INC.
AND SUBSIDIARY

Table of Contents

June 30, 2015 and 2014

Independent Auditors' Report on the Consolidated Financial Statements.....	1 - 2
Consolidated Statements of Financial Position	
June 30, 2015 and 2014	3
Consolidated Statement of Activities and Changes in Net Assets	
Year Ended June 30, 2015 (with Comparative Totals for 2014).....	4
Consolidated Statement of Activities and Changes in Net Assets	
Year Ended June 30, 2014.....	5
Consolidated Statements of Cash Flows	
Years Ended June 30, 2015 and 2014	6
Consolidated Statement of Functional Expenses	
Year Ended June 30, 2015 (with Comparative Totals for 2014).....	7
Consolidated Statement of Functional Expenses	
Year Ended June 30, 2014.....	8
Notes to the Consolidated Financial Statements	9 – 15
Supplemental Consolidating Schedules.....	16 - 21

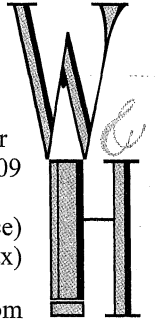
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**INDEPENDENT AUDITORS' REPORT ON
THE CONSOLIDATED FINANCIAL STATEMENTS**

To the Board of Directors
Human Services Council, Inc. and Subsidiary
Norwalk, Connecticut

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Human Services Council, Inc. and Subsidiary (the "Organization"), which comprise the consolidated statements of financial position as of June 30, 2015 and 2014, and the related consolidated statements of activities and changes in net assets, cash flows and functional expenses for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Human Services Council, Inc. and Subsidiary as of June 30, 2015 and 2014, and the changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statements of financial position, activities and changes in net asset and cash flows for the Human Services Council, Inc. and Subsidiary on pages 22 - 29 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Whittlesey & Hadley, P.C.

Hartford, Connecticut
September 15, 2015

HUMAN SERVICES COUNCIL, INC.
AND SUBSIDIARY

Consolidated Statements of Financial Position

June 30, 2015 and 2014

	2015	2014
Assets		
Cash and cash equivalents (Note 2)	\$ 243,825	\$ 216,081
Tenant security deposits	18,781	19,056
Prepaid expenses	19,872	21,493
Mortgage escrow	206,960	363,549
Replacement reserve	148,224	126,227
Accounts receivable, net (Note 2)	11,089	1,539
Contributions receivable, net (Note 2)	25,450	38,250
Property and equipment, net (Note 2)	2,854,156	2,927,267
Deferred assets, net (Note 2)	10,938	12,337
	<u>\$ 3,539,295</u>	<u>\$ 3,725,799</u>
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 80,335	\$ 130,457
Mortgage payable - HSC (Note 4)	1,297,072	1,325,475
Mortgage payable - 40 South Main (Note 4)	1,608,600	1,608,600
Notes payable (Note 5)	7,008	13,674
Security deposits	13,900	11,729
	<u>3,006,915</u>	<u>3,089,935</u>
Net Assets		
Unrestricted (Note 2)	461,178	618,314
Temporarily restricted (Notes 2 and 9)	53,652	-
Permanently restricted (Notes 2 and 8)	17,550	17,550
	<u>532,380</u>	<u>635,864</u>
Total net assets	<u>532,380</u>	<u>635,864</u>
Total liabilities and net assets	<u>\$ 3,539,295</u>	<u>\$ 3,725,799</u>

The accompanying notes are an integral part of the financial statements.

**HUMAN SERVICES COUNCIL, INC.
AND SUBSIDIARY**

Consolidated Statement of Activities and Changes in Net Assets

For the year ended June 30, 2015 (with Comparative Totals for 2014)

	2015				2014
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Support and Revenue					
Government grants	\$ 545,244	\$ -	\$ -	\$ 545,244	\$ 569,636
United Way	10,165	-	-	10,165	26,779
Other grants and donations (Note 2)	230,590	53,652	-	284,242	262,754
Rent revenue, net	318,595	-	-	318,595	309,960
Special events	121,025	-	-	121,025	132,285
One Park Street occupant rent (Note 6)	209,085	-	-	209,085	197,436
Program and other revenue	122,156	-	-	122,156	138,036
Interest	374	-	-	374	129
Other support	5,658	-	-	5,658	6,325
Total support and revenue	1,562,892	53,652	-	1,616,544	1,643,340
Expenses					
Program expenses	1,510,423	-	-	1,510,423	1,642,660
Management and general	80,754	-	-	80,754	80,178
Fundraising	24,711	-	-	24,711	25,463
Total expenses	1,615,888	-	-	1,615,888	1,748,301
Change in support and revenue over/(under) expenses	(52,996)	53,652	-	656	(104,961)
Other Expenses					
Depreciation	102,741	-	-	102,741	98,480
Amortization	1,399	-	-	1,399	3,174
Change in net assets	(157,136)	53,652	-	(103,484)	(206,615)
Net assets - beginning of year	618,314	-	17,550	635,864	842,479
Net assets - end of year	\$ 461,178	\$ 53,652	\$ 17,550	\$ 532,380	\$ 635,864

The accompanying notes are an integral part of the financial statements.

**HUMAN SERVICES COUNCIL, INC.
AND SUBSIDIARY**

Consolidated Statement of Activities and Change in Net Assets

For the year ended June 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenue				
Government grants	\$ 569,636	\$ -	\$ -	\$ 569,636
United Way	26,779	-	-	26,779
Other grants and donations (Note 2)	262,754	-	-	262,754
Rent revenue, net	309,960	-	-	309,960
Special events	132,285	-	-	132,285
One Park Street occupant rent (Note 6)	197,436	-	-	197,436
Program and other revenue	138,036	-	-	138,036
Interest	129	-	-	129
Other support	6,325	-	-	6,325
Released from restriction	675,229	(675,229)	-	-
Total support and revenue	2,318,569	(675,229)	-	1,643,340
Expenses				
Program expenses	1,642,660	-	-	1,642,660
Management and general	80,178	-	-	80,178
Fundraising	25,463	-	-	25,463
Total expenses	1,748,301	-	-	1,748,301
Change in support and revenue over/(under) expenses	570,268	(675,229)	-	(104,961)
Other Expenses				
Depreciation	98,480	-	-	98,480
Amortization	3,174	-	-	3,174
Change in net assets	468,614	(675,229)	-	(206,615)
Net assets - beginning of year	149,700	675,229	17,550	842,479
Net assets - end of year	\$ 618,314	\$ -	\$ 17,550	\$ 635,864

The accompanying notes are an integral part of the financial statements.

**HUMAN SERVICES COUNCIL, INC.
AND SUBSIDIARY**

Consolidated Statements of Cash Flows

For the years ended June 30, 2015 and 2014

	2015	2014
Cash flows from operating activities		
Change in net assets:	\$ (103,484)	\$ (206,615)
Adjustments to reconcile change in net assets/(deficit) to net change in cash and cash equivalents from operating activities:		
Depreciation and amortization	104,140	101,654
Increase (decrease) in cash arising from changes in operating assets and liabilities		
Contributions receivable	12,800	6,668
Accounts receivable, net	(9,550)	(950)
Accounts payable and accrued expenses	(50,122)	64,252
Tenant security deposits	2,446	(1,660)
Prepaid expenses	1,621	(1,827)
Deferred income	-	(28,530)
	<u>(42,149)</u>	<u>(67,008)</u>
Cash flows from investing activities		
Payments for property and equipment	(29,630)	(377,579)
Deferred asset	-	(5,178)
Net activity in reserves and escrows	<u>134,592</u>	<u>30,448</u>
	<u>104,962</u>	<u>(352,309)</u>
Cash flows from financing activities		
Principal payments on notes payable	(6,666)	(176,535)
Proceeds from mortgage loan	-	197,030
Principal payments on mortgage payable	<u>(28,403)</u>	<u>(30,468)</u>
	<u>(35,069)</u>	<u>(9,973)</u>
Net increase/(decrease) in cash and cash equivalents	27,744	(429,290)
Cash and cash equivalents at beginning of year	<u>216,081</u>	<u>645,371</u>
Cash and cash equivalents at end of year	<u><u>\$ 243,825</u></u>	<u><u>\$ 216,081</u></u>
Supplemental information		
Interest paid	<u><u>\$ 108,996</u></u>	<u><u>\$ 115,168</u></u>
Refinance of debt	<u><u>\$ -</u></u>	<u><u>\$ 1,132,970</u></u>

The accompanying notes are an integral part of the financial statements.

HUMAN SERVICES COUNCIL, INC.
AND SUBSIDIARY

Consolidated Statement of Functional Expenses

For the year ended June 30, 2015 (with Comparative Totals for 2014)

	2015				2014
	Program Expenses	Management and General	Fundraising	Total	Total
Salary and Related Expenses					
Salaries	\$ 813,695	\$ 39,450	\$ 5,380	\$ 858,525	\$ 921,028
Payroll taxes	84,341	7,810	772	92,923	97,153
Employee benefits	72,134	1,127	581	73,842	81,114
Total salary and related expenses	970,170	48,387	6,733	1,025,290	1,099,295
Other Expenses					
Advertising	2,440	610	-	3,050	2,005
Bad debts	4,102	-	700	4,802	2,513
Bank charges	2,552	4,236	-	6,788	4,626
Conferences and meetings	2,443	-	-	2,443	3,904
Contract services	9,544	3,858	-	13,402	29,319
Dues and subscriptions	3,150	675	-	3,825	3,760
Equipment	8,016	603	-	8,619	11,709
Insurance	43,768	3,213	-	46,981	39,736
Interest	102,310	6,686	-	108,996	115,168
Office supplies	10,151	506	-	10,657	16,450
Postage	1,866	162	-	2,028	3,654
Professional fees	60,785	1,108	-	61,893	72,260
Program	93,221	673	-	93,894	101,340
Property taxes	26,348	960	-	27,308	20,576
Re-finance fees	-	-	-	-	2,037
Repairs and maintenance	59,599	3,845	-	63,444	87,144
Special events	-	-	17,278	17,278	17,313
Telephone	76,017	490	-	76,507	6,547
Travel and transportation	3,183	940	-	4,123	3,433
Utilities	30,758	3,802	-	34,560	105,512
Total expenses	<u>\$ 1,510,423</u>	<u>\$ 80,754</u>	<u>\$ 24,711</u>	<u>\$ 1,615,888</u>	<u>\$ 1,748,301</u>

The accompanying notes are an integral part of the financial statements.

**HUMAN SERVICES COUNCIL, INC.
AND SUBSIDIARY**

Consolidated Statement of Functional Expenses

For the year ended June 30, 2014

	Program Expenses	Management and General	Fundraising	Total
Salary and Related Expenses				
Salaries	\$ 877,458	\$ 38,227	\$ 5,343	\$ 921,028
Payroll taxes	88,223	8,158	772	97,153
Employee benefits	79,542	1,037	535	81,114
Total salary and related expenses	1,045,223	47,422	6,650	1,099,295
Other Expenses				
Advertising	1,606	399	-	2,005
Bad debts	1,013	-	1,500	2,513
Bank charges	2,990	1,636	-	4,626
Conferences and meetings	3,809	95	-	3,904
Contract services	26,839	2,480	-	29,319
Dues and subscriptions	2,600	1,160	-	3,760
Equipment	10,919	790	-	11,709
Insurance	36,779	2,957	-	39,736
Interest	107,509	7,659	-	115,168
Office supplies	15,450	1,000	-	16,450
Postage	3,364	290	-	3,654
Professional fees	71,118	1,142	-	72,260
Program	101,340	-	-	101,340
Property taxes	18,578	1,998	-	20,576
Re-finance fees	-	2,037	-	2,037
Repairs and maintenance	82,999	4,145	-	87,144
Special events	-	-	17,313	17,313
Telephone	6,022	525	-	6,547
Travel and transportation	2,452	981	-	3,433
Utilities	102,050	3,462	-	105,512
Total expenses	<u>\$ 1,642,660</u>	<u>\$ 80,178</u>	<u>\$ 25,463</u>	<u>\$ 1,748,301</u>

The accompanying notes are an integral part of the financial statements.

**HUMAN SERVICES COUNCIL, INC.
AND SUBSIDIARY**

Notes to the Consolidated Financial Statements

June 30, 2015 and 2014

NOTE 1 – THE ORGANIZATION

The financial statements present the consolidated financial results of Human Services Council, Inc. and Subsidiary (the “Organization”). The Organization is a not-for-profit corporation organized under the State of Connecticut. Human Services Council, Inc. (“HSC”) was formed approximately 70 years ago to help the community recognize and understand its human services’ needs, to stimulate interest and participation in meeting those needs, to plan and promote the orderly development of well-balanced human services programs, to systematically implement and coordinate effective programs, and to transition self-sustaining programs to other independent not-for-profit organizations. In addition to its general community human services efforts, the Organization has specific programs as follows:

- Community Prevention Task Force (CPTF)
- Mid-Fairfield Substance Abuse Coalition (MFSAC)
- School Based Health Care (SBHC)
- One Park Street (office space for other local non-profits)
- Forty South Main Street (affordable housing)
- Community Indicators
- Children’s Connection
- Norwalk Mentor Program

Prior to May 31, 2012, HSC owned the general partnership interest in the Subsidiary, Forty South Main Limited Partnership (“40 South Main”) through its wholly owned subsidiary New Norwalk Housing Corporation (“NNHC”). On May 31, 2012, the limited partner in Forty South Main was replaced by a new entity known as 40 South Main Norwalk, LLC (the “LLC”), a wholly owned subsidiary of HSC. Upon transfer of the limited partner’s interest, 40 South Main was immediately considered technically terminated. As a result of this transaction, the basis in land, building and improvements, furniture and fixtures, deferred costs and related accumulated depreciation and amortization were reduced to book value at the time of this technical termination. On December 6, 2012, 40 South Main was dissolved and the LLC became the sole owner of the property at 40 South Main Norwalk, Connecticut. The LLC is organized for the purpose of owning, rehabilitating and renting improved real property (the “Project”) in Norwalk, Connecticut. The Project consists of forty-four residential apartment units.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Organization’s policy is to keep its books and records on the accrual basis of accounting.

Consolidation

The consolidated financial statements include the accounts of the Organization and its wholly-owned subsidiary. All material intercompany accounts and transactions have been eliminated.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

Cash and Cash Equivalents

The Organization considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. This includes unrestricted cash used for operations, cash held in investment accounts and cash with donor restrictions.

Accounts and Contributions Receivable

Accounts are stated at the amounts management expects to collect from outstanding balances. An allowance for uncollectible accounts is maintained at a level adequate to absorb probable losses. Management determines the adequacy of the allowance based upon reviews of individual activity, recent loss experience, current economic conditions and other pertinent factors. The allowance for both uncollectible accounts and contributions receivable was \$2,109 and \$-0-, respectively for the years ended.

Property and Equipment

The Organization records purchased property and equipment at cost. Property and equipment are depreciated on a straight-line basis over five years. The building and improvements are depreciated on a straight-line basis over 40 years.

Property and equipment consisted of the following at June 30:

	2015	2014
Land, building and improvements	\$ 3,716,412	\$ 3,708,862
Furniture and fixtures	102,834	98,153
Computers	89,000	78,273
Software	20,619	13,947
	<u>3,928,865</u>	<u>3,899,235</u>
Less: accumulated depreciation	(1,074,709)	(971,968)
Total property and equipment	<u>\$ 2,854,156</u>	<u>\$ 2,927,267</u>

The Organization reviews its investment in real estate for impairment whenever events changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted cash flow expected to be generated by the rental property including the low income housing tax credits and any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the real estate exceeds the fair value of such property. There was no impairment loss recognized in 2015.

Capitalization and Depreciation

Buildings and improvements and furniture and fixtures, computers and software are recorded at cost. Improvements are capitalized while expenditures for maintenance and repairs are charged to expense as incurred. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation.

Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives under the straight-line and accelerated methods. The estimated service life of the assets for depreciation purposes may be different than their actual economic useful lives.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

Deferred Asset

Loan origination costs associated with the refinancing of the mortgage were capitalized and are being amortized over 300 months.

Deferred asset consisted of the following at June 30:

	2015	2014
Loan origination fees	\$ 13,978	\$ 13,978
Less accumulated amortization	3,040	1,641
Total deferred asset	<u>\$ 10,938</u>	<u>\$ 12,337</u>

Rental Income and Prepaid Rents

Rental income is recognized for apartment rentals as it accrues. Advance receipts of rental income are deferred and classified as liabilities until earned.

Other Grants and Donations

Other grants and donations are recognized when the donor makes a promise to give to Human Services Council, Inc. that is, in substance, unconditional. Other grants and donations that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted grants and donations are recorded as temporarily restricted or permanently restricted support depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Unrestricted – Unrestricted net assets are unrestricted amounts that are available and include those expendable resources which have been designated for special use by the Board of Directors.

Temporarily Restricted – Temporarily restricted net assets represent those amounts which are donor restricted for special purposes. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted - Net assets are to be invested in perpetuity. Income earned on the investment of these net assets is unrestricted.

No contributed goods or services met the requirements for recognition in the financial statements for the years ended June 30, 2015 and 2014, however, a substantial number of volunteers have donated their time in the Organization's program and support services.

Functional Expenses

The Organization allocates its expenses on a functional basis among its programs and support services. Expenses that can be specifically identified with a program or support service are charged directly according to their natural expenditure classifications. Other expenses that are common to several programs are allocated on estimates made by management.

Subsequent Events Measurement Date

The Organization monitored and evaluated any subsequent events for footnote disclosure or adjustments required in its financial statements for the fiscal year ending June 30, 2015 through September 15, 2015, the date on which financial statements were available to be issued.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

Concentration of Credit Risk

The Organization maintains its cash, money market and temporary investments in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

NOTE 3 – LINE OF CREDIT

On March 19, 2014, the Organization refinanced its debt and established a commercial revolving loan with First County Bank with a limit of \$100,000. Interest on the commercial revolving loan will accrue at the prime rate plus 1.00 percentage point, which was 4.25% as of June 30, 2015. Prior to March 19, 2014 the Organization held a line of credit with Wells Fargo Bank with a limit of \$250,000. Interest on the line of credit was accrued at the prime rate, which was 3.25% as of June 30, 2015. The outstanding balance on the line of credit was \$-0- as of June 30, 2015 and 2014.

NOTE 4 – MORTGAGES PAYABLE

HSC -

On March 19, 2014, the Organization consolidated and refinanced the mortgage and Line of Credit totaling \$1,132,970 with First County Bank. The mortgage note with First County Bank was for \$1,330,000. The interest rate is 4.75%. Commencing on May 1, 2014, monthly payments will consist of interest and principal totaling \$7,637, which will mature on April 1, 2039. The loan is secured by a first and second mortgage lien on the property and the related furniture and fixtures. There is also a prepayment penalty for the first five years of the mortgage. Prior to March 19, 2014 the Organization held a mortgage with Wells Fargo Bank. The interest rate was fixed at 7.10%. Monthly payments consisted of interest and principal totaling \$8,664. At June 30, 2015 and 2014, the balance outstanding on the mortgage is \$1,297,072 and \$1,325,475.

40 South Main -

On October 25, 2012, 40 South Main refinanced the mortgage with the Redevelopment Agency of City of Norwalk. The note was for \$1,308,600 with an interest rate of 3.25%. Required monthly interest only payments of \$3,544 began on November 25, 2012. The note matures on November 25, 2017. The note is secured by only the first mortgage on the property known as 40 South Main Street, Norwalk, Connecticut. There are no assets of HSC that act as security for this mortgage. There is no penalty for prepayment of this loan.

Neighborhood Housing Services of Norwalk - A \$300,000 mortgage payable with 40 South Main. Interest is at 1% per annum with monthly payments of interest only at \$250 for 30 years. The entire principal balance is due in June 2026 or at the sale or refinancing of the Project.

The future minimum debt payments are as follows:

<u>Year Ending June 30,</u>	
2016	\$ 30,748
2017	32,240
2018	1,342,406
2019	35,447
2020	37,168
Thereafter	1,427,663
	<u>\$ 2,905,672</u>

NOTE 5 – NOTES PAYABLE

On May 17, 2004, the Organization obtained a loan from the Housing Development Fund, Inc. (HDF) in the amount of \$70,000 in relation to the predevelopment costs associated with the development of approximately 40 units of supportive housing in Norwalk, Connecticut. The interest rate was fixed at 2.5% for the length of the loan and is paid per annum. The Organization was not able to obtain permanent financing at the end of the notes term and an extension was granted to extend the terms of the unsecured note to May 1, 2016, at an interest rate of 4% per annum. Monthly payments of principal and interest are calculated to amortize the outstanding principal balance over a five-year period. The balance at June 30, 2015 is \$7,008.

The future minimum debt payments are as follows:

<u>Year Ending June 30,</u>	
2016	\$ 7,008
	<u>\$ 7,008</u>

NOTE 6 – ONE PARK STREET – OCCUPANT RENT

The Organization leases a portion of its facility at One Park Street in Norwalk, Connecticut to other not-for-profit organizations at below market rates. As of the date of this report, some leases are operating on a month to month basis as new terms are negotiated, and some have left and been replaced with new tenants with three to five year leases. The occupants will share in the increases in the operating expense over the base year operating expenses. The total future minimum lease payments to be received for each of the next remaining four years are:

<u>Year Ending June 30,</u>	
2016	\$ 171,432
2017	132,892
2018	69,760
2019	64,236

NOTE 7 – RETIREMENT PLAN

Employees over 21 years of age with at least one year of service with the Organization are covered under a defined contribution retirement plan. The plan is funded currently through monthly contributions. The Organization also sponsors a tax deferred annuity plan, which the employees can contribute to on a pre-tax basis. The Organization does not make any matching contributions to the tax deferred annuity plan. The total retirement expense for the years ended June 30, 2015 and 2014 was \$18,476 and \$20,446, respectively.

NOTE 8 – ENDOWMENT

The Organization has updated the methods it uses to account for and maintain its endowment funds to conform with the *Not-for-Profit Entities* topic of the FASB Accounting Standards Codification. The Organization's endowment consists of individual funds established for a variety of purposes. Its endowment consists of donor-restricted endowment funds. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law – The Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Organization and the donor-restricted endowment fund
- General economic conditions
- The possible effects of inflation and deflation
- The expected total return from income
- Other resources of the Organization

Return objectives and risk parameters – The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment. Management has chosen to appropriate all of the interest earned on the permanently restricted endowment funds for use in operations. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period.

Under Connecticut law, which has adopted the provisions of UPMIFA, the Organization is permitted to appropriate as much of the investment appreciation as is prudent considering the Organization's long and short-term needs, present and anticipated financial requirements, price level trends, the possible effect of inflation or deflation, general economic conditions, and with giving primary consideration to donor intent.

The reconciliation of the Organization's permanently restricted endowment fund is as follows:

Endowment, June 30, 2013	\$ 17,550
Interest	110
Appropriated for expenditures	(110)
Endowment, June 30, 2014	\$ 17,550
Interest	356
Appropriated for expenditures	(356)
Endowment, June 30, 2015	<u>\$ 17,550</u>

NOTE 9 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	Contributions Restricted for Programs	Rehabilitation of the Project	Total
Temporarily restricted net assets, July 1, 2013	\$ 175,229	\$ 500,000	\$ 675,229
Additions to temporarily restricted net assets	-	-	-
Released from restriction	(175,229)	(500,000)	(675,229)
Temporarily restricted net assets, June 30, 2014	-	-	-
Additions to temporarily restricted net assets	53,652	-	53,652
Released from restriction	-	-	-
Temporarily restricted net assets, June 30, 2015	<u>\$ 53,652</u>	<u>\$ -</u>	<u>\$ 53,652</u>

Funds were released from restriction as program and rehabilitating expenses were incurred.

NOTE 10 – TAX EXEMPT STATUS

Pursuant to a determination letter received from the Internal Revenue Service, the Human Services Council, Inc. is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code.

The LLC is considered a disregarded entity for income tax purposes, and as such, does not file a tax return.

NOTE 11 – CONTINGENCY: 40 SOUTH MAIN NORWALK, LLC

40 South Main is in its extended use period of its low-income housing credits until 2028. Compliance with the extended use agreement is contingent on its ability to maintain compliance with Section 42 of the Internal Revenue Code. Failure to maintain compliance with occupant eligibility, and/or unit gross rent, or to correct non-compliance within a specified time period could result in compliance actions by the monitoring agency in the State of Connecticut.

**HUMAN SERVICES COUNCIL, INC.
AND SUBSIDIARY**

Consolidating Statement of Financial Position

June 30, 2015

	Human Services Council, Inc.	40 South Main Norwalk, LLC	Consolidated Balance
Assets			
Cash and cash equivalents (Note 2)	\$ 234,225	\$ 9,600	\$ 243,825
Tenant security deposits	-	18,781	18,781
Prepaid expenses	206	19,666	19,872
Mortgage escrow	-	206,960	206,960
Replacement reserve	-	148,224	148,224
Accounts receivable, net (Note 2)	-	11,089	11,089
Contributions receivable, net (Note 2)	25,450	-	25,450
Property and equipment, net (Notes 2)	1,357,487	1,496,669	2,854,156
Deferred asset, net (Note 2)	10,938	-	10,938
	<u>\$ 1,628,306</u>	<u>\$ 1,910,989</u>	<u>\$ 3,539,295</u>
Total assets			
	<u>\$ 1,628,306</u>	<u>\$ 1,910,989</u>	<u>\$ 3,539,295</u>
Liabilities and Net Assets			
Accounts payable and accrued expenses	\$ 22,262	\$ 58,073	\$ 80,335
Mortgage payable - HSC (Note 4)	1,297,072	-	1,297,072
Mortgage payable - 40 South Main (Note 4)	-	1,608,600	1,608,600
Notes payable (Note 5)	7,008	-	7,008
Security deposits	13,900	-	13,900
	<u>1,340,242</u>	<u>1,666,673</u>	<u>3,006,915</u>
Total liabilities			
	<u>1,340,242</u>	<u>1,666,673</u>	<u>3,006,915</u>
Net Assets			
Unrestricted (Note 2)	216,862	244,316	461,178
Temporarily restricted (Notes 2 and 9)	53,652	-	53,652
Permanently restricted (Notes 2 and 8)	17,550	-	17,550
	<u>288,064</u>	<u>244,316</u>	<u>532,380</u>
Total net assets			
	<u>288,064</u>	<u>244,316</u>	<u>532,380</u>
Total liabilities and net assets			
	<u>\$ 1,628,306</u>	<u>\$ 1,910,989</u>	<u>\$ 3,539,295</u>

**HUMAN SERVICES COUNCIL, INC.
AND SUBSIDIARY**

Consolidating Statement of Financial Position

June 30, 2014

	Human Services Council, Inc.	40 South Main Norwalk, LLC	Consolidated Balance
Assets			
Cash and cash equivalents (Note 2)	\$ 199,567	\$ 16,514	\$ 216,081
Tenant security deposits	-	19,056	19,056
Prepaid expenses	713	20,780	21,493
Mortgage escrow	-	363,549	363,549
Replacement reserve	-	126,227	126,227
Accounts receivable, net (Note 2)	-	1,539	1,539
Contributions receivable, net (Note 2)	38,250	-	38,250
Property and equipment, net (Notes 2)	1,397,807	1,529,460	2,927,267
Deferred assets, net (Note 2)	12,337	-	12,337
	<u>\$ 1,648,674</u>	<u>\$ 2,077,125</u>	<u>\$ 3,725,799</u>
Total assets			
	<u>\$ 1,648,674</u>	<u>\$ 2,077,125</u>	<u>\$ 3,725,799</u>
Liabilities and Net Assets			
Accounts payable and accrued expenses	\$ 21,155	\$ 109,302	\$ 130,457
Mortgage payable - HSC (Note 4)	1,325,475	-	1,325,475
Mortgage payable - 40 South Main (Note 4)	-	1,608,600	1,608,600
Notes payable (Note 5)	13,674	-	13,674
Security deposits	11,729	-	11,729
	<u>1,372,033</u>	<u>1,717,902</u>	<u>3,089,935</u>
Total liabilities			
	<u>1,372,033</u>	<u>1,717,902</u>	<u>3,089,935</u>
Net Assets			
Unrestricted (Note 2)	259,091	359,223	618,314
Temporarily restricted (Notes 2 and 9)	-	-	-
Permanently restricted (Notes 2 and 8)	17,550	-	17,550
	<u>276,641</u>	<u>359,223</u>	<u>635,864</u>
Total net assets			
	<u>276,641</u>	<u>359,223</u>	<u>635,864</u>
Total liabilities and net assets			
	<u>\$ 1,648,674</u>	<u>\$ 2,077,125</u>	<u>\$ 3,725,799</u>

**HUMAN SERVICES COUNCIL, INC.
AND SUBSIDIARY**

Consolidating Statement of Activities and Change in Net Assets

For the year ended June 30, 2015

	Human Services Council, Inc.	40 South Main Norwalk, LLC	Consolidated Balance
Support and Revenue			
Government grants	\$ 545,244	\$ -	\$ 545,244
United Way	10,165	-	10,165
Other grants and donations (Note 2)	273,980	10,262	284,242
Rent revenue, net	-	318,595	318,595
Special events	121,025	-	121,025
One Park Street occupant rent (Note 6)	209,085	-	209,085
Program and other revenue	122,156	-	122,156
Interest	356	18	374
Other support and revenue	-	5,658	5,658
	<u>1,282,011</u>	<u>334,533</u>	<u>1,616,544</u>
Expenses			
Program expenses	1,101,235	409,188	1,510,423
Management and general	80,754	-	80,754
Fundraising	24,711	-	24,711
	<u>1,206,700</u>	<u>409,188</u>	<u>1,615,888</u>
Change in support and revenue over/(under) expenses	75,311	(74,655)	656
Other Expenses			
Depreciation	62,489	40,252	102,741
Amortization	1,399	-	1,399
	<u>11,423</u>	<u>(114,907)</u>	<u>(103,484)</u>
Change in net assets			
Net assets - beginning of year	<u>276,641</u>	<u>359,223</u>	<u>635,864</u>
Net assets - end of year	<u>\$ 288,064</u>	<u>\$ 244,316</u>	<u>\$ 532,380</u>

**HUMAN SERVICES COUNCIL, INC.
AND SUBSIDIARY**

Consolidating Statement of Activities and Change in Net Assets

For the year ended June 30, 2014

	Human Services Council, Inc.	40 South Main Norwalk, LLC	Consolidated Balance
Support and Revenue			
Government grants	\$ 569,636	\$ -	\$ 569,636
United Way	26,779	-	26,779
Other grants and donations (Note 2)	194,058	68,696	262,754
Rent revenue, net	-	309,960	309,960
Special events	132,285	-	132,285
One Park Street occupant rent (Note 6)	197,436	-	197,436
Program and other revenue	138,036	-	138,036
Interest	110	19	129
Other support and revenue	-	6,325	6,325
	<u>1,258,340</u>	<u>385,000</u>	<u>1,643,340</u>
Expenses			
Program expenses	1,125,702	516,958	1,642,660
Management and general	80,178	-	80,178
Fundraising	25,463	-	25,463
	<u>1,231,343</u>	<u>516,958</u>	<u>1,748,301</u>
Change in support and revenue over/(under) expenses	26,997	(131,958)	(104,961)
Other Expenses			
Depreciation	58,228	40,252	98,480
Amortization	3,174	-	3,174
Change in support and revenue over/(under) expenses	(34,405)	(172,210)	(206,615)
Net assets - beginning of year	<u>311,046</u>	<u>531,433</u>	<u>842,479</u>
Net assets - end of year	<u><u>\$ 276,641</u></u>	<u><u>\$ 359,223</u></u>	<u><u>\$ 635,864</u></u>

**HUMAN SERVICES COUNCIL, INC.
AND SUBSIDIARY**

Consolidating Statement of Cash Flows

For the year ended June 30, 2015

	Human Services Council, Inc.	40 South Main Norwalk, LLC	Consolidated Balance
Cash flows from operating activities			
Change in net assets:	\$ 11,423	\$ (114,907)	\$ (103,484)
Adjustments to reconcile change in net assets to net change in cash from operating activities:			
Depreciation and amortization	63,888	40,252	104,140
Increase/(decrease) in cash arising from changes in operating assets and liabilities			
Contributions receivable	12,800	-	12,800
Accounts receivable, net	-	(9,550)	(9,550)
Accounts payable and accrued expenses	1,107	(51,229)	(50,122)
Tenant security deposits	2,171	275	2,446
Prepaid expenses	507	1,114	1,621
	<u>91,896</u>	<u>(134,045)</u>	<u>(42,149)</u>
Cash flows from investing activities			
Payments for property and equipment	(22,169)	(7,461)	(29,630)
Net activity in reserves and escrows	<u>-</u>	<u>134,592</u>	<u>134,592</u>
	<u>(22,169)</u>	<u>127,131</u>	<u>104,962</u>
Cash flows from financing activities			
Principal payments on notes payable	(6,666)	-	(6,666)
Principal payments on mortgage payable	<u>(28,403)</u>	<u>-</u>	<u>(28,403)</u>
	<u>(35,069)</u>	<u>-</u>	<u>(35,069)</u>
Net increase/(decrease) in cash and cash equivalents	34,658	(6,914)	27,744
Cash and cash equivalents at beginning of year	<u>199,567</u>	<u>16,514</u>	<u>216,081</u>
Cash and cash equivalents at end of year	<u>\$ 234,225</u>	<u>\$ 9,600</u>	<u>\$ 243,825</u>
Supplemental information			
Interest paid	<u>\$ 63,450</u>	<u>\$ 45,546</u>	<u>\$ 108,996</u>

**HUMAN SERVICES COUNCIL, INC.
AND SUBSIDIARY**

Consolidating Statement of Cash Flows

For the year ended June 30, 2014

	Human Services Council, Inc.	40 South Main Norwalk, LLC	Consolidated Balance
Cash flows from operating activities			
Change in net assets:	\$ (34,405)	\$ (172,210)	\$ (206,615)
Adjustments to reconcile change in net assets to net change in cash from operating activities:			
Depreciation and amortization	61,402	40,252	101,654
Increase/(decrease) in cash arising from changes in operating assets and liabilities			
Contributions receivable	6,668	-	6,668
Accounts receivable, net	-	(950)	(950)
Accounts payable and accrued expenses	(3,889)	68,141	64,252
Tenant security deposits	(1,749)	89	(1,660)
Prepaid expenses	(713)	(1,114)	(1,827)
Deferred income	(28,530)	-	(28,530)
Cash flows from operating activities	(1,216)	(65,792)	(67,008)
Cash flows from investing activities			
Payments for property and equipment	(1,656)	(375,923)	(377,579)
Deferred asset	(5,178)	-	(5,178)
Net activity in reserves and escrows	-	30,448	30,448
Cash flows from investing activities	(6,834)	(345,475)	(352,309)
Cash flows from financing activities			
Principal payments on notes payable	(176,535)	-	(176,535)
Proceeds from mortgage loan	197,030	-	197,030
Principal payments on mortgage payable	(30,468)	-	(30,468)
Cash flows from financing activities	(9,973)	-	(9,973)
Net decrease in cash and cash equivalents	(18,023)	(411,267)	(429,290)
Cash and cash equivalents at beginning of year	217,590	427,781	645,371
Cash and cash equivalents at end of year	\$ 199,567	\$ 16,514	\$ 216,081
Supplemental information			
Interest paid	\$ 69,622	\$ 45,546	\$ 115,168
Refinance of debt	\$ 1,132,970	\$ -	\$ 1,132,970