HENRY STREET SETTLEMENT
AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS
AND AUDITOR'S REPORT

JUNE 30, 2014

HENRY STREET SETTLEMENT AND AFFILIATES

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LOEB & TROPER LLP

Independent Auditor's Report

Board of Directors
Henry Street Settlement
and Affiliates

Report on the Consolidated 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, 2014, 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 Consolidated 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.

Auditors and Consultants
Serving the Health Care & Not-for-Profit Sectors

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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, 2014, 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, 2013 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated December 18, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Loeb & Troper LLP

December 17, 2014

EXHIBIT A

HENRY STREET SETTLEMENT AND AFFILIATES

CONSOLIDATED BALANCE SHEET

JUNE 30, 2014
(With Summarized Financial Information for June 30, 2013)

		2014		2013
ASSETS				
Cash (Note 10)	$	8,801,560	$	5,492,385
Certificates of deposit		3,119,112		3,095,012
Investments (Note 4)		26,742,814		24,538,718
Due from contracting agencies (net of allowance for doubtful accounts of $38,000 in 2014 and $103,682 in 2013)		4,294,837		6,676,837
Accounts receivable (net of allowance for doubtful accounts of $0 in 2014 and $20,392 in 2013)		233,015		238,368
Deposits, prepaid expenses and other assets		524,599		222,621
Contributions receivable (Note 3)		7,401,624		3,590,687
Fixed assets - net (Note 5)		10,721,677		10,754,913
Total assets	$	61,839,238	$	54,609,541
LIABILITIES AND NET ASSETS				
Liabilities				
Accrued salaries and related liabilities	$	931,899	$	798,594
Accounts and accrued expenses payable		3,267,965		1,454,429
Accrued defined benefit pension plan costs (Note 8)		2,568,898		3,589,661
Refundable advances (Note 2)		3,087,838		4,951,795
Mortgages payable (Note 7)		9,829,499		9,829,499
Total liabilities		19,686,099		20,623,978
Net assets (Exhibit B)				
Unrestricted				
Operating fund		521,476		169,478
Board-designated fund		8,307,491		6,165,187
Plant fund		994,844		1,027,883
Total unrestricted		9,823,811		7,362,548
Temporarily restricted (Note 12)		17,449,193		11,742,880
Permanently restricted (Note 12)		14,880,135		14,880,135
Total net assets		42,153,139		33,985,563
Total liabilities and net assets	$	61,839,238	$	54,609,541

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, 2014
(With Summarized Financial Information
for the Year Ended June 30, 2013)

		Unrestricted							Total	
		Operating Fund	Boys and Girls Republic	Board Designated Fund	Plant Fund	Total	Temporarily Restricted	Permanently Restricted	2014	2013
Revenues, gains (losses) and other support										
Contributions										
General Public		$ 1,209,100	$ 1,193			$ 1,210,293	$ 4,689,447		$ 5,899,740	$ 4,829,467
Capital campaign							4,739,273		4,739,273	1,524,530
Contributions - BGR campaign										1,017,701
Special events	$ 2,333,686									
Less costs of direct benefits of special events	(318,433)									
Net revenues from special events		2,015,253				2,015,253			2,015,253	1,484,446
Legacies and bequests		3,977		$ 101,786		105,763			105,763	94,895
Grants and fees from contracting agencies		25,207,760	472,981			25,680,741			25,680,741	25,102,601
Program service fees		2,173,136	150			2,173,286			2,173,286	1,840,072
Interest and dividends		1,900	126	272,533	$ 197	274,756	205,059		479,815	346,970
Realized gains (losses) on sale of investments - net				(85,640)		(85,640)	(57,339)		(142,979)	1,387,091
Unrealized gains (losses) on investments - net				1,748,928		1,748,928	1,257,793		3,006,721	(259,891)
Income distribution (Note 2)		530,260	50,000	(580,260)						
Rental income		780,619	1,760			782,379			782,379	718,479
Other income		124,489				124,489			124,489	255,759
Net assets released from restrictions (Note 12)										
Satisfaction of program restrictions		4,075,133	217,641			4,292,774	(4,292,774)			
Satisfaction of income distribution requirement		354,399	73,341			427,740	(427,740)			
Satisfaction of capital acquisition restrictions					407,406	407,406	(407,406)			
Total revenues, gains (losses) and other support		36,476,026	817,192	1,457,347	407,603	39,158,168	5,706,313		44,864,481	38,342,120

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HENRY STREET SETTLEMENT AND AFFILIATES

CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2014
(With Summarized Financial Information for the Year Ended June 30, 2013)

	Unrestricted							Total	
	Operating Fund	Boys and Girls Republic	Board Designated Fund	Plant Fund	Total	Temporarily Restricted	Permanently Restricted	2014	2013
Expenses (Exhibit C)									
Program services									
Health and wellness	$ 10,037,941			$ 84,711	$ 10,122,652			$ 10,122,652	$ 9,774,961
Arts center	2,477,862			29,606	2,507,468			2,507,468	2,000,674
Education and employment training	8,278,338	$ 894,970		135,410	9,308,718			9,308,718	8,256,156
Shelter and transitional housing	10,426,996			344,666	10,771,662			10,771,662	10,925,215
Total program services	31,221,137	894,970		594,393	32,710,500			32,710,500	30,957,006
Supporting services									
Management and general	3,792,679	109,530		19,928	3,922,137			3,922,137	3,898,772
Fund raising	959,301			1,297	960,598			960,598	830,128
Total supporting services	4,751,980	109,530		21,225	4,882,735			4,882,735	4,728,900
Total expenses	35,973,117	1,004,500		615,618	37,593,235			37,593,235	35,685,906
Change in net assets before other changes	502,909	(187,308)	$ 1,457,347	(208,015)	1,564,933	$ 5,706,313		7,271,246	2,656,214
Transfer to Boys and Girls Republic, Inc. - Operating Fund		187,308	(187,308)						
Transfers to fund fixed asset acquisitions	(150,911)		(24,065)	174,976					
Adjustment to pension funded status	896,330				896,330			896,330	1,177,079
Transfer to Board Designated Fund	(896,330)		896,330						
Change in net assets (Exhibit D)	351,998	-	2,142,304	(33,039)	2,461,263	5,706,313		8,167,576	3,833,293
Net assets - beginning of year	169,478		6,165,187	1,027,883	7,362,548	11,742,880	$ 14,880,135	33,985,563	30,152,270
Net assets - end of year (Exhibit A)	$ 521,476	$ -	$ 8,307,491	$ 994,844	$ 9,823,811	$ 17,449,193	$ 14,880,135	$ 42,153,139	$ 33,985,563

See independent auditor's report.

The accompanying notes are an integral part of these statements.

HENRY STREET SETTLEMENT AND AFFILIATES

EXHIBIT C

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2014
(With Summarized Financial Information
for the Year Ended June 30, 2013)

	Program Services					Supporting Services				Total	
	Health and Wellness	Arts Center	Education and Employment Training	Shelter and Transitional Housing	Total	Cost of Direct Benefits of Special Events	Management and General	Fund Raising	Total	2014	2013
Salaries	$ 4,391,271	$ 913,411	$ 4,892,137	$ 4,558,440	$ 14,755,259		$ 1,990,722	$ 500,218	$ 2,490,940	$ 17,246,199	$ 16,038,168
Payroll taxes and employee benefits	1,363,495	242,414	1,385,743	1,641,240	4,632,892		722,211	146,582	868,793	5,501,685	5,323,873
Total salaries and related expenses	5,754,766	1,155,825	6,277,880	6,199,680	19,388,151		2,712,933	646,800	3,359,733	22,747,884	21,362,041
Professional fees and contract service payments	1,313,079	699,987	504,308	843,199	3,360,573	$ 5,075	592,758	168,474	766,307	4,126,880	3,480,938
Supplies	199,954	138,835	492,328	582,453	1,413,570	92,865	153,673	39,093	285,631	1,699,201	1,876,984
Telephone and internet	146,976	29,927	137,921	130,290	445,114		80,227	5,654	85,881	530,995	559,697
Postage and shipping	15,068	85,628	29,192	8,077	137,965		59,054	34,367	93,421	231,386	181,340
Occupancy (Note 9)	483,027	143,089	939,663	1,683,408	3,249,187		20,367	634	21,001	3,270,188	3,357,703
Equipment purchases and rentals	160,394	135,695	193,014	342,744	831,847		65,938	33,251	99,189	931,036	1,080,480
Transportation	79,019	7,025	92,326	73,551	251,921		7,730	1,089	8,819	260,740	333,890
Insurance	79,584	27,814	87,302	323,808	518,508		18,722	1,219	19,941	538,449	533,333
Bank charges and custodial fees	473	10,499	7,006		17,978		137,034	10,030	147,064	165,042	136,570
Interest (Note 7)	319,459				319,459					319,459	319,459
Food	1,188,531	16,502	226,580	216,556	1,648,169	220,493	32,497	9,028	262,018	1,910,187	1,589,795
Stipends	290,961	400	95,408		386,769		400		400	387,169	416,593
Membership fees and conferences	6,023	26,636	37,308	18,250	88,217		20,876	9,662	30,538	118,755	52,731
Scholarships			51,662		51,662					51,662	72,774
Depreciation and amortization	84,711	29,606	135,410	344,666	594,393		19,928	1,297	21,225	615,618	585,678
Bad debts	627		1,410	4,980	7,017					7,017	13,861
Miscellaneous											8,166
Total expenses	10,122,652	2,507,468	9,308,718	10,771,662	32,710,500	318,433	3,922,137	960,598	5,201,168	37,911,668	35,962,033
Less expenses deducted directly from revenues on the statement of activities											
Cost of direct benefits of special events						(318,433)			(318,433)	(318,433)	(276,127)
Total expenses reported by function on the statement of activities (Exhibit B)	$ 10,122,652	$ 2,507,468	$ 9,308,718	$ 10,771,662	$ 32,710,500	$ -	$ 3,922,137	$ 960,598	$ 4,882,735	$ 37,593,235	$ 35,685,906

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, 2014 AND 2013

	2014	2013
Cash flows from operating activities		
Change in net assets (Exhibit B)	$ 8,167,576	$ 3,833,293
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation and amortization	615,618	585,678
Contributions restricted for endowment		(1,017,701)
(Gain) loss on sale of investments - net	142,979	(1,387,091)
Unrealized (gain) loss on investments - net	(3,006,721)	259,891
Decrease (increase) in assets		
Due from contracting agencies	2,382,000	(628,199)
Accounts receivable	5,353	(234,720)
Deposits, prepaid expenses and other assets	(301,978)	105,773
Contributions receivable	(3,810,937)	750,020
Increase (decrease) in liabilities		
Accrued salaries and related liabilities	133,305	(56,660)
Accounts and accrued expenses payable	1,813,536	(642,025)
Accrued defined benefit pension plan costs	(1,020,763)	(1,123,197)
Refundable advances	(1,863,957)	(1,074,699)
Net cash provided (used) by operating activities	3,256,011	(629,637)
Cash flows from investing activities		
Purchase of investments	(3,142,105)	(20,277,880)
Proceeds from sale of investments	3,777,651	17,282,132
Purchase of fixed assets	(582,382)	(827,582)
Net cash used by investing activities	53,164	(3,823,330)
Cash flows from financing activities		
Proceeds from contributions restricted for endowment		1,017,701
Net change in cash	3,309,175	(3,435,266)
Cash - beginning of year	5,492,385	8,927,651
Cash - end of year	$ 8,801,560	$ 5,492,385
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	$ -	$ -

See independent auditor's report.

The accompanying notes are an integral part of these statements.

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.

HSHCS did not have any revenue in 2014 and did not have any tax liability.

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.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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, 2013, from which the summarized information was derived.

E. Reclassification

2013 expense amounts by functional category have been reclassified to conform to the current year's presentation. In addition, in 2013 $72,774 of membership fees and conferences was reclassified to scholarships to conform to the current year's presentation.

F. Certificate of Deposit

The certificates of deposit have maturity dates of more than three months and are considered investments for purposes of cash flow reporting.

G. 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.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. *Investments (continued)*

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 3.5% to 4.5% of the portfolio's values. For the year ended June 30, 2014, the distribution amount was set at $1,008,000 (or approximately 3.8%). 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	$ 580,260
Net assets released from program restrictions - satisfaction of income distribution requirement	427,740
	$ 1,008,000

H. *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.

I. *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.

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HENRY STREET SETTLEMENT AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. 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.

K. 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.

L. 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.

M. 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.

N. 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.

O. 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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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

P. 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.

Q. 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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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Q. 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.

R. 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.

S. 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.

T. Program Service Fees

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

U. 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.

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HENRY STREET SETTLEMENT AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

V. 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.

W. 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, 2014 as compared to those used in 2013.

- ***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-

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

W. Fair Value Measurements (continued)

- ***Common and preferred stocks and corporate obligations*** - Valued at the closing price reported on the active market on which the individual securities are traded.

- ***Mutual funds and exchange-traded fund*** - 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, 2014 is included in Note 4.

X. 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, 2011 and subsequent remain subject to examination by applicable taxing authorities.

Y. Subsequent Events

Subsequent events have been evaluated through December 17, 2014, which is the date the financial statements were available to be issued.

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HENRY STREET SETTLEMENT AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014

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:

2014-2015	$ 2,420,515
2015-2016	2,342,000
2016-2017	1,923,500
2017-2018	1,097,000
2018-2019	51,000
	7,834,015
Less discount to present value	(432,391)
	$ 7,401,624

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, 2014:

	Level 1*	Level 3*	Total
Short-term investments	$ 1,118,954		$ 1,118,954
Common and preferred stock			
U.S. large cap equity	5,927,576		5,927,576
U.S. mid cap equity	1,899,959		1,899,959
International equity	4,876,893		4,876,893
	12,704,428		12,704,428
Corporate obligations	3,709,978		3,709,978

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NOTE 4 - INVESTMENTS (continued)

	Level 1*	Level 3*	Total
Mutual funds			
Intermediate government	$ 320,350		$ 320,350
Intermediate-term bonds	7,823		7,823
Large cap - blend	4,259		4,259
Large cap - growth	14,157		14,157
Large cap - value	21,008		21,008
Medium cap - growth	33,924		33,924
Medium cap - blend	1,973,076		1,973,076
Medium cap - value	20,167		20,167
Small cap - value	2,989		2,989
	2,397,753		2,397,753
Exchange-traded fund	266,323		266,323
Alternative investments		$ 6,545,378	6,545,378
Grand total	$ 20,197,436	$ 6,545,378	$ 26,742,814

* 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	$ 5,527,145
Unrealized gain	113,862
Realized gain	6,771
Sales	(92,482)
Purchases	990,082
Balance, end of year	$ 6,545,378
* The amount of total gain for the period included in changes in net assets attributable to the change in unrealized gain relating to assets still held at the reporting date	$ 113,862

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HENRY STREET SETTLEMENT AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 4 - INVESTMENTS (continued)

Level 3 investments (continued)

Fund Name	Redemption Frequency	Notice Period	Description of Fund	Amount
Fund A	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.	$ 607,472
Fund B	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.	682,659

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NOTE 4 - INVESTMENTS (continued)

Level 3 investments (continued)

Fund Name	Redemption Frequency	Notice Period	Description of Fund	Amount
Fund C	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.	$ 549,069
Fund D	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.	721,109
Fund E	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.	562,621
Fund F	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.	714,436

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NOTE 4 - INVESTMENTS (continued)

Level 3 investments (continued)

Fund Name	Redemption Frequency	Notice Period	Description of Fund	Amount
Fund G	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.	$ 541,444
Fund H	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.	823,067
Fund I	Quarterly	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 State 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.	500,000

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NOTE 4 - INVESTMENTS (continued)

Level 3 investments (continued)

Fund Name	Redemption Frequency	Notice Period	Description of Fund	Amount
Fund J	10 years	N/A	The Fund is a leading buyout and growth equity investor that focuses on four industry verticals in North America and Europe: Consumer/Retail, Industrial, Healthcare and Energy.	$ 118,469
Fund K	10 years	N/A	The Fund targets mid-to-late stage private technology companies which have achieved market validation, are scaling rapidly and address large market opportunities with innovative products and services.	134,090
Fund L	11 years	N/A	The Fund seeks to take advantage of the market opportunity by investing in large, industry-leading businesses in Asia. KKR will seek to employ a pan-Asian investment strategy diversified by country, sector, size and structure. The Fund will seek to combine the global resources of KKR with local expertise to develop a tailored investment approach.	124,367
Fund M	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.	373,983

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NOTE 4 - INVESTMENTS (continued)

Level 3 investments (continued)

Fund Name	Redemption Frequency	Notice Period	Description of Fund	Amount
Fund N	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.	$ 92,592
			Total Level 3 investments	$ 6,545,378

NOTE 5 - FIXED ASSETS

		Useful Life
Land	$ 716,984	
Building, building improvements and leasehold improvements	22,542,023	5-40 years
Furniture and equipment	4,351,993	5-25 years
Construction in progress	433,233	
	28,044,233	
Accumulated depreciation and amortization	(17,322,556)	
	$ 10,721,677	

NOTE 6 - LINE OF CREDIT

The Settlement has a $3,000,000 line of credit from Citibank N.A. through December 31, 2014. 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, 2014, 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. Cumulative drawdowns as of June 30, 2014 was $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 was 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%. The Settlement is in the process of obtaining formal release from this liability from DHPD. However, until such release is obtained, the debt will remain on the balance sheet.

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NOTE 7 - MORTGAGES PAYABLE

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, 2014, 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, 2014. Cumulative interest of $336,493 was accrued as of June 30, 2014. 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, 2014, 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, 2014, 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 2014 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 2014.

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, 2014, the balance in the accounts totaled $102,663.

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NOTE 8 - PENSION PLANS

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, 2014, and employer contributions, benefits paid and net periodic pension plan cost for the year then ended.

Benefit obligation	$ (14,682,906)
Fair value of plan assets	12,114,008
Funded status	$ (2,568,898)
Accrued benefit cost recognized in the balance sheet	$ (2,568,898)
Employer contributions	825,000
Benefits paid	1,096,606
Net periodic pension plan cost (including $198,725 of settlement charge)	700,567
Weighted average assumptions as of June 30	
Discount rate	3.99%
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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NOTE 8 - PENSION PLANS (continued)

	Level 1*
Mutual funds	
Large cap - blend	$ 11,950,953
Short-term investments	90,725
Accrued income	72,330
Grand total	$ 12,114,008

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

The Settlement expects to contribute $900,000 to the defined-benefit pension plan in fiscal year 2015. Benefit payments, reflecting expected future service, are actuarially calculated and projected as follows:

2015	$ 820,548
2016	823,978
2017	818,430
2018	843,610
2019	855,000
2020-End	4,156,243

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, 2014 totaled $687,142.

The Settlement maintains 457(b) and 457(f) deferred compensation arrangements for certain employees. Pension expense of $27,160 was recorded for the fiscal year ended June 30, 2014 in connection with these plans. As of June 30, 2014, the unfunded balance totaled $0.

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NOTE 9 - OCCUPANCY

Included within occupancy costs is rent expense (exclusive of in-kind rentals) of $434,236 for the year ended June 30, 2014. 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:

2014-2015	$ 286,040
2015-2016	291,761
2016-2017	297,597
2017-2018	303,548
2018-2019	309,619
Thereafter	965,418
	$ 2,453,983

The Settlement and its affiliates provide program services from several locations for which rent is not currently being charged. In 2014, 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 2014 was $2,321,236.

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, 2014. Rental income for the year ended June 30, 2014 was $651,258. Future minimum rentals through June 30, 2015 are $614,016.

The Settlement rented out space, including theater facilities, under per diem lease arrangements. Rental income for the year ended June 30, 2014 was $131,121.

NOTE 12 - NET ASSETS

Temporarily Restricted Funds

At June 30, 2014, temporarily restricted net assets are available for the following purposes:

Arts programs	$ 1,457,430
Capital campaign	10,218,343
Community and social development	1,533,141
Millennium campaign	761,426
Workforce Development Center	1,591,347
Youth activities	1,087,021
Youth programs - BGR	800,485
	$ 17,449,193

NOTE 12 - NET ASSETS (continued)

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	$ 627,064
Community and social development	1,741,935
Workforce Development Center	1,121,028
Youth activities	585,106
Youth programs - BGR	217,641
	4,292,774
Income distribution requirements	
Arts programs	108,855
Millennium campaign	37,347
Workforce Development Center	101,216
Youth activities	106,981
Youth programs - BGR	73,341
	427,740
Satisfaction of capital acquisition restrictions	407,406
Total	$ 5,127,920

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.

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NOTE 12 - NET ASSETS (continued)

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

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.

Endowment Net Asset Composition by Type of Fund

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

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NOTE 12 - NET ASSETS (continued)

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

Changes in Endowment Net Assets for the Year Ended June 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year		$ 2,542,568	$ 14,880,135	$ 17,422,703
Contributions				
Interest and dividends		205,059		205,059
Net realized and unrealized gain on investment		1,200,454		1,200,454
Appropriated for expenditures	$ 427,740	(427,740)		
Expenses	(427,740)			(427,740)
Endowment net assets, end of year	$ -	$ 3,520,341	$ 14,880,135	$ 18,400,476

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.