

Henry Street Settlement and Affiliate

Consolidated Financial Statements

June 30, 2022

Independent Auditors' Report

**Board of Directors
Henry Street Settlement and Affiliate**

Opinion

We have audited the accompanying consolidated financial statements of Henry Street Settlement and Affiliate (the "Settlement"), which comprise the consolidated statement of financial position as of June 30, 2022, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Settlement as of June 30, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Settlement and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Settlement's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Settlement's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Settlement's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited the Settlement's 2021 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated January 5, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

PKF O'Connor Davies, LLP

January 4, 2023

Henry Street Settlement and Affiliate

Consolidated Statement of Financial Position June 30, 2022 (with comparative amounts at June 30, 2021)

	2022	2021
ASSETS		
Cash (Note 15)	\$ 645,817	\$ 2,485,035
Investments (Note 3)	14,362,880	16,205,921
Due from contracting agencies, net (Note 2)	16,477,871	13,257,449
Accounts receivable (Note 2)	135,526	648,015
Contributions receivable (Note 4)	1,542,350	511,500
Deposits, prepaid expenses and other assets	230,943	214,466
Property and equipment, net (Note 5)	23,380,644	23,803,745
Restricted investments (Note 3)	23,332,474	23,332,474
	<u>\$ 80,108,505</u>	<u>\$ 80,458,605</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accrued salaries and related liabilities	\$ 3,158,468	\$ 3,160,612
Accounts and accrued expenses payable	2,941,703	2,262,043
Refundable advances (Note 2)	456,506	529,284
Line of credit (Note 8)	3,250,000	1,300,000
Loans payable (Note 9)	-	5,200,300
Mortgages payable (Note 10)	7,911,173	7,911,173
Total Liabilities	<u>17,717,850</u>	<u>20,363,412</u>
Net Assets		
Without Donor Restrictions		
Undesignated and plant fund	13,061,975	13,462,819
Board designated fund	9,631,114	6,502,232
Total Without Donor Restrictions	<u>22,693,089</u>	<u>19,965,051</u>
With Donor Restrictions (Note 11)		
Temporary in nature	16,365,092	16,797,668
Permanent in nature	23,332,474	23,332,474
Total With Donor Restrictions	<u>39,697,566</u>	<u>40,130,142</u>
Total Net Assets	<u>62,390,655</u>	<u>60,095,193</u>
	<u>\$ 80,108,505</u>	<u>\$ 80,458,605</u>

See notes to consolidated financial statements

Henry Street Settlement and Affiliate

Consolidated Statement of Activities Year Ended June 30, 2022 (with summarized totals for the year ended June 30, 2021)

	Without Donor Restrictions			With Donor Restrictions	Total	
	Undesignated and Plant Fund	Board Designated Fund	Total		2022	2021
REVENUES, GAINS AND OTHER SUPPORT						
Contributions	\$ 2,138,674	\$ -	\$ 2,138,674	\$ 8,923,989	\$ 11,062,663	\$ 13,304,748
Contributed non-financial assets	2,221,340	-	2,221,340	-	2,221,340	2,206,981
Special events, less costs of direct benefit to donors of \$90,971 and \$0	1,083,757	-	1,083,757	-	1,083,757	526,841
Legacies and bequests	-	-	-	3,390	3,390	80,612
Grants and fees from contracting agencies	32,266,383	-	32,266,383	-	32,266,383	30,760,713
Program service fees	2,253,593	-	2,253,593	-	2,253,593	1,997,450
Realized gains on sale of investments	-	872,790	872,790	1,091,444	1,964,234	1,167,590
Unrealized (losses) gains on investments	-	(2,658,907)	(2,658,907)	(2,917,372)	(5,576,279)	4,890,884
Interest and dividends	6,231	735,122	741,353	903,068	1,644,421	1,452,483
Income distribution (Note 2)	1,020,423	(1,020,423)	-	-	-	-
Rental revenue (Note 13)	1,183,940	-	1,183,940	-	1,183,940	954,198
Other income	232,543	-	232,543	-	232,543	154,440
Net Assets Released from Restrictions (Note 11)						
Satisfaction of program restrictions	7,690,518	-	7,690,518	(7,690,518)	-	-
Satisfaction of income distribution requirement (Note 2)	746,577	-	746,577	(746,577)	-	-
Total Revenues, Gains and Other Support	<u>50,843,979</u>	<u>(2,071,418)</u>	<u>48,772,561</u>	<u>(432,576)</u>	<u>48,339,985</u>	<u>57,496,940</u>
EXPENSES						
Program Services						
Shelter and transitional housing	13,398,192	-	13,398,192	-	13,398,192	13,580,477
Health and wellness	13,751,820	-	13,751,820	-	13,751,820	14,269,626
Youth and employment training	13,061,567	-	13,061,567	-	13,061,567	11,112,443
Art center	2,965,028	-	2,965,028	-	2,965,028	1,981,523
Total Program Services	<u>43,176,607</u>	<u>-</u>	<u>43,176,607</u>	<u>-</u>	<u>43,176,607</u>	<u>40,944,069</u>
Supporting Services						
Management and general	6,668,274	-	6,668,274	-	6,668,274	5,232,535
Fundraising	1,399,942	-	1,399,942	-	1,399,942	1,111,983
Total Supporting Services	<u>8,068,216</u>	<u>-</u>	<u>8,068,216</u>	<u>-</u>	<u>8,068,216</u>	<u>6,344,518</u>
Total Expenses	<u>51,244,823</u>	<u>-</u>	<u>51,244,823</u>	<u>-</u>	<u>51,244,823</u>	<u>47,288,587</u>
Change in Net Assets Before Other Revenue	(400,844)	(2,071,418)	(2,472,262)	(432,576)	(2,904,838)	10,208,353
OTHER REVENUE						
Forgiveness of Paycheck Protection Program loan	-	5,200,300	5,200,300	-	5,200,300	-
Change in Net Assets	(400,844)	3,128,882	2,728,038	(432,576)	2,295,462	10,208,353
NET ASSETS						
Beginning of year	<u>13,462,819</u>	<u>6,502,232</u>	<u>19,965,051</u>	<u>40,130,142</u>	<u>60,095,193</u>	<u>49,886,840</u>
End of year	<u>\$ 13,061,975</u>	<u>\$ 9,631,114</u>	<u>\$ 22,693,089</u>	<u>\$ 39,697,566</u>	<u>\$ 62,390,655</u>	<u>\$ 60,095,193</u>

See notes to consolidated financial statements

Henry Street Settlement and Affiliate

Consolidated Statement of Functional Expenses Year Ended June 30, 2022 (with summarized totals for the year ended June 30, 2021)

	Program Services					Supporting Services				Total	
	Shelter and Transitional Housing	Health and Wellness	Youth and Employment Training	Art Center	Total	Management and General	Fundraising	Direct Benefit to Donors	Total	2022	2021
Salaries	\$ 5,258,106	\$ 6,521,190	\$ 7,732,052	\$ 1,330,065	\$ 20,841,413	\$ 3,542,975	\$ 841,523	\$ -	\$ 4,384,498	\$ 25,225,911	\$ 22,358,972
Payroll taxes and employee benefits	1,405,323	1,674,572	1,934,273	346,352	5,360,520	870,056	203,948	-	1,074,004	6,434,524	6,357,413
Total Salaries and Related Expenses	6,663,429	8,195,762	9,666,325	1,676,417	26,201,933	4,413,031	1,045,471	-	5,458,502	31,660,435	28,716,385
Professional fees and contract service payments	1,522,912	1,693,729	550,178	578,750	4,345,569	819,074	161,712	-	980,786	5,326,355	5,605,592
Supplies	827,999	416,671	773,779	138,060	2,156,509	279,634	66,266	17,771	363,671	2,520,180	1,845,517
Telephone	239,386	186,628	122,643	16,854	565,511	70,772	11,730	-	82,502	648,013	597,984
Postage and shipping	12,935	20,697	40,198	61,553	135,383	44,951	33,209	-	78,160	213,543	134,287
Occupancy expense (Note 15)	1,636,996	576,954	781,536	232,368	3,227,854	375,584	3,084	-	378,668	3,606,522	3,260,359
Equipment purchases and rentals	747,236	180,921	286,104	123,533	1,337,794	335,822	25,427	180	361,429	1,699,223	1,588,146
Transportation	26,072	140,095	58,041	28,766	252,974	13,591	6,507	-	20,098	273,072	131,701
Insurance	431,897	105,510	94,001	33,864	665,272	22,794	1,484	-	24,278	689,550	686,370
Bank charges and custodial fees	108	1,386	4,909	12,170	18,573	54,615	5,399	-	60,014	78,587	58,504
Interest	271,472	-	-	-	271,472	21,141	-	-	21,141	292,613	268,444
Food	297,230	1,707,697	225,722	5,452	2,236,101	68,889	7,618	73,020	149,527	2,385,628	2,364,644
Stipends	-	345,205	74,071	-	419,276	1,986	1,764	-	3,750	423,026	526,614
Membership fees and conferences	9,532	6,875	16,335	1,494	34,236	99,091	-	-	99,091	133,327	142,356
Scholarships	-	-	197,811	-	197,811	9,775	27,829	-	37,604	235,415	227,195
Depreciation and amortization	710,988	173,690	169,914	55,747	1,110,339	37,524	2,442	-	39,966	1,150,305	1,134,489
Total Expenses	13,398,192	13,751,820	13,061,567	2,965,028	43,176,607	6,668,274	1,399,942	90,971	8,159,187	51,335,794	47,288,587
Less costs with direct benefit to donors	-	-	-	-	-	-	-	(90,971)	(90,971)	(90,971)	-
Total Expenses Reported by Function on the Consolidated Statement of Activities	\$ 13,398,192	\$ 13,751,820	\$ 13,061,567	\$ 2,965,028	\$ 43,176,607	\$ 6,668,274	\$ 1,399,942	\$ -	\$ 8,068,216	\$ 51,244,823	\$ 47,288,587

See notes to consolidated financial statements

Henry Street Settlement and Affiliate

Consolidated Statement of Cash Flows Year Ended June 30, 2022 (with comparative amounts for the year ended June 30, 2021)

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 2,295,462	\$ 10,208,353
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	1,150,305	1,134,489
Realized gains on sale of investments	(1,964,234)	(1,167,590)
Unrealized losses (gains) on investments	5,576,279	(4,890,884)
Contributions restricted for investment in endowment	-	(2,452,339)
Forgiveness of Paycheck Protection Program Loan	(5,200,300)	-
Changes in operating assets and liabilities		
Due from contracting agencies	(3,220,422)	(2,831,197)
Accounts receivable	512,489	(594,400)
Deposits, prepaid expenses and other assets	(16,477)	(101,227)
Contributions receivable	(1,030,850)	469,154
Accrued salaries and related liabilities	(2,144)	1,189,246
Accounts and accrued expenses payable	679,660	(310,362)
Refundable advances	(72,778)	(2,999)
Net Cash from Operating Activities	<u>(1,293,010)</u>	<u>650,244</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(7,373,544)	(9,935,139)
Proceeds from sale of investments	5,604,540	10,578,832
Purchase of property and equipment	(727,204)	(1,298,103)
Net Cash from Investing Activities	<u>(2,496,208)</u>	<u>(654,410)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit	1,950,000	1,000,000
Payments on line of credit	-	(2,500,000)
Payments on loan payable	-	(570,000)
Proceeds from contributions restricted for investment in endowment	-	2,452,339
Net Cash from Financing Activities	<u>1,950,000</u>	<u>382,339</u>
Net Change in Cash	(1,839,218)	378,173
CASH		
Beginning of year	<u>2,485,035</u>	<u>2,106,862</u>
End of year	<u>\$ 645,817</u>	<u>\$ 2,485,035</u>
SUPPLEMENTARY DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ 21,141	\$ 11,331
NON-CASH FINANCING ACTIVITIES		
Forgiveness of Paycheck Protection Program loan	5,200,300	-

See notes to consolidated financial statements

Henry Street Settlement and Affiliate

Notes to Consolidated Financial Statements June 30, 2022

1. Nature of Organization and Tax Status

Henry Street Settlement ("Henry Street") was founded in 1893 on the Lower East Side of Manhattan to help newly arrived immigrants. Today, Henry Street provides a wide range of social services to the people who reside on the Lower East Side of Manhattan and in other communities of New York City through social service, arts, and health programs. Henry Street is supported primarily by grants and fees from contracting agencies and contributions.

Henry Street is the parent company of The Second Henry Street Housing Development Fund Corporation ("SHSHDFC"), which is consolidated within these financial statements, and are collectively referred to as the Settlement.

All of the above companies are not-for-profit corporations exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

2. Summary of Significant Accounting Policies

Principles of Consolidation

In preparing the accompanying consolidated financial statements, all material intercompany account balances and transactions have been eliminated.

Basis of Presentation and Use of Estimates

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

Net Asset Presentation

Net Assets Without Donor Restrictions - Resources are classified for accounting and reporting purposes into net asset classes according to donor imposed restrictions. Net assets without donor restrictions are those whose use is not subject to any donor imposed restrictions. The Board Designated Fund is a component of net assets without donor restrictions and has been created by an action of the Settlement's Board of Directors. The accumulated balance is used to fund any fixed asset acquisitions which have not been otherwise funded, and deficits in the Operating Fund. The balance is accumulated from the following sources:

Henry Street Settlement and Affiliate

Notes to Consolidated Financial Statements
June 30, 2022

2. Summary of Significant Accounting Policies *(continued)*

Net Asset Presentation (continued)

Net Assets Without Donor Restrictions (continued)

- Contributions from board members as part of a campaign; legacies and bequests greater than \$5,000; investment income from certain board-designated investments; and portions of realized and unrealized gains and losses on the permanently restricted investments, subject to restrictions by the New York Prudent Management of Institutional Funds Act ("NYPMIFA").

Net assets with donor restrictions - Represent amounts resulting from contributions and other inflows of assets whose use by the Settlement is limited by donor imposed stipulations that will be met either by passage of time or that can be fulfilled and removed by actions of the Settlement pursuant to those stipulations. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions. Net assets held as endowment in perpetuity are donor restricted gifts that must be maintained permanently by the Settlement to provide present and future income for operations.

Summarized Financial Information

The consolidated financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Settlement's consolidated financial statements as of and for the year ended June 30, 2021, from which the summarized information was derived.

Fair Value Measurement

The Settlement follows U.S. GAAP guidance on fair value measurements which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

Henry Street Settlement and Affiliate

Notes to Consolidated Financial Statements June 30, 2022

2. Summary of Significant Accounting Policies *(continued)*

Fair Value Measurement (continued)

The classification of investments in the fair value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities.

Pursuant to U.S. GAAP guidance, alternative investments, where fair value is measured using the net asset value ("NAV") per share as a practical expedient, are not recognized within the fair value hierarchy.

Investments Valuation

Investments are carried at fair value.

Effective July 1, 1999, the Settlement adopted its Statement of Investment Objectives and Guidelines (the "Statement") with the goal for its investment portfolio to maximize long-term total return through a combination of income and capital appreciation in a manner consistent with sound investment practice. The Statement included a distribution policy to provide for a relatively stable source of funds for the Settlement's operations and programs.

Funds are to be distributed at a level amount to be determined annually within a range of up to 4.5% of the portfolio's value. In fiscal years 2022 and 2021, the distribution amount was set at \$1,767,000 and \$790,008, representing approximately 5% and 2.1% of the portfolio value. The distribution is allocated between income distribution from the Board Designated Fund and net assets released from restrictions (provided sufficient expenses were incurred to demonstrate that restrictions were satisfied) based on the current value of the funds associated with these investments.

This amount is reflected in the Undesignated and Plant Fund as follows for the years ended June 30:

	<u>2022</u>	<u>2021</u>
Income distribution - Board Designated Fund	\$ 1,020,423	\$ 361,268
Net assets released from restrictions - satisfaction of income distribution requirement (See Note 11)	<u>746,577</u>	<u>428,740</u>
	<u>\$ 1,767,000</u>	<u>\$ 790,008</u>

Investment Income Recognition

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date. Realized and unrealized gains and losses are included in the determination of the change in net assets.

Henry Street Settlement and Affiliate

Notes to Consolidated Financial Statements June 30, 2022

2. Summary of Significant Accounting Policies (continued)

Due from Contracting Agencies, Accounts Receivable and Allowance for Doubtful Accounts

The Settlement records revenue and receivables for grants from contracting agencies based on claims for expense reimbursements and program utilization at contracted rates. Revenue is recognized when all measurable barriers are overcome and the right of return no longer exists. Receivables are stated net of an allowance. Receivables are charged to the allowance when they are determined to be uncollectible based upon a periodic review of the accounts by management.

Interest is not accrued or recorded on outstanding accounts receivable. Factors used to determine whether an allowance should be recorded include the age of the receivable and a review of payments subsequent to year end. The allowance for doubtful accounts on due from contracting agencies amounted to \$3,833 and \$35,861 at June 30, 2022 and 2021.

Contributions Receivable

Unconditional contributions receivable that are expected to be collected within one year are recorded at net realizable value. Unconditional contributions receivable that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contributions on the consolidated statement of activities. Conditional contributions receivables are not included as support until the conditions are substantially met. There were no conditional contributions receivable at June 30, 2022.

Property and Equipment

The Settlement capitalizes all expenditures for its property and equipment in excess of \$5,000 and a useful life of more than five years. Maintenance and repairs of a routine nature are charged to expense, while those that extend the life of existing assets are capitalized. Depreciation is provided over the estimated useful lives of each class of depreciable asset and is computed using the straight-line method. Leasehold improvements are amortized over the lesser of the term of the lease or the estimated useful life of the equipment. The estimated lives by asset class are as follows:

Building, building improvements and leasehold improvements	5-40 years
Furniture and equipment	5-25 years

Henry Street Settlement and Affiliate

Notes to Consolidated Financial Statements June 30, 2022

2. Summary of Significant Accounting Policies *(continued)*

Impairment of Long-Lived Assets

Long-lived assets such as property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Settlement records impairment losses on long lived assets used in operations when the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets. No impairment charges were required to be recognized during the years ended June 30, 2022 and 2021.

Conditional Asset Retirement Obligations

The Settlement accounts for Conditional Asset Retirement Obligations ("CARO") in accordance with U.S. GAAP, which defines a conditional asset retirement obligation as a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. Uncertainty with respect to the timing and/or method of settlement of the asset retirement obligation does not defer recognition of a liability. The fair value of the CARO is recorded on a discounted basis and accreted over time for the change in fair value. Management has determined that there are no CARO liabilities that are required to be recorded.

Refundable Advances

Refundable advances consist of unspent cash receipts from contracting agencies as well as the cumulative excess of allowable program revenues over allowable program expenses.

Contributions and Contributions, Capital Campaign

Transactions are analyzed to determine whether they should be accounted for as exchange transactions or as non-exchange transactions. Transactions where there is no benefit to the donor are recorded as contributions. Unconditional contributions, including promises to give cash and other assets, are reported at fair value at the date the contribution is received. The gifts are reported as with donor restrictions if they are received with donor stipulations that limit the use of the donated assets.

In-kind Contributions

Interest expense for mortgages which do not bear interest is recorded as in-kind contributions. The annual estimate of in-kind interest expense is computed by applying the weighted average of the prime rate to average annual mortgage balances.

In-kind contributions and occupancy expense are recorded for space provided to the Settlement for program purposes for which rent is not currently being charged. In-kind transactions are reviewed periodically to ensure that the estimates recorded reasonably reflect the estimated fair value of contributed rent.

Henry Street Settlement and Affiliate

Notes to Consolidated Financial Statements
June 30, 2022

2. Summary of Significant Accounting Policies *(continued)*

Grants and Fees from Contracting Agencies

The Settlement receives funding for many of its programs through contracts principally entered into with New York State and New York City. Certain governmental revenues are recorded based on estimated expenditures incurred and are subject to audit and adjustment by Medicaid and other regulatory agencies. Third-party reimbursement adjustments are recorded when reasonably determinable. Revenues from fee-for-service and reimbursement contracts with New York State and New York City are recorded at rates established by the governmental payors.

Revenues are recorded based on estimated allowable costs and are subject to audit and adjustment by governmental payors. The effects of such adjustments are recorded when reasonably determinable.

The Settlement receives certain funding for its programs in the form of operational grants, which usually run for a period of one year or longer. The Settlement is required to determine whether transactions are conditional or unconditional. Unconditional contributions are recognized immediately and classified as either net assets with donor restrictions or net assets without donor restrictions. Conditional contributions are accounted for as a liability and are not recognized as revenue initially and are disclosed in the notes to the consolidated financial statements. Once the barriers to entitlement are overcome, the transaction is recognized as unconditional and classified as either net assets with donor restrictions or net assets without donor restrictions. For a donor-imposed condition to exist, a right of return or release must be stated, and the agreement must include a performance-related condition or other measurable barrier.

Program Service Fees

Program service fees are paid by program participants or third-party payors for participation in certain programs of the Settlement.

Advertising Costs

Advertising costs are expensed when incurred. Advertising costs for the years ended June 30, 2022 and 2021 were \$66,605 and \$39,298.

Functional Allocation of Expenses

The costs of providing programs by the Settlement have been summarized on a functional basis in the accompanying consolidated financial statements. Accordingly, expenses have been charged to program and supporting services as either direct expenses or using other specific allocation ratios based on a time and effort methodology.

Henry Street Settlement and Affiliate

Notes to Consolidated Financial Statements June 30, 2022

2. Summary of Significant Accounting Policies *(continued)*

Accounting for Uncertainty in Income Taxes

The Settlement recognizes the effect of tax positions only when they are more likely than not to be sustained. Management has determined that the Settlement had no uncertain tax positions that would require financial statement recognition or disclosure. The Settlement is no longer subject to examinations by the applicable taxing jurisdictions for periods prior to June 30, 2019.

Reclassification of Prior Year Presentation

Certain 2021 amounts have been reclassified to conform to 2022 financial statement presentation.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the consolidated financial statements through the date that the consolidated financial statements were available to be issued, which date is January 4, 2023.

3. Investments

The Settlement's investments, stated at fair value, are as follows at June 30:

	2022		2021	
	Level 1	Total	Level 1	Total
Short-term investments	\$ 9,810,584	\$ 9,810,584	\$ 8,638,208	\$ 8,638,208
Common and Preferred Stock				
U.S. large cap equity	10,189,605	10,189,605	12,654,482	12,654,482
U.S. mid cap equity	560,380	560,380	1,181,054	1,181,054
International equity	7,620,093	7,620,093	8,801,082	8,801,082
	<u>18,370,078</u>	<u>18,370,078</u>	<u>22,636,618</u>	<u>22,636,618</u>
Mutual Funds				
Intermediate government	354,626	354,626	386,160	386,160
Real estate and commodities	1,903,056	1,903,056	978,464	978,464
	<u>2,257,682</u>	<u>2,257,682</u>	<u>1,364,624</u>	<u>1,364,624</u>
	<u>\$ 30,438,344</u>	<u>30,438,344</u>	<u>\$ 32,639,450</u>	<u>32,639,450</u>
Certificates of deposit, at cost		1,567,266		1,919,029
Investment in limited partnerships (1)		5,689,744		4,979,916
		<u>\$ 37,695,354</u>		<u>\$ 39,538,395</u>

(1) As discussed in Note 2, investments that are measured using the practical expedient are not classified within the fair value hierarchy.

Henry Street Settlement and Affiliate

Notes to Consolidated Financial Statements June 30, 2022

3. Investments *(continued)*

During the years ended June 30, 2022 and 2021, there were no transfers in or out of Levels 1, 2, or 3 of the fair value hierarchy.

Information regarding alternative investments measured at NAV using the practical expedient are as follows at June 30:

	2022			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private equity (a)	\$ 5,689,744	\$ 2,072,905	N/A	N/A
	2021			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Equity long/short hedge funds (b)	\$ 423,775	\$ -	varies	7-70 days
Private equity (a)	4,556,141	3,337,058	N/A	N/A
Total	<u>\$ 4,979,916</u>	<u>\$ 3,337,058</u>		

(a) This category includes several private equity funds that invest primarily in foreign technology companies. These investments can never be redeemed with the funds. Instead, the nature of the investments in this category is that distributions are received through the liquidation of the underlying assets of the fund. Management has estimated that the underlying assets of the fund will be liquidated over 10 to 11 years.

(b) This category includes investments in hedge funds that invest both long and short, primarily in U.S. common stocks. Management of the hedge funds has the ability to shift investments from value to growth strategies, from small to large capitalization stocks, and from a net long position to a net short position. The fair values of the investments in this category have been estimated using the net asset value per share of the investments. Investments representing approximately 8 percent of the value of the investments in this category cannot be redeemed because the investments include restrictions that do not allow for redemption in the first 12 to 18 months after acquisition. The remaining restriction period for these investments ranged from 7 to 70 days.

Investment Risks and Uncertainties

Alternative investments consist of non-traditional, not readily marketable investments, some of which may be structured as limited partnerships. The underlying investments of such funds, whether invested in stock or other securities, are generally not currently traded in a public market and typically are subject to restrictions on resale. Values determined by investment managers and general partners of underlying securities that are thinly traded or not traded in an active market may be based on historical cost, appraisals, a review of the investees' financial results, financial condition and prospects, together with comparisons to similar companies for which quoted market prices are available or other estimates that require varying degrees of judgement.

Henry Street Settlement and Affiliate

Notes to Consolidated Financial Statements June 30, 2022

3. Investments (continued)

Investment Risks and Uncertainties (continued)

Because of the inherent uncertainty of valuations, the estimated fair values may differ significantly from the values that would have been used had a ready market for such investments existed or had such investments been liquidated, and those differences could be material.

4. Contributions Receivable

Contributions receivable have been reflected at present value. Those receivables that are due in more than one year have been discounted at 1.5% and are due as follows at June 30:

	<u>2022</u>	<u>2021</u>
Receivable in less than one year	\$ 1,134,500	\$ 511,500
Receivable in one to five years	415,000	-
Discount to net present value	<u>(7,150)</u>	<u>-</u>
	<u>\$ 1,542,350</u>	<u>\$ 511,500</u>

Management determined that there was no need for an allowance for doubtful accounts at June 30, 2022 and 2021. All receivables are expected to be collected in the normal course of business operations.

5. Property and Equipment

Property and equipment consist of the following at June 30:

	<u>2022</u>	<u>2021</u>
Land	\$ 716,984	\$ 716,984
Building, building improvements and leasehold improvements	34,621,439	34,470,411
Furniture and equipment	5,009,914	4,903,124
Construction in progress	<u>5,831,995</u>	<u>5,391,110</u>
	46,180,332	45,481,629
Accumulated depreciation and amortization	<u>(22,799,688)</u>	<u>(21,677,884)</u>
	<u>\$ 23,380,644</u>	<u>\$ 23,803,745</u>

Assets with a cost basis and accumulated depreciation of \$28,501 were disposed of during the year ended June 30, 2022.

Henry Street Settlement and Affiliate

Notes to Consolidated Financial Statements June 30, 2022

6. Liquidity and Availability of Financial Assets

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of the consolidated statement of financial position date, are comprised of the following at June 30:

	<u>2022</u>	<u>2021</u>
Financial assets at year end:		
Cash	\$ 645,817	\$ 2,485,035
Investments	37,695,354	39,538,395
Due from contracting agencies, net	16,477,871	13,257,449
Accounts receivable	135,526	648,015
Contributions receivable	<u>1,542,350</u>	<u>511,500</u>
Total Financial Assets	<u>56,496,918</u>	<u>56,440,394</u>
Less: amounts not available to be used within one year:		
Net assets with donor restrictions	(39,697,566)	(40,130,142)
Board designated fund	(9,631,114)	(6,502,232)
Add: net assets with purpose restrictions expected to be met in less than one year	<u>15,073,372</u> <u>(34,255,308)</u>	<u>8,323,466</u> <u>(38,308,908)</u>
Financial Assets at Year End Available to Meet Cash		
Needs for General Expenditures within One Year	<u>\$ 22,241,610</u>	<u>\$ 18,131,486</u>

Liquidity Management

As part of its liquidity management plan, the Settlement has a line of credit available to meet cash flow needs in the amount of \$7,000,000. As of June 30, 2022, \$3,750,000 was available for drawdown on this line of credit. The Settlement's Board Designated Fund balance of approximately \$9,600,000 is also available for operations after action by the Board of Directors.

7. Pensions

(a) Defined Contribution Plan

The Settlement provides a 403(b) defined contribution plan and contributes 5% of base salary for eligible employees. Contributions for the years ended June 30, 2022 and 2021 totaled \$925,908 and \$982,473.

(b) Deferred Compensation Plan

The Settlement maintains a 457(b) deferred compensation arrangement for certain employees. Pension expense of \$47,119 and \$42,055 was recorded for the years ended June 30, 2022 and 2021 in connection with this plan. At June 30, 2022, \$47,119 was payable (and was paid in July 2022), and at June 30, 2021, there was no unfunded balance.

Henry Street Settlement and Affiliate

Notes to Consolidated Financial Statements June 30, 2022

8. Line of Credit

The Settlement secured a \$7,000,000 line of credit which expires on October 31, 2023. Interest is charged at the London Interbank Offered Rate plus 1%. The outstanding balance due on this line of credit at June 30, 2022 and 2021 was \$3,250,000 and \$1,300,000. Interest expense for the years ended June 30, 2022 and 2021 was \$21,141 and \$11,331. All investment accounts held with J.P. Morgan are identified as specific collateral for this commitment.

9. Loans Payable

Balances due to the following organizations are as follows at June 30, 2022 and 2021:

On May 15, 2020 the Settlement qualified for and received a loan (the "Loan") from Pursuit Lending in the amount of \$5,200,300 pursuant to the Paycheck Protection Program (the "PPP"), a program implemented by the U.S. Small Business Administration ("SBA") under the Coronavirus Aid, Relief, and Economic Security Act, which was enacted March 27, 2020. The PPP Loan bore interest at a fixed rate of 1.0% per annum, with the first six months of interest deferred, had a term of two years, and was unsecured and guaranteed by the SBA. The principal amount of the PPP Loan was subject to forgiveness under the PPP upon the Settlement's request to the extent that the PPP Loan proceeds were used to pay expenses permitted by the PPP, including payroll costs, costs used to continue group health care benefits, covered rent and mortgage obligations, and covered utility payments incurred by the Settlement. The Settlement applied for forgiveness of the PPP Loan with respect to these covered expenses. On October 25, 2021, the SBA forgave the PPP Loan in full. The Settlement has recognized the proceeds as forgiveness of Paycheck Protection Program loan in the accompanying statement of activities.

The SBA has stated it will review the needs certification on all loans over \$2,000,000. After the review, the SBA may determine that the Settlement did not meet the need criteria to apply for the PPP Loan. In such a circumstance, the Settlement may be forced to return part, or all of the PPP Loan proceeds plus pay the accrued and unpaid interest. The Settlement believes it was eligible to receive the PPP Loan proceeds.

10. Mortgages Payable

Balances due to the following organizations are as follows at June 30, 2022 and 2021:

Department of Housing Preservation and Development (a)	\$ 5,013,173
Federal Home Loan Bank (b)	530,000
Homeless Housing Assistance Corporation (c)	<u>2,368,000</u>
	<u>\$ 7,911,173</u>

Henry Street Settlement and Affiliate

Notes to Consolidated Financial Statements June 30, 2022

10. Mortgages Payable (continued)

In May 2005, SHSHDFC entered into a construction financing agreement with the Department of Housing Preservation and Development ("DHPD"), Federal Home Loan Bank ("FHLB") and New York State Homeless Housing Assistance Corporation ("HHAC") in connection with the project at 290 East Third Street. Financing provided under this agreement is secured by SHSHDFC's land and building.

- (a) The total amount available from DHPD was \$5,476,465. As of June 30, 2022 and 2021, cumulative funds drawn down were \$5,013,173. The balance of \$463,292 was unused and is not available since construction is complete. Interest accrues at 1% beginning 270 days after substantial completion of construction, which was January 1, 2007. Interest of \$50,132 was accrued for each of the years ended June 30, 2022 and 2021. Cumulative interest of \$737,549 and \$687,417 has been accrued as of June 30, 2022 and 2021. The loan principal and accrued interest will be deemed satisfied in 2037 if the project is operated in conformance with the contract requirements for 30 years.
- (b) The total amount available from FHLB was \$530,000. As of June 30, 2022 and 2021, cumulative funds drawn down were \$530,000. The mortgage does not bear interest. The loan principal is scheduled to become a grant after operating the project in conformance with requirements for 15 years (2007 to 2022.) This period has now been completed. Management is working with FHLB to complete the documentation necessary to obtain grant approval. No revenue has been recognized as of June 30, 2022.
- (c) The total amount available for borrowing from HHAC was \$2,368,000, which was fully drawn as of June 30, 2022 and 2021. The mortgage does not bear interest. The loan principal will be deemed satisfied in 2032 after operating the project in conformance with requirements for 25 years.

It is the intention of management to operate this property in conformance with the requirements of each loan.

As these financing arrangements bear no interest or below-market interest rates, an in-kind contribution of \$221,340 and \$206,981 was included in the statement of activities and interest expense for the years ended June 30, 2022 and 2021 to reflect the estimated value of contributed interest as required under U.S. GAAP. Imputed interest expense was calculated at the weighted average prime rates below:

11/1/2019 - 3/4/20	4.75%
3/5/20 - 3/16/20	4.25%
3/17/20 - 3/16/22	3.25%
3/17/22 - 5/4/22	3.50%
5/5/22 - 6/15/22	4.00%
6/16/22 - 6/30/22	4.75%

Henry Street Settlement and Affiliate

Notes to Consolidated Financial Statements June 30, 2022

11. Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes at June 30:

	2022	2021
Subject to expenditure for specified purpose or period:		
Arts program	\$ 2,301,925	\$ 2,226,512
Capital campaign	1,136,100	1,128,625
Community and social development	5,164,565	4,722,964
Millennium campaign	1,296,436	1,383,275
Workforce development center	2,440,770	2,332,231
Youth activities	3,403,665	3,923,116
Youth programs	621,631	1,080,945
Total Subject to Expenditure for Specified Purpose or Period	<u>16,365,092</u>	<u>16,797,668</u>
Endowments subject to the Settlement's spending policy and appropriation:		
Arts program	2,373,168	2,373,168
Workforce development center	4,452,339	4,452,339
Youth activities	7,924,014	7,924,014
Youth programs	1,442,881	1,442,881
Youth Summer Camp	368,835	368,835
General purposes	6,771,237	6,771,237
Total Endowments Subject to the Settlement's Spending Policy and Appropriation	<u>23,332,474</u>	<u>23,332,474</u>
Total Net Assets with Donor Restrictions	<u>\$ 39,697,566</u>	<u>\$ 40,130,142</u>

Net assets were released from donor restrictions by incurring expenses satisfying the following restricted purposes or by the passage of time:

	2022	2021
Satisfaction of Program Restrictions		
Arts program	\$ 887,618	\$ 504,117
Community and social development	3,772,115	2,988,949
Workforce development center	1,409,608	1,594,518
Youth activities	1,257,679	639,529
Youth programs	363,498	25,000
	<u>7,690,518</u>	<u>5,752,113</u>
Income Distribution Requirement		
Arts programs	153,064	59,737
Workforce development center	122,957	47,987
Youth activities	320,718	171,016
Youth programs	149,838	150,000
	<u>746,577</u>	<u>428,740</u>
	<u>\$ 8,437,095</u>	<u>\$ 6,180,853</u>

Henry Street Settlement and Affiliate

Notes to Consolidated Financial Statements June 30, 2022

12. Endowment Fund

General

The Settlement's net assets with donor restrictions include endowment fund assets to be held in perpetuity. The income from the assets can be used to support various programs.

As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Settlement has adopted New York Prudent Management of Institutional Funds Act ("NYPMIFA"). NYPMIFA moves away from the "historic dollar value" standard, and permits charities to apply a spending policy based on certain specified standards of prudence. As a result of this interpretation, the Settlement retains in perpetuity (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the 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 retained in perpetuity is subject to appropriation for expenditure by the Settlement in a manner consistent with the standards of prudence prescribed by NYPMIFA.

Return Objectives, Strategies Employed and Spending Policy

The objective of the Settlement is to maintain the principal endowment funds at the original amount designated by the donor. The investment policy to achieve this objective is to invest in low-risk securities. Interest earned in relation to the endowment funds is recorded as donor restricted income and released from restriction upon expenditure for the program for which the endowment fund was established. The Settlement is now governed by the NYPMIFA spending policy, which establishes a prudent spending limit of 7% calculated at the lesser of the average fair value of the funds' previous five years' balance or life of the funds.

Funds with Deficiencies

The Settlement does not have any funds with deficiencies.

Henry Street Settlement and Affiliate

Notes to Consolidated Financial Statements June 30, 2022

12. Endowment Fund *(continued)*

Endowment Net Asset Composition by Type of Fund

The following is a reconciliation of the activity in the donor restricted endowment funds portion of the investment portfolio for the years ended June 30, 2022 and 2021:

	Temporary in Nature	Permanent in Nature	Total
Balance, June 30, 2020	\$ 3,912,721	\$ 20,880,135	\$24,792,856
Additions		2,452,339	2,452,339
Interest and dividends	782,910		782,910
Investment gain, net	3,548,118	-	3,548,118
Appropriation for expenditure	(428,740)	-	(428,740)
Balance, June 30, 2021	7,815,009	23,332,474	31,147,483
Additions			-
Interest and dividends	902,707	-	902,707
Investment loss, net	(1,825,928)	-	(1,825,928)
Appropriation for expenditure	(746,577)	-	(746,577)
Balance, June 30, 2022	<u>\$ 6,145,211</u>	<u>\$ 23,332,474</u>	<u>\$29,477,685</u>

13. Rental Revenue

The Settlement leases apartments to qualifying low-income individuals under one-year non-cancelable leases. Rental revenue was \$737,687 and \$731,464 for the years ended June 30, 2022 and 2021.

The Settlement rented out space, including theater facilities, under per diem lease arrangements. Rental income totaled \$446,253 and \$222,734 for the years ended June 30, 2022 and 2021.

14. In-Kind Contributions

In-kind contributions for fiscal 2022 and 2021 consisted of the following:

	2022	2021
Interest on mortgages	\$ 221,340	\$ 206,981
Rent	<u>2,000,000</u>	<u>2,000,000</u>
	<u>\$ 2,221,340</u>	<u>\$ 2,206,981</u>

The Settlement recognized contributed nonfinancial assets within revenue, including interest on mortgages and rent. Unless otherwise noted, contributed nonfinancial assets did not have donor-imposed restrictions.

Henry Street Settlement and Affiliate

Notes to Consolidated Financial Statements June 30, 2022

15. Occupancy Expense

Included within occupancy costs is rent expense (exclusive of in-kind rentals) of \$537,414 and \$563,326 for the years ended June 30, 2022 and 2021. These costs are largely associated with month-to-month rentals and include rental assistance paid on behalf of housing assistance program participants.

On July 26, 2018, the Settlement entered into a lease agreement with Site 6 Commercial, LLC for the rental of office space located in Manhattan, New York. The lease term commenced on October 1, 2019 and expires on September 30, 2029, with an option to renew the lease for an additional ten years. Under the terms of the lease, the Settlement is also obligated to pay common charges and a proportionate share of real estate taxes. The Settlement recognizes rent expense according to the lease terms and has determined that the straight-lining rent adjustment as required by U.S. GAAP was not material to the consolidated financial statements.

The future minimum lease payments under the lease agreements are as follows for the years ending June 30:

2023	\$ 294,798
2024	303,816
2025	319,110
2026	328,686
2027	338,544
Thereafter	<u>348,702</u>
	<u>\$ 1,933,656</u>

The Settlement provides program services from several locations for which rent is not currently being charged. In accordance with U.S. GAAP, the value of an in-kind contribution was included in the statement of activities and occupancy expense to reflect the estimated fair value of contributed rent. The value of the in-kind rent totaled \$2,000,000 for each of the years ended June 30, 2022 and 2021. Total rent expense (including in-kind rentals) was \$3,606,522 and \$3,260,359 for the years ended June 30, 2022 and 2021.

16. Concentration of Credit Risk

Financial instruments that potentially subject the Settlement to concentrations of credit risk consist primarily of cash, investments and receivables. Approximately 52% and 66% of the Settlement's contributions receivable are from three donors and two donors, as of June 30, 2022 and 2021. The amount of these contributions receivable as of June 30, 2022 and 2021 is \$812,500 and \$340,000, and is promised from long-standing donors to the Settlement.

At times, the cash balance may be in excess of the Federal Deposit Insurance Corporation's insurance limits. At June 30, 2022 and 2021, the uninsured portion of the cash balance was \$533,000 and \$1,950,000. The investment portfolio is diversified by type of investments and industry concentrations so that no individual investment or group of investments represents a significant concentration of risk.

Henry Street Settlement and Affiliate

Notes to Consolidated Financial Statements June 30, 2022

16. Concentration of Credit Risk (*continued*)

Most of the Settlement's programs are funded by contracts from various government agencies. As a result, the Settlement is highly dependent on government reimbursement sources.

17. Contingencies

The Settlement is subject to numerous laws and regulations imposed by federal state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation as well as regulatory actions unknown and unasserted at this time.

The Settlement is not aware of any allegations of noncompliance that could have a material adverse effect on the amounts recorded in the consolidated financial statements. In addition, management believes that the Settlement has an effective compliance program in place to assist in complying with current laws and regulations and is in compliance, in all material respects, with applicable laws and regulations.

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