

**HENRY STREET SETTLEMENT  
AND AFFILIATES**

**CONSOLIDATED FINANCIAL STATEMENTS  
AND AUDITOR'S REPORT**

**JUNE 30, 2013**

**HENRY STREET SETTLEMENT  
AND AFFILIATES**

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## **Independent Auditor's Report**

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

### ***Report on the Financial Statements***

We have audited the accompanying consolidated financial statements of Henry Street Settlement and Affiliates, which comprise the consolidated balance sheet as of June 30, 2013, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the 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.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 auditor's 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 entity'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 entity'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 Henry Street Settlement and Affiliates as of June 30, 2013, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Report on Summarized Comparative Information***

We have previously audited Henry Street Settlement and Affiliates' June 30, 2012 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated December 19, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Loeb & Troper LLP*

December 18, 2013

## HENRY STREET SETTLEMENT AND AFFILIATES

## EXHIBIT A

## CONSOLIDATED BALANCE SHEET

JUNE 30, 2013

(With Summarized Financial Information  
for June 30, 2012)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	
				<u>2013</u>	<u>2012</u>
<b>ASSETS</b>					
Cash (Note 10)	\$ 5,447,963	\$ 9,288	\$ 35,134	\$ 5,492,385	\$ 8,927,651
Certificates of deposit	516,554	2,578,458		3,095,012	544,934
Investments (Note 4)	3,623,645	413,072	20,502,001	24,538,718	22,965,848
Due from contracting agencies (net of allowance for doubtful accounts of \$38,256 in 2013 and \$103,682 in 2012)	6,676,837			6,676,837	6,048,638
Accounts receivable (net of allowance for doubtful accounts of \$20,392 in 2013 and \$146,271 in 2012)	238,368			238,368	3,648
Deposits, prepaid expenses and other assets	222,621			222,621	328,394
Contributions receivable (Note 3)		3,590,687		3,590,687	4,340,707
Fixed assets - net (Note 5)	10,754,913			10,754,913	10,513,009
Amounts due from (to) other funds	<u>505,625</u>	<u>5,151,375</u>	<u>(5,657,000)</u>	<u></u>	<u></u>
Total assets	<u>\$ 27,986,526</u>	<u>\$ 11,742,880</u>	<u>\$ 14,880,135</u>	<u>\$ 54,609,541</u>	<u>\$ 53,672,829</u>

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## HENRY STREET SETTLEMENT AND AFFILIATES

EXHIBIT A

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## CONSOLIDATED BALANCE SHEET

JUNE 30, 2013

(With Summarized Financial Information  
for June 30, 2012)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2013	2012
<b>LIABILITIES AND NET ASSETS</b>					
Liabilities					
Accrued salaries and related liabilities	\$ 798,594			\$ 798,594	\$ 855,254
Accounts and accrued expenses payable	1,454,429			1,454,429	2,096,454
Accrued defined benefit pension plan costs (Note 8)	3,589,661			3,589,661	4,712,858
Refundable advances (Note 2)	4,951,795			4,951,795	6,026,494
Mortgages payable (Note 7)	9,829,499			9,829,499	9,829,499
Total liabilities	20,623,978			20,623,978	23,520,559
Net assets (Exhibit B)					
Unrestricted					
Operating fund	169,478			169,478	
Board-designated fund	6,165,187			6,165,187	4,900,820
Plant fund	1,027,883			1,027,883	909,110
Temporarily restricted (Note 12)		\$ 11,742,880		11,742,880	10,479,906
Permanently restricted (Note 12)			\$ 14,880,135	14,880,135	13,862,434
Total net assets	7,362,548	11,742,880	14,880,135	33,985,563	30,152,270
Total liabilities and net assets	\$ 27,986,526	\$ 11,742,880	\$ 14,880,135	\$ 54,609,541	\$ 53,672,829

See independent auditor's report.

The accompanying notes are an integral part of these statements.

## HENRY STREET SETTLEMENT AND AFFILIATES

## EXHIBIT B

## CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2013

(With Summarized Financial Information  
for the Year Ended June 30, 2012)

	Unrestricted					Temporarily Restricted	Permanently Restricted	Total	
	Operating Fund	Boys and Girls Republic	Board Designated Fund	Plant Fund	Total			2013	2012
Revenues, gains (losses) and other support									
Contributions	\$ 965,964	\$ 3,313			\$ 969,277	\$ 3,860,190		\$ 4,829,467	\$ 5,124,940
Contributions - Capital Campaign						1,524,530		1,524,530	4,328,682
Contributions - BGR Campaign							\$ 1,017,701	1,017,701	
Special events	\$ 1,760,573								
Less costs of direct benefits of special events	(276,127)								
Net revenues from special events	1,484,446				1,484,446			1,484,446	1,822,885
Legacies and bequests			\$ 93,895		93,895	1,000		94,895	156,066
Grants and fees from contracting agencies	24,405,039	377,150		\$ 320,412	25,102,601			25,102,601	26,264,205
Program service fees	1,839,677	395			1,840,072			1,840,072	1,883,321
Interest and dividends	3,739	281	206,729	234	210,983	135,987		346,970	328,020
Gains on sale of investments - net			829,853		829,853	557,238		1,387,091	193,863
Unrealized gains (losses) on investments - net			(144,259)		(144,259)	(115,632)		(259,891)	(876,917)
Income distribution (Note 2)	544,198		(544,198)						
Rental income	711,359	7,120			718,479			718,479	678,349
Other income (Note 14)	106,942	6,245		142,572	255,759			255,759	145,661
Net assets released from restrictions (Note 12)									
Satisfaction of program restrictions	4,133,548	183,800			4,317,348	(4,317,348)			
Satisfaction of income distribution requirement	333,874	21,928			355,802	(355,802)			
Satisfaction of capital acquisition restrictions				27,189	27,189	(27,189)			
Total revenues, gains (losses) and other support	34,528,786	600,232	442,020	490,407	36,061,445	1,262,974	1,017,701	38,342,120	40,049,075

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## HENRY STREET SETTLEMENT AND AFFILIATES

## EXHIBIT B

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## CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2013

(With Summarized Financial Information  
for the Year Ended June 30, 2012)

	Unrestricted							Total	
	Operating Fund	Boys and Girls Republic	Board Designated Fund	Plant Fund	Total	Temporarily Restricted	Permanently Restricted	2013	2012
Expenses (Exhibit C)									
Program services									
Social participation programs	\$ 20,375,254			\$ 410,187	\$ 20,785,441			\$ 20,785,441	\$ 21,388,135
Arts center programs	2,172,751			28,282	2,201,033			2,201,033	2,590,879
Youth programs	5,007,554	\$ 686,029		108,510	5,802,093			5,802,093	5,583,370
Employment training programs	2,203,725			18,422	2,222,147			2,222,147	2,133,925
Total program services	29,759,284	686,029		565,401	31,010,714			31,010,714	31,696,309
Supporting services									
Management and general	3,802,225	114,549		19,038	3,935,812			3,935,812	3,460,995
Fund raising	738,141			1,239	739,380			739,380	605,996
Total supporting services	4,540,366	114,549		20,277	4,675,192			4,675,192	4,066,991
Total expenses	34,299,650	800,578		585,678	35,685,906			35,685,906	35,763,300
Change in net assets before other changes	229,136	(200,346)	\$ 442,020	(95,271)	375,539	\$ 1,262,974	\$ 1,017,701	2,656,214	4,285,775
Transfer to Boys and Girls Republic, Inc. - Operating Fund	(5,000)	200,346	(195,346)						
Transfers to fund fixed asset acquisitions	(54,658)		(159,386)	214,044					
Adjustment to pension funded status	1,177,079				1,177,079			1,177,079	(2,766,974)
Transfer to Board Designated Fund	(1,177,079)		1,177,079						
Change in net assets (Exhibit D)	169,478	-	1,264,367	118,773	1,552,618	1,262,974	1,017,701	3,833,293	1,518,801
Net assets - beginning of year	-	-	4,900,820	909,110	5,809,930	10,479,906	13,862,434	30,152,270	28,633,469
Net assets - end of year (Exhibit A)	\$ 169,478	\$ -	\$ 6,165,187	\$ 1,027,883	\$ 7,362,548	\$ 11,742,880	\$ 14,880,135	\$ 33,985,563	\$ 30,152,270

See independent auditor's report.

The accompanying notes are an integral part of these statements.



CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2013  
(With Summarized Financial Information  
for the Year Ended June 30, 2012)

	Program Services					Supporting Services				Total	
	Social Participation Programs	Arts Center Programs	Youth Programs	Employment Training Programs	Total	Cost of Direct Benefits of Special Events	Management and General	Fund Raising	Total	2013	2012
Salaries	\$ 8,814,309	\$ 927,292	\$ 2,960,903	\$ 1,156,529	\$ 13,859,033		\$ 1,842,064	\$ 337,071	\$ 2,179,135	\$ 16,038,168	\$ 16,277,688
Payroll taxes and employee benefits	3,049,653	282,875	864,114	365,395	4,562,037		642,430	119,406	761,836	5,323,873	4,971,913
Total salaries and related expenses	11,863,962	1,210,167	3,825,017	1,521,924	18,421,070		2,484,494	456,477	2,940,971	21,362,041	21,249,601
Professional fees and contract service payments	2,069,216	340,809	298,187	62,412	2,770,624	\$ 57,420	503,829	149,065	710,314	3,480,938	4,071,569
Supplies	817,736	92,789	332,445	38,292	1,281,262	212,679	315,466	67,577	595,722	1,876,984	1,633,674
Telephone and internet	302,293	34,293	74,500	63,067	474,153		79,696	5,848	85,544	559,697	400,930
Postage and shipping	40,883	36,504	11,855	8,877	98,119		49,643	33,578	83,221	181,340	181,553
Occupancy	2,144,518	300,855	518,028	373,585	3,336,986		20,086	631	20,717	3,357,703	3,343,050
Equipment purchases and rentals	588,969	105,051	100,698	54,313	849,031		224,126	7,323	231,449	1,080,480	1,095,955
Transportation	195,698	8,130	59,995	47,982	311,805		20,132	1,953	22,085	333,890	349,189
Insurance	399,560	27,550	68,528	17,944	513,582		18,544	1,207	19,751	533,333	466,929
Bank charges and custodial fees	700	4,320	6,081		11,101		119,124	6,345	125,469	136,570	168,919
Interest (Note 7)	319,459				319,459					319,459	319,458
Food	1,305,084	6,656	220,531	5,494	1,537,765	6,028	43,711	2,291	52,030	1,589,795	1,539,818
Stipends	310,775	3,000	96,043	6,775	416,593					416,593	387,571
Membership fees and conferences	12,853	290	81,675	3,060	97,878		21,781	5,846	27,627	125,505	104,187
Depreciation and amortization	410,187	28,282	108,510	18,422	565,401		19,038	1,239	20,277	585,678	612,012
Bad debts							13,861		13,861	13,861	113,590
Miscellaneous	3,548	2,337			5,885		2,281		2,281	8,166	5,459
Total expenses	20,785,441	2,201,033	5,802,093	2,222,147	31,010,714	276,127	3,935,812	739,380	4,951,319	35,962,033	36,043,464
Less expenses deducted directly from revenues on the statement of activities											
Cost of direct benefits of special events						(276,127)			(276,127)	(276,127)	(280,164)
Total expenses reported by function on the statement of activities (Exhibit B)	\$ 20,785,441	\$ 2,201,033	\$ 5,802,093	\$ 2,222,147	\$ 31,010,714	\$ -	\$ 3,935,812	\$ 739,380	\$ 4,675,192	\$ 35,685,906	\$ 35,763,300

See independent auditor's report.

The accompanying notes are an integral part of these statements.

## EXHIBIT D

## HENRY STREET SETTLEMENT AND AFFILIATES

## CONSOLIDATED STATEMENT OF CASH FLOWS

YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities		
Change in net assets (Exhibit B)	\$ 3,833,293	\$ 1,518,801
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation and amortization	585,678	612,012
Contributions restricted for endowment	(1,017,701)	
Gain on sale of investments - net	(1,387,091)	(193,863)
Unrealized loss on investments - net	259,891	876,917
Decrease (increase) in assets		
Due from contracting agencies	(628,199)	(414,392)
Accounts receivable	(234,720)	31,309
Deposits, prepaid expenses and other assets	105,773	334,410
Contributions receivable	750,020	(3,269,912)
Increase (decrease) in liabilities		
Accrued salaries and related liabilities	(56,660)	10,461
Accounts and accrued expenses payable	(642,025)	66,518
Accrued defined benefit pension plan costs	(1,123,197)	2,222,097
Refundable advances	(1,074,699)	(2,342,095)
Net cash provided (used) by operating activities	<u>(629,637)</u>	<u>(547,737)</u>
Cash flows from investing activities		
Purchase of investments	(20,277,880)	(14,180,584)
Proceeds from sale of investments	17,282,132	14,724,951
Purchase of fixed assets	(827,582)	(1,024,970)
Net cash used by investing activities	<u>(3,823,330)</u>	<u>(480,603)</u>
Cash flows from financing activities		
Proceeds from contributions restricted for endowment	<u>1,017,701</u>	
Net change in cash	(3,435,266)	(1,028,340)
Cash - beginning of year	<u>8,927,651</u>	<u>9,955,991</u>
Cash - end of year	<u>\$ 5,492,385</u>	<u>\$ 8,927,651</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	<u>\$ -</u>	<u>\$ -</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

**HENRY STREET SETTLEMENT AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**NOTE 1 - NATURE OF ORGANIZATION**

Henry Street Settlement (the "Settlement") was founded in 1893 on the Lower East Side of Manhattan to help newly arrived immigrants. Today, the Settlement 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 programs, arts and health programs. The Settlement is supported primarily by grants and fees from contracting agencies and contributions.

The Settlement is the parent company of the following entities which are consolidated within these financial statements:

Henry Street Housing Development Fund Corporation (HSHDFC)  
The Second Henry Street Housing Development Fund Corporation (SHSHDFC)  
Boys and Girls Republic Inc. (BGR)  
Henry Street Settlement Health Services, Inc. d/b/a Health Unlimited (HUL)  
Henry Street Housekeeping Assistance Services, Inc. (HSHAS)  
Henry Street Home Care Services (HSHCS)

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, except for HSHCS, which is a for-profit corporation.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Method of Accounting**

The financial statements are prepared on the accrual basis of accounting.

**B. Consolidation**

All material intercompany transactions and balances have been eliminated in the consolidation.

**C. Use of 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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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**HENRY STREET SETTLEMENT AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***D. Summarized Financial Information***

The 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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Settlement's financial statements for the year ended June 30, 2012, from which the summarized information was derived.

***E. Certificate of Deposit***

The certificate of deposit has a maturity date of more than three months and is considered an investment for purposes of cash flow reporting.

***F. Investments***

Investments are reported at their fair value. The Settlement invests in various types of investment securities. Investment securities, in general, are exposed to various risks such as interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term, based on the markets' fluctuations, and that such changes could materially affect the amounts reported in the Settlement's financial statements.

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.

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**HENRY STREET SETTLEMENT AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2013**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***F. Investments (continued)***

Funds are to be distributed at a level amount to be determined annually within a range of 3.5% to 4.5% of the portfolio's values. For the year ended June 30, 2013, the distribution amount was set at \$900,000 (or approximately 4%). The distribution is allocated between income distribution from the Board Designated Fund and releases from Temporarily Restricted Funds (provided sufficient expenses were incurred to demonstrate that restrictions were satisfied) based on the rolling average net assets of the funds associated with these investments. This amount is reflected in Operating Fund activities as:

Income distribution - Board Designated Fund	\$ 544,198
Net assets released from program restrictions - satisfaction of income distribution requirement	<u>355,802</u>
	<u>\$ 900,000</u>

***G. Due from Contracting Agencies***

The Settlement records revenue and receivables for grants from contracting agencies based on claims for expense reimbursements and program utilization at contracted rates. Receivables are charged to bad debt expense 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.

***H. Accounts Receivable***

The Settlement records revenue and receivables for program service fees due from individuals based on program utilization at approved rates. Receivables are charged to bad debt expense 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.

***I. Allowance for Doubtful Accounts***

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.

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HENRY STREET SETTLEMENT AND AFFILIATES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*J. 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 contribution revenue. Conditional contributions receivable are not included as support until the conditions are substantially met.

*K. Fixed Assets*

The Settlement capitalizes all expenditures for fixed assets in excess of \$5,000 with a useful life greater than one year. Depreciation is provided over the estimated useful lives of the assets and is determined on the straight-line method. Amortization of leasehold improvements is provided over the lesser of the estimated useful lives of the assets or lease term and is determined on the straight-line method.

*L. Remainder Interest*

The Settlement is the beneficiary of a remainder interest trust, the value of which is indeterminable. Accordingly, this interest has not been reflected in the financial statements.

*M. 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.

*N. Net Assets*

Unrestricted net assets include funds having no restrictions as to use or purpose imposed by donors. Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose. Permanently restricted net assets are limited by donors for investment.

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## HENRY STREET SETTLEMENT AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2013

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*O. Board Designated Fund*

The Board Designated Fund, a component of unrestricted net assets, has been created by an action of the Settlement's Board of Directors. The balance is accumulated from the following sources:

- Contributions from board members as part of a campaign; legacies and bequests greater than \$5,000; investment income from certain board-designated unrestricted investments; and the unrestricted portion 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).
- The accumulated balance is used to fund any fixed asset acquisitions which have not been otherwise funded and deficits in the Operating Fund and pension fund when necessary and if approved by the Board.

*P. 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.

Laws and regulations governing the Settlement's programs, including Medicaid-funded programs, are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Additionally, noncompliance with such laws and regulations could result in fines, penalties, and exclusion from such programs. The Settlement is not aware of any allegations of noncompliance that could have a material adverse effect on the Settlement's consolidated change in net assets or consolidated financial position and believes that it is substantially in compliance with all applicable laws and regulations.

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HENRY STREET SETTLEMENT AND AFFILIATES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*P. Grants and Fees from Contracting Agencies (continued)*

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. This support is restricted to operations within the terms of the grants and, accordingly, recognition of grant support is deferred until qualified expenditures are incurred. The excess of grant support over expenses incurred is recorded and reflected within refundable advances.

*Q. 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 either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

*R. In-kind Contributions*

In-kind contributions and interest expense are recorded for mortgages which do not bear interest. 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.

*S. Program Service Revenues*

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

*T. Rental Income and Expense*

All leases are operating leases and are reflected on the straight-line basis for all lease agreements. Deferred rent is recorded when material.

-continued-



## HENRY STREET SETTLEMENT AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2013

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*U. Functional Expense Presentation*

The costs of providing the Settlement's services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

*V. Fair Value Measurements*

*Fair Value Measurements* establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are described below.

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Settlement has the ability to access. Level 2 inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability. Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement. The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2013 as compared to those used in 2012.

- *Short-term investments* - Short-term investments consist of cash, money market funds and other investments with original maturities when acquired of one year or less, which are being maintained within the investment portfolio. Value is based on actual cash balance, net asset value (NAV) or closing price reported on the active market on which the individual security is traded, as applicable.

-continued-

**HENRY STREET SETTLEMENT AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2013**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***V. Fair Value Measurements (continued)***

- *Common and preferred stocks, exchange-traded fund and corporate obligations* - Valued at the closing price reported on the active market on which the individual securities are traded.
- *Mutual funds* - Valued at the net asset value (NAV) of shares held at year end.
- *Alternative investments* - Estimated fair values, in the absence of readily ascertainable market values, have been determined by the investment managers. The methods and procedures used to value these investments may include, but are not limited to: (1) performing comparisons with prices of comparable or similar securities; (2) obtaining valuation-related information from issuers; and/or (3) other analytical data relating to the investment and using other available indications of value.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Settlement believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

A table setting forth by level, within the fair value hierarchy, the assets at fair value as of June 30, 2013 is included in Note 4.

***W. Uncertainty in Income Taxes***

Henry Street Settlement and Affiliates has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. Periods ending June 30, 2010 and subsequent remain subject to examination by applicable taxing authorities.

***X. Subsequent Events***

Subsequent events have been evaluated through December 18, 2013, which is the date the financial statements were available to be issued.

***Y. Reclassification***

Prior-year management and general expenses of \$123,954 have been reclassified to fund-raising expense to conform to the current year's presentation.

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## HENRY STREET SETTLEMENT AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2013

## NOTE 3 - CONTRIBUTIONS RECEIVABLE

Contributions receivable have been reflected at present value. Those receivables that are due in more than one year have been discounted at 4.25%. The receivables are due as follows:

2013-2014	\$ 1,735,250
2014-2015	1,030,000
2015-2016	692,000
2016-2017	288,500
2017-2018	<u>6,000</u>
	3,751,750
Less discount to present value	<u>(161,063)</u>
	<u>\$ 3,590,687</u>

## NOTE 4 - INVESTMENTS

The following table sets forth by level, within the fair value hierarchy as described in Note 2, the investment portfolio's assets at fair value as of June 30, 2013:

	<u>Level 1*</u>	<u>Level 3*</u>	<u>Total</u>
Short-term investments	\$ <u>983,642</u>		\$ <u>983,642</u>
Common and preferred stock			
U.S. large cap equity	5,031,252		5,031,252
U.S. mid cap equity	1,546,892		1,546,892
International equity	<u>3,590,107</u>		<u>3,590,107</u>
	<u>10,168,251</u>		<u>10,168,251</u>
Corporate obligations	<u>4,546,361</u>		<u>4,546,361</u>

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## HENRY STREET SETTLEMENT AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2013

## NOTE 4 - INVESTMENTS (continued)

	Level 1*	Level 3*	Total
Mutual funds			
Intermediate government	\$ 311,443		\$ 311,443
Intermediate-term bonds	7,386		7,386
Large cap - blend	3,480		3,480
Large cap - growth	10,268		10,268
Large cap - value	17,836		17,836
Medium cap - growth	27,546		27,546
Medium cap - blend	2,543,677		2,543,677
Medium cap - value	15,849		15,849
Small cap - value	<u>2,424</u>		<u>2,424</u>
	<u>2,939,909</u>		<u>2,939,909</u>
Exchange-traded fund	<u>373,410</u>		<u>373,410</u>
Alternative investments		\$ <u>5,527,145</u>	<u>5,527,145</u>
Grand total	<u>\$ 19,011,573</u>	<u>\$ 5,527,145</u>	<u>\$ 24,538,718</u>

\* Levels are determined within the fair value hierarchy as described in Note 2.

A summary of changes in Level 3 investments is as follows:

	Level 3
Balance, beginning of year	\$ 7,348,106
Unrealized gain	312,145
Realized gain	49,827
Sales	(7,397,933)
Purchases	<u>5,215,000</u>
Balance, end of year	<u>\$ 5,527,145</u>

\* The amount of total gains for the period included in changes in net assets attributable to the change in unrealized gains relating to assets still held at the reporting date

\$ 312,145

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**HENRY STREET SETTLEMENT AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**NOTE 4 - INVESTMENTS (continued)**

**Level 3 investments (continued)**

<u>Fund Name</u>	<u>Redemption Frequency</u>	<u>Notice Period</u>	<u>Description of Fund</u>	<u>Amount</u>
Fund A	Monthly	35 days	The fund is a long/short fixed-income hedge fund which seeks to achieve a total return by investing in fixed income securities of issuers domiciled in or which derive a significant portion of revenues from emerging market countries worldwide. The fund invests in a portfolio of core emerging market credit with exposure to sovereign, corporate and local market sub-sectors, with the flexibility to employ a macro overlay strategy as risk mitigation tool as and when market conditions necessitate.	\$ 501,586
Fund B	Quarterly	70 days	The overall long/short strategy of the fund seeks to construct a portfolio in which performance of the fund is determined by stock selection and not overly influenced by overall market direction. The fund aims to construct each portfolio with low gross and low net market exposures to allow stock selection on both the long and short sides to drive returns.	532,570

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**HENRY STREET SETTLEMENT AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**NOTE 4 - INVESTMENTS (continued)**

**Level 3 investments (continued)**

<b>Fund Name</b>	<b>Redemption Frequency</b>	<b>Notice Period</b>	<b>Description of Fund</b>	<b>Amount</b>
Fund C	Quarterly	45 days	The fund's approach to asset allocation maximizes the diversification of a portfolio by balancing the allocation of risk across structurally unrelated asset classes so that their environmental exposures offset each other, leaving the accrual of the risk premium as the dominant element of returns. This is accomplished by holding a similar risk exposure to assets that do well when 1.) inflation rises, 2.) inflation falls, 3.) growth rises and 4.) growth falls. The strategy combines a highly diversified set of uncorrelated alpha return streams. Positions in each market are driven by thorough, individual assessments of the unique fundamentals drivers of that market that are applied in a systematic decision-making process. The strategy is designed to deliver a high information ratio from active management with a low correlation to markets and other active managers.	\$ 643,721
Fund D	Quarterly	50 days	The fund is designed to benefit from the complementary risk profiles of the Impala Fund and the Steenbok Fund. Additionally, exposure to the transportation-focused Steenbok Fund may present attractive opportunities for the Diversified Fund.	492,501
Fund E	Quarterly	65 days	The fund focuses on three investment strategies: trading, arbitrage and long/short investment. The market-neutral trading and arbitrage strategies give the fund the flexibility to pursue long-term opportunities in its long/short investment strategy.	683,269

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**HENRY STREET SETTLEMENT AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**NOTE 4 - INVESTMENTS (continued)**

**Level 3 investments (continued)**

<b>Fund Name</b>	<b>Redemption Frequency</b>	<b>Notice Period</b>	<b>Description of Fund</b>	<b>Amount</b>
Fund F	Semi-annually	65 days	The fund is a \$1.0 billion multi-strategy credit hedge fund which seeks to provide investors with attractive risk-adjusted returns through fundamental, bottom-up research in under-followed securities.	\$ 535,315
Fund G	Quarterly	65 days	The fund is an event-driven fund focused on achieving strong total returns by using a value-based, bottom-up approach to investing globally. The fund intends to be both long and short in securities throughout companies' capital structures.	682,404
Fund H	Monthly	7 days	The fund is a diversified systematic fund. The fund seeks long-term capital appreciation through the development of mathematical methods applied to investments in futures markets. Specifically, the fund creates statistically-driven computer models that are designed to identify small but persistent inefficiencies across various equity, interest rate, commodity and currency futures markets.	516,965
Fund I	Annually	65 days	The fund seeks to generate positive returns across market cycles by investing principally in the securities of companies undergoing credit oriented restructuring and reorganizations, including, pursuant to Chapter 11 of the United States Bankruptcy Code, companies engaged in various types of balance sheet restructurings, and companies whose securities trade at levels that the fund does not believe reflect their intrinsic value.	702,366

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**HENRY STREET SETTLEMENT AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2013**

**NOTE 4 - INVESTMENTS (continued)**

**Level 3 investments (continued)**

<u>Fund Name</u>	<u>Redemption Frequency</u>	<u>Notice Period</u>	<u>Description of Fund</u>	<u>Amount</u>
Fund J	Quarterly	65 days	Inflation protection is a broad asset category which includes investments that are designed to protect the portfolio during heightened inflationary environments, but are not entirely dependent upon inflation for a successful outcome. These strategies can include Emerging Market Currencies, Global Macro, Real Estate, Commodities, and the like.	\$ 121,448
Fund K	10 years	N/A	The fund is a locked-down fund for 10 years. Starwood has established the fund to pursue a global opportunistic real estate strategy. The fund seeks to achieve attractive returns by focusing opportunistically on transactions in the following categories: i) distressed debt, ii) direct / income-producing assets, iii) development in emerging markets and iv) corporate.	<u>115,000</u>
Total Level 3 investments				<u>\$ 5,527,145</u>

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**HENRY STREET SETTLEMENT AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**NOTE 5 - FIXED ASSETS**

		<u>Useful Life</u>
Land	\$ 716,984	
Building, building improvements and leasehold improvements	22,348,157	5-40 years
Furniture and equipment	4,201,082	5-25 years
Construction in progress	<u>195,628</u>	
	27,461,851	
Accumulated depreciation and amortization	<u>(16,706,938)</u>	
	<u>\$ 10,754,913</u>	

**NOTE 6 - LINE OF CREDIT**

The Settlement has a \$3,000,000 line of credit from Citibank N.A. through December 31, 2013. Interest is charged at the Prime Rate and the loan is secured by investments held by the Settlement (see Note 4). During this fiscal year there were no drawings on this line of credit. As of June 30, 2013, the interest rate was 3.25%.

**NOTE 7 - MORTGAGES PAYABLE**

A. On May 31, 1989, HSHDFC received a 15-year mortgage commitment for \$2,066,329 from the Department of Housing Preservation and Development of The City of New York (DHPD) for the rehabilitation and renovation of 309-311 Henry Street. Financing provided under this mortgage is secured by the project's building. Pursuant to an arrangement between the lender and New York State, the Settlement has received a revised mortgage agreement extending the loan term to 2013, at which point the mortgage will become a grant provided the project is utilized in conformance with requirements. Drawdowns as of June 30, 2013 were \$1,918,326. The mortgage does not bear interest. In accordance with accounting principles generally accepted in the United States of America, an in-kind contribution of \$62,346 in 2013 was included in grants and fees from contracting agencies and interest expense to reflect the estimated value of contributed interest.

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**HENRY STREET SETTLEMENT AND AFFILIATES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****JUNE 30, 2013****NOTE 7 - MORTGAGES PAYABLE****A. (continued)**

Imputed interest expense was calculated at the weighted average prime rate, which was 3.25% in 2013. The Settlement is in the process of obtaining formal release from this liability from DHPD.

- B. In May 2005, SHSHDFC entered into a construction financing agreement with the 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 the project's land and building.

The total amount available from DHPD is \$5,465,523. As of June 30, 2013, cumulative funds drawn down were \$5,013,173. Interest accrues at 1% beginning from 270 days after substantial completion of construction. The building was substantially completed as of January 1, 2007. Interest of \$50,132 was accrued for the year ended June 30, 2013. Cumulative interest of \$286,361 was accrued as of June 30, 2013. The loan principal and accrued interest will become a grant in 2037 after operating the project in conformance with requirements for 30 years.

The total amount available from FHLB was \$530,000. As of June 30, 2013, cumulative funds drawn down were \$530,000. The mortgage does not bear interest. The loan principal will become a grant in 2022 after operating the project in conformance with requirements for 15 years.

The total amount available for borrowing from HHAC is \$2,368,000. As of June 30, 2013, cumulative funds drawn down were \$2,368,000. The mortgage does not bear interest. The loan principal will become a grant in 2032 after operating the project in conformance with requirements for 25 years.

As these financing arrangements bear no interest or below market interest rates, in accordance with accounting principles generally accepted in the United States of America, in-kind contributions of \$206,981 in 2013 were included in grants and fees from contracting agencies and interest expense to reflect the estimated value of contributed interest. Imputed interest expense was calculated at the weighted average prime rate, which was 3.25% in 2013.

The HHAC funding also provided for two reserve funds of \$50,000 each for Operating Reserves and Replacement Reserves. These amounts were funded to the Corporation during the year ended June 30, 2008, and were deposited into separate interest-bearing accounts per the HHAC guidelines. Withdrawals from either fund must be requested in writing with proper documentation and preapproved by HHAC. As of June 30, 2013, the balance in the accounts totaled \$146,866. These are included in cash on the balance sheet.

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**HENRY STREET SETTLEMENT AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**NOTE 8 - PENSION PLANS**

The Settlement sponsors a noncontributory defined-benefit retirement plan covering substantially all its employees except Housekeeping Assistance union employees. Those employees are covered by a plan administered by Local 1199. Union pension expense for the year ended June 30, 2013 amounted to \$0.

On October 31, 2005, the Settlement made a decision to freeze its current Defined Benefit Pension Plan and continue funding it only for existing participants.

The following table summarizes the benefit obligations, fair value of assets, funded status and accrued benefit costs as of June 30, 2013, and employer contributions, benefits paid and net periodic pension plan cost for the year then ended.

Benefit obligation	\$ (14,230,650)
Fair value of plan assets	<u>10,640,989</u>
Funded status	<u>\$ (3,589,661)</u>
Accrued benefit cost recognized in the balance sheet	\$ (3,589,661)
Employer contributions	925,000
Benefits paid	971,691
Net periodic pension plan cost (including \$309,236 of settlement charge)	978,882
Weighted average assumptions as of June 30	
Discount rate	4.43%
Expected return on plan assets	4.00
Rate of compensation increase (until October 31, 2005)	5.50

The investment policy is a conservative policy with respect to investment of assets with the primary objective being preservation of capital and the achievement of the maximum possible investment return. With the unusual market downturns experienced in 2009, the investment policy was changed to maintain a greater percentage in liquid assets to safeguard against drastic losses. The expected rate of return on plan assets assumption of 4.0% reflects market expectations as the best estimate for long-term asset performance. As for all plans, this rate is subject to review and may be revised in either direction in future disclosures.

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**HENRY STREET SETTLEMENT AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2013**

**NOTE 8 - PENSION PLANS (continued)**

	<u>Level 1*</u>	<u>Level 3*</u>	<u>Total</u>
Mutual funds			
Large cap - blend	\$ 10,358,571		\$ 10,358,571
Alternative investments		\$ 151,415	151,415
Short-term investments	67,653		67,653
Accrued income	<u>63,350</u>	<u>          </u>	<u>63,350</u>
Grand total	<u>\$ 10,489,574</u>	<u>\$ 151,415</u>	<u>\$ 10,640,989</u>

\* Levels are determined within the fair value hierarchy as described in Note 2.

A summary of changes in Level 3 investments is as follows:

	<u>Level 3</u>
Balance, beginning of year	\$ 1,488,164
Sales	(1,362,733)
Realized	<u>25,984</u>
Balance, end of year	<u>\$ 151,415</u>

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Alternative investments	\$ <u>151,415</u>	None	Quarterly	45 days

*Alternative investments* - The fund seeks to achieve long-term growth of capital through consistent returns from investment that have a low correlation to traditional asset classes. The fund's investment team seeks to deliver stable risk-adjusted returns by adhering to a clearly defined process that utilizes strict manager selection, portfolio construction and risk management guidelines.

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## HENRY STREET SETTLEMENT AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2013

**NOTE 8 - PENSION PLANS (continued)**

The Settlement expects to contribute \$900,000 to the defined-benefit pension plan in fiscal year 2014. Benefit payments, reflecting expected future service, are actuarially calculated and projected as follows:

2014	\$ 791,684
2015	792,241
2016	834,238
2017	829,971
2018	864,063
2019-End	4,434,778

The Settlement provides a 403(b) defined-contribution plan and contributes 5% of base salary for eligible employees. Contributions for the fiscal year ended June 30, 2013 totaled \$548,160.

The Settlement maintains 457(b) and 457(f) deferred compensation arrangements for certain employees. Pension expense of \$32,465 was recorded for the fiscal year ended June 30, 2013 in connection with these plans. As of June 30, 2013, the unfunded balance totaled \$0.

**NOTE 9 - OCCUPANCY**

Included within occupancy costs is rent expense (exclusive of in-kind rentals) of \$390,019 for the year ended June 30, 2013. These costs are largely associated with month-to-month rentals and include rental assistance paid on behalf of housing assistance program participants.

The Settlement leases space at 99 Essex Street under a noncancelable operating lease agreement expiring May 2022. Future minimum lease obligations are as follows:

2013-2014	\$ 280,432
2014-2015	286,040
2015-2016	291,761
2016-2017	297,597
2017-2018	303,548
Thereafter	<u>1,220,457</u>
	<u>\$ 2,679,835</u>

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**HENRY STREET SETTLEMENT AND AFFILIATES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****JUNE 30, 2013****NOTE 9 - OCCUPANCY (continued)**

The Settlement and its affiliates provide program services from several locations for which rent is not currently being charged. In 2013, in accordance with accounting principles generally accepted in the United States of America, the value of an in-kind contribution of \$1,887,000 was included in grants and fees from contracting agencies and occupancy expense to reflect the estimated fair value of contributed rent. Total rent expense (including in-kind rentals) for 2013 was \$2,277,019.

**NOTE 10 - CONCENTRATIONS**

Financial instruments which potentially subject the organization to a concentration of credit risk are cash accounts with major financial institutions in excess of FDIC insurance limits. Management believes that credit risk related to these accounts is minimal.

Most of the Settlement's programs are funded by contracts from various government agencies. Thus, the Settlement is highly dependent on government reimbursement systems. Federal, state and local governments can propose reductions in the funding of many programs. This may impact revenues in the future.

**NOTE 11 - RENTAL INCOME**

The Settlement leases apartments to qualifying low-income individuals under one-year non-cancelable leases expiring through June 30, 2013. Rental income for the year ended June 30, 2013 was \$631,195. Future minimum rentals through June 30, 2014 are \$580,135.

The Settlement rented space, including theater facilities, under per diem lease arrangements. Rental income for the year ended June 30, 2013 was \$87,284.

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## HENRY STREET SETTLEMENT AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2013

## NOTE 12 - NET ASSETS

Temporarily Restricted Funds

At June 30, 2013, temporarily restricted net assets are available for the following purposes:

Arts programs	\$ 1,100,945
Capital campaign	5,864,462
Community and social development	1,530,856
Millennium campaign	629,749
Workforce Development Center	1,060,847
Youth activities	1,059,219
Youth programs - BGR	<u>496,802</u>
	<u>\$ 11,742,880</u>

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

Satisfaction of program restrictions	
Arts programs	\$ 389,187
Community and social development	1,989,762
Workforce Development Center	1,094,082
Youth activities	660,517
Youth programs - BGR	<u>183,800</u>
	<u>4,317,348</u>
Income distribution requirements	
Arts programs	\$ 101,474
Community and social development	36,808
Workforce Development Center	95,088
Youth activities	100,504
Youth programs - BGR	<u>21,928</u>
	355,802
Capital acquisition requirements - BGR	<u>27,189</u>
Total	<u>\$ 4,700,339</u>

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**HENRY STREET SETTLEMENT AND AFFILIATES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****JUNE 30, 2013****NOTE 12 - NET ASSETS (continued)****Permanently Restricted Funds - Endowments****General**

The Settlement's permanently restricted net assets consist of endowment fund assets to be held in perpetuity. The income from the assets can be used to support the programs delineated on the next page.

As required by generally accepted accounting principles, 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 Board of Directors of the Settlement has adopted the 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 to endowments based on certain specified standards of prudence. The Settlement is now governed by the NYPMIFA spending policy, which establishes a maximum prudent spending limit of 7% of the average of its previous five years' balance. As a result of this interpretation, the Settlement 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 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 temporarily restricted income and released from restriction upon expenditure for the program for which the endowment fund was established.

**Funds with Deficiencies**

The Settlement does not have any funds with deficiencies.

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**HENRY STREET SETTLEMENT AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**NOTE 12 - NET ASSETS (continued)**

**Permanently Restricted Funds - Endowments (continued)**

**Endowment Net Asset Composition by Type of Fund**

Arts programs	\$ 2,373,168
BGR Other Youth Programs	1,442,881
BGR Summer Camp	368,835
General purposes	6,771,237
Workforce Development Center	2,000,000
Youth activities	<u>1,924,014</u>
	<u>\$ 14,880,135</u>

**Changes in Endowment Net Assets for the Year Ended June 30, 2013**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year		\$ 2,320,777	\$ 13,862,434	\$ 16,183,211
Contributions			1,017,701	1,017,701
Interest and dividends		135,987		135,987
Net realized and unrealized gain on investment		441,606		441,606
Appropriated for expenditures	\$ 355,802	(355,802)		
Expenses	<u>(355,802)</u>	<u>                    </u>	<u>                    </u>	<u>(355,802)</u>
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 2,542,568</u>	<u>\$ 14,880,135</u>	<u>\$17,422,703</u>

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**HENRY STREET SETTLEMENT AND AFFILIATES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****JUNE 30, 2013****NOTE 13 - CONTINGENCIES**

The Settlement is responsible to report to and is regulated by various governmental third parties, amongst which are the Centers for Medicare and Medicaid Services (CMS), New York State Department of Health (DOH) as well as other Federal, New York State and New York City agencies. These agencies, as well as the New York State Office of Attorney General's Medicaid Fraud Control Unit (MFCU), the Internal Revenue Service, the New York State Office of Attorney General's Charities Bureau, the New York State Department of Health's Independent Office of the Medicaid Inspector General (OMIG), the New York City Human Resources Administration (HRA), the Office of Inspector General (OIG) and other agencies have the right to audit the Settlement and adjust assigned reimbursement rates. These agencies have the right to audit fiscal as well as programmatic compliance, i.e., clinical documentation and physician certifications, among other compliance requirements.

**NOTE 14 - INSURANCE RECOVERY**

In 2013, the Settlement received insurance proceeds of \$142,527 to repair real property damaged during Hurricane Sandy. This is included in other revenue.