

Henry Street Settlement and Affiliates

Consolidated Financial Statements

June 30, 2016

Independent Auditors' Report

Board of Directors Henry Street Settlement and Affiliates

We have audited the accompanying consolidated financial statements of Henry Street Settlement and Affiliates, which comprise the consolidated statement of financial position as of June 30, 2016, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

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.

Auditors' 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 auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 consolidated financial position of the Henry Street Settlement and Affiliates as of June 30, 2016, and the changes in their consolidated net assets and their consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The consolidated financial statements of Henry Street Settlement and Affiliates, Inc. as of June 30, 2015, were audited by other auditors whose report dated January 28, 2016, expressed an unmodified opinion on those statements.

PKF O'Connor Davies, LLP

Harrison, New York
February 28, 2017

Henry Street Settlement and Affiliates

Consolidated Statement of Financial Position
June 30, 2016
(with comparative amounts at June 30, 2015)

	2016	2015
ASSETS		
Cash (Note 13)	\$ 3,428,452	\$ 3,942,301
Investments (Note 3)	27,529,910	32,061,268
Due from contracting agencies, net (Note 2)	6,681,358	5,832,612
Accounts receivable, net (Note 2)	250,759	298,320
Deposits, prepaid expenses and other assets	589,620	245,014
Contributions receivable (Note 4)	5,476,860	5,606,485
Fixed assets, net (Note 5)	13,818,344	12,061,746
	\$ 57,775,303	\$ 60,047,746
LIABILITIES AND NET ASSETS		
Liabilities		
Accrued salaries and related liabilities	\$ 1,270,697	\$ 1,050,802
Accounts and accrued expenses payable	2,050,327	2,485,007
Refundable advances (Note 2)	2,898,887	2,914,754
Accrued defined benefit pension plan liability (Note 6)	3,041,619	2,213,111
Mortgages payable (Note 8)	7,911,173	7,911,173
Total Liabilities	17,172,703	16,574,847
Net Assets		
Unrestricted		
Operating fund	214,631	145,663
Board designated fund	4,632,171	8,021,152
Plant fund	5,552,306	4,204,353
Total Unrestricted	10,399,108	12,371,168
Temporarily restricted (Note 9)	15,323,357	16,221,596
Permanently restricted (Note 9)	14,880,135	14,880,135
Total Net Assets	40,602,600	43,472,899
	\$ 57,775,303	\$ 60,047,746

See notes to consolidated financial statements

Henry Street Settlement and Affiliates

Consolidated Statement of Activities

Year ended June 30, 2016

(with summarized totals for the year ended June 30, 2015)

	Unrestricted				Temporarily Restricted	Permanently Restricted	Total	
	Operating Fund	Board Designated Fund	Plant Fund	Total			2016	2015
REVENUES, GAINS AND OTHER SUPPORT								
Contributions	\$ 1,017,226	\$ -	\$ -	\$ 1,017,226	\$ 3,642,900	\$ -	\$ 4,660,126	\$ 5,546,505
Contributions, Capital Campaign	-	-	-	-	2,442,046	-	2,442,046	483,908
Special events, less costs of direct benefit to donors of \$142,429 and \$268,428	1,072,608	-	-	1,072,608	-	-	1,072,608	1,737,183
Legacies and bequests	-	193,338	-	193,338	-	-	193,338	259,593
Grants and fees from contracting agencies	27,578,153	-	-	27,578,153	-	-	27,578,153	27,021,449
Program service fees	2,903,525	-	-	2,903,525	-	-	2,903,525	2,385,061
Realized gains on sale of investments	-	161,902	-	161,902	115,875	-	277,777	825,003
Unrealized losses on investments	-	(760,051)	-	(760,051)	(546,725)	-	(1,306,776)	(488,357)
Interest and dividends	2,088	315,043	-	317,131	241,990	-	559,121	488,549
Income distribution	689,300	(689,300)	-	-	-	-	-	-
Rental revenue (Note 11)	793,808	-	-	793,808	-	-	793,808	718,601
Other income	200,026	-	-	200,026	-	-	200,026	129,547
Net assets released from restrictions (Note 9)	4,964,447	-	1,829,878	6,794,325	(6,794,325)	-	-	-
Total Revenues, Gains and Other Support	39,221,181	(779,068)	1,829,878	40,271,991	(898,239)	-	39,373,752	39,107,042
EXPENSES								
Program Services								
Health and wellness	\$ 10,047,057	\$ -	\$ 90,473	\$ 10,137,530	\$ -	\$ -	\$ 10,137,530	\$ 9,693,316
Arts center	2,841,051	-	29,038	2,870,089	-	-	2,870,089	2,644,778
Youth and employment training	10,714,051	-	107,028	10,821,079	-	-	10,821,079	10,573,769
Shelter and transitional housing	11,610,490	-	370,344	11,980,834	-	-	11,980,834	11,425,337
Total Program Services	35,212,649	-	596,883	35,809,532	-	-	35,809,532	34,337,200
Supporting Services								
Management and general	3,886,502	-	19,545	3,906,047	-	-	3,906,047	4,090,403
Fundraising	1,082,724	-	1,272	1,083,996	-	-	1,083,996	1,020,023
Total Supporting Services	4,969,226	-	20,817	4,990,043	-	-	4,990,043	5,110,426
Total Expenses	40,181,875	-	617,700	40,799,575	-	-	40,799,575	39,447,626
Change in net assets before other changes	(960,694)	(779,068)	1,212,178	(527,584)	(898,239)	-	(1,425,823)	(340,584)
OTHER CHANGES								
Transfers to fund fixed assets acquisitions	(135,775)	-	135,775	-	-	-	-	-
Pension liability adjustment	(1,444,476)	-	-	(1,444,476)	-	-	(1,444,476)	(257,982)
Transfer to operating fund	2,609,913	(2,609,913)	-	-	-	-	-	-
Satisfaction of mortgage requirement (Note 8)	-	-	-	-	-	-	-	1,918,326
Change in Net Assets	68,968	(3,388,981)	1,347,953	(1,972,060)	(898,239)	-	(2,870,299)	1,319,760
NET ASSETS								
Beginning of year, as restated (Note 15)	145,663	8,021,152	4,204,353	12,371,168	16,221,596	14,880,135	43,472,899	42,153,139
End of year	\$ 214,631	\$ 4,632,171	\$ 5,552,306	\$ 10,399,108	\$ 15,323,357	\$ 14,880,135	\$ 40,602,600	\$ 43,472,899

See notes to consolidated financial statements

Henry Street Settlement and Affiliates

Consolidated Statement of Functional Expenses
Year ended June 30, 2016
(with summarized totals for the year ended June 30, 2015)

	Program Services				Supporting Services				Total		
	Health and Wellness	Arts Center	Youth and Employment Training	Shelter and Transitional Housing	Total	Management and General	Fundraising	Direct Cost of Special Events	Total	2016	2015
Salaries	\$ 4,238,787	\$ 1,310,187	\$ 5,959,980	\$ 4,700,315	\$ 16,209,269	\$ 2,323,643	\$ 695,402	\$ -	\$ 3,019,045	\$ 19,228,314	\$ 18,219,057
Payroll taxes and employee benefits	1,354,585	292,561	1,669,408	1,768,068	5,084,622	497,246	205,281	-	702,527	5,787,149	5,640,789
Total Salaries and Related Expenses	5,593,372	1,602,748	7,629,388	6,468,383	14,825,508	2,820,889	900,683	-	3,721,572	25,015,463	23,859,846
Professional fees and contract service payments	1,370,806	507,524	567,627	1,251,076	3,697,033	437,382	75,507	624	513,513	4,210,546	4,197,460
Supplies	231,390	130,275	621,808	697,596	1,681,069	90,029	22,983	19,522	132,534	1,813,603	1,893,308
Telephone	148,318	32,432	131,783	131,529	444,062	184,743	5,032	-	189,775	633,837	523,516
Postage and shipping	11,012	111,607	22,239	12,886	157,744	72,066	40,235	-	112,301	270,045	287,337
Occupancy expense (Note 12)	568,749	147,319	888,096	1,736,260	3,340,424	21,202	3,836	-	25,038	3,365,462	3,259,056
Equipment purchases and rentals	111,966	212,239	157,053	433,580	914,838	61,999	15,821	18,808	96,628	1,011,466	1,132,408
Transportation	96,079	29,384	133,152	62,324	320,939	23,158	1,284	-	24,442	345,381	348,478
Insurance	74,781	24,001	66,624	306,111	471,517	16,156	1,052	-	17,208	488,725	480,709
Bank charges and custodial fees	616	10,942	8,573	45	20,176	100,459	3,410	-	103,869	124,045	111,617
Interest	-	-	-	257,113	257,113	-	-	-	-	257,113	257,113
Food	1,539,121	26,583	272,677	239,491	2,077,872	49,103	9,770	103,475	162,348	2,240,220	2,117,324
Stipends	294,882	-	71,030	3,090	369,002	-	-	-	-	369,002	404,476
Membership fees and conferences	5,965	5,997	43,025	11,006	65,993	9,291	3,111	-	12,402	78,395	82,321
Scholarships	-	-	100,976	-	100,976	-	-	-	-	100,976	106,388
Depreciation and amortization	90,473	29,038	107,028	370,344	596,883	19,545	1,272	-	20,817	617,700	614,529
Bad debt expense	-	-	-	-	-	-	-	-	-	-	40,168
Miscellaneous	-	-	-	-	-	25	-	-	25	25	-
Total Expenses	10,137,530	2,870,089	10,821,079	11,980,834	35,809,532	3,906,047	1,083,996	142,429	5,132,472	40,942,004	39,716,054
Less direct costs of special events	-	-	-	-	-	-	-	(142,429)	(142,429)	(142,429)	(268,428)
Total Expenses Reported by Function on the Statement of Activities	\$ 10,137,530	\$ 2,870,089	\$ 10,821,079	\$ 11,980,834	\$ 35,809,532	\$ 3,906,047	\$ 1,083,996	\$ -	\$ 4,990,043	\$ 40,799,575	\$ 39,447,626

Henry Street Settlement and Affiliates

Consolidated Statement of Cash Flows
Year ended June 30, 2016
(with comparative amounts for the year ended June 30, 2015)

	2016	2015
CASH FLOW FROM OPERATING ACTIVITIES		
Change in net assets	\$ (2,870,299)	\$ 1,319,760
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	617,700	614,529
Satisfaction of mortgage requirements	-	(1,918,326)
Bad debt expense	-	40,168
Realized gains on sale of investments	(277,777)	(825,003)
Unrealized losses on investments	1,306,776	488,357
Pension liability adjustment	1,444,476	257,982
Changes in operating assets and liabilities		
Due from contracting agencies	(848,746)	(1,537,775)
Accounts receivable	47,561	(105,473)
Deposits, prepaid expenses and other assets	(344,606)	279,585
Contributions receivable	129,625	1,795,139
Accrued salaries and related liabilities	219,895	118,903
Accounts and accrued expenses payable	(434,680)	(782,958)
Refundable advances	(15,867)	(173,084)
Accrued defined benefit pension plan liability	(615,968)	(613,769)
	(1,641,910)	(1,041,965)
Net Cash from Operating activities		
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of investments	(3,464,849)	(8,584,840)
Proceeds from sale of investments	6,967,208	6,722,144
Purchase of fixed assets	(2,374,298)	(1,954,598)
	1,128,061	(3,817,294)
Net Cash from Investing Activities		
Net Change in Cash	(513,849)	(4,859,259)
CASH		
Beginning of year	3,942,301	8,801,560
End of year	\$ 3,428,452	\$ 3,942,301

See notes to consolidated financial statements

Henry Street Settlement and Affiliates

Notes to Consolidated Financial Statements
June 30, 2016 and 2015

1. Organization and Taxation

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

Henry Street is the parent company of the following entities which are consolidated within these financial statements, and are collectively referred to as the Settlement:

- 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 Corporation d/b/a Health Unlimited (“HUL”)

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

2. Summary of Significant Accounting Policies

Principles of Consolidation

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

Basis of Presentation and Use of Estimates

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

Resources are classified for accounting and reporting purposes into net asset classes according to donor imposed restrictions. Unrestricted net assets are those whose use is not subject to any donor imposed restrictions. 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:

Henry Street Settlement and Affiliates

Notes to Consolidated Financial Statements
June 30, 2016 and 2015

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

Basis of Presentation and Use of Estimates (continued)

- 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 of Directors.

Temporarily restricted net assets are those resulting from contributions and other inflows of assets whose use by the Settlement is limited by donor imposed stipulations that will be met either by passage of time or that can be fulfilled and removed by actions of the Settlement pursuant to those stipulations. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions. Permanently restricted net assets are donor restricted gifts that must be maintained permanently by the Settlement to provide present and future income for operations.

Summarized Financial Information

The consolidated financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Settlement’s financial statements for the year ended June 30, 2015, from which the summarized information was derived.

Fair Value Measurement

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

Henry Street Settlement and Affiliates

Notes to Consolidated Financial Statements
June 30, 2016 and 2015

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

Fair Value Measurement (continued)

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

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

During 2016, the Settlement adopted new U.S. GAAP guidance which removed the requirement to categorize within the fair value hierarchy alternative investments where fair value is measured using the Net Asset Value ("NAV") per share as a practical expedient. Adoption of this guidance was applied retrospectively and had no effect on the carrying value of such investments.

Investments Valuation

Investments are carried at fair value.

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

Funds are to be distributed at a level amount to be determined annually within a range of 3.5% to 4.5% of the portfolio's values. The distribution amount was set at \$1,218,000 (or approximately 4.5%) and \$1,053,000 (approximately 4%) for the years ended June 30, 2016 and 2015. The distribution is allocated between income distribution from the Board Designated Fund and net assets released from restrictions (provided sufficient expenses were incurred to demonstrate that restrictions were satisfied) based on the current value of the funds associated with these investments.

This amount is reflected in the Operating Fund as follows as of June 30:

	2016	2015
Income distribution - Board Designated Fund	\$ 689,300	\$ 602,477
Net assets released from restrictions - satisfaction of income distribution requirement (See Note 9)	<u>528,700</u>	<u>450,523</u>
	<u>\$ 1,218,000</u>	<u>\$ 1,053,000</u>

Henry Street Settlement and Affiliates

Notes to Consolidated Financial Statements
June 30, 2016 and 2015

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

Investment Income Recognition

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

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.

Due from Contracting Agencies and Accounts Receivable

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.

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. The allowance for doubtful accounts amounted to \$34,000 and \$38,000 at June 30, 2016 and 2015.

Fixed Assets

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

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

Henry Street Settlement and Affiliates

Notes to Consolidated Financial Statements
June 30, 2016 and 2015

2. Summary of Significant Accounting Policies (continued)

Impairment of Long-Lived Assets

Long-lived assets such as property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Settlement records impairment losses on long lived assets used in operation when the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets. No impairment charges were recognized during the years ended June 30, 2016 and 2015.

Asset Retirement Obligations

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

Refundable Advances

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

Contributions and Contributions – Capital Campaign

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.

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.

Henry Street Settlement and Affiliates

Notes to Consolidated Financial Statements
June 30, 2016 and 2015

2. Summary of Significant Accounting Policies (continued)

Grants and Fees from Contracting Agencies

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

Revenues from fee-for-service and reimbursement contracts with New York State and New York City are recorded at rates established by the governmental payors.

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

The Settlement receives certain funding for its programs in the form of operational grants, which usually run for a period of one year or longer. 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.

Program Service Fees

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

Functional Allocation of Expenses

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.

Advertising Costs

Advertising costs are expensed when incurred. Advertising costs for the year ended June 30, 2016 and 2015 were \$51,184 and \$37,497.

Accounting for Uncertainty in Income Taxes

The Settlement recognizes the effect of tax positions only when they are more likely than not to be sustained. Management has determined that the Settlement had no uncertain tax positions that would require financial statement recognition or disclosure. The Settlement is no longer subject to examinations by the applicable taxing jurisdictions for periods prior to June 30, 2013.

Henry Street Settlement and Affiliates

Notes to Consolidated Financial Statements
June 30, 2016 and 2015

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

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is February 28, 2017.

3. Investments

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

	June 30, 2016		June 30, 2015	
	Level 1	Total	Level 1	Total
Short-term investments	\$ 1,346,060	\$ 1,346,060	\$ 1,255,993	\$ 1,255,993
Common and preferred stock				
U.S. large cap equity	3,533,146	3,533,146	4,685,352	4,685,352
U.S. mid cap equity	1,147,913	1,147,913	1,819,857	1,819,857
U.S. small cap equity	255,262	255,262	244,635	244,635
International equity	4,763,913	4,763,913	5,614,026	5,614,026
	<u>9,700,234</u>	<u>9,700,234</u>	<u>12,363,870</u>	<u>12,363,870</u>
Corporate obligations	<u>5,232,311</u>	<u>5,232,311</u>	<u>3,767,691</u>	<u>3,767,691</u>
Mutual funds				
Intermediate government	339,157	339,157	333,617	333,617
Intermediate-term bonds	8,278	8,278	7,877	7,877
Large cap-blend	4,348	4,348	4,481	4,481
Large cap-growth	15,150	15,150	16,582	16,582
Large cap-value	22,707	22,707	21,953	21,953
Medium cap-growth	33,508	33,508	36,404	36,404
Medium cap-value	19,924	19,924	20,763	20,763
Small cap-value	2,874	2,874	3,002	3,002
Real estate and commodities	1,679,945	1,679,945	1,915,715	1,915,715
	<u>2,125,891</u>	<u>2,125,891</u>	<u>2,360,394</u>	<u>2,360,394</u>
Exchange-traded funds	<u>223,249</u>	<u>223,249</u>	<u>231,064</u>	<u>231,064</u>
	<u>\$ 18,627,745</u>	18,627,745	<u>\$ 19,979,012</u>	19,979,012
Certificates of deposit		3,043,396		5,137,867
Investment in limited partnerships (1)		<u>5,858,769</u>		<u>6,944,389</u>
		<u>\$ 27,529,910</u>		<u>\$ 32,061,268</u>

Henry Street Settlement and Affiliates

Notes to Consolidated Financial Statements
June 30, 2016 and 2015

3. Investments *(continued)*

(1) As discussed in Note 2, investments that are measured using the practical expedient are not classified within the fair value hierarchy. The fair value amounts presented in the total column of this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statements of financial position.

During the years ended June 30, 2016 and 2015, there were no transfers in or out of Levels 1, 2, or 3 of the fair value. Information regarding alternative investments measured at NAV using the practical expedient are as follows at June 30:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Equity long/short hedge funds (a)	\$ 4,419,269	None	varies	7-70 days
Private equity (b)	1,439,500	\$ 1,308,192	10-11 years	N/A
Total	\$ 5,858,769	\$ 1,308,192		

(a) This category includes investments in hedge funds that invest both long and short primarily in U.S. common stocks. Management of the hedge funds has the ability to shift investments from value to growth strategies, from small to large capitalization stocks, and from a net long position to a net short position. The fair values of the investments in this category have been estimated using the net asset value per share of the investments. Investments representing approximately 20 percent of the value of the investments in this category cannot be redeemed because the investments include restrictions that do not allow for redemption in the first 12 to 18 months after acquisition. The remaining restriction period for these investments ranged from 7 to 70 days.

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

4. Contributions Receivable

Contributions receivable have been reflected at present value. Those receivables that are due in more than one year have been discounted at 4.25% and are due as follows at June 30:

	2016	2015
Receivable in less than one year	\$ 4,408,422	\$ 2,697,135
Receivable in one to five years	1,162,000	3,222,834
Discount to present value	(93,562)	(313,484)
	\$ 5,476,860	\$ 5,606,485

Henry Street Settlement and Affiliates

Notes to Consolidated Financial Statements
June 30, 2016 and 2015

5. Fixed Assets

Fixed assets consist of the following at June 30:

	<u>2016</u>	<u>2015</u>
Land	\$ 716,984	\$ 716,984
Building, building improvements and leasehold improvements	23,983,936	23,017,586
Furniture and equipment	4,410,850	4,351,993
Construction in progress	<u>3,261,359</u>	<u>1,912,268</u>
	32,373,129	29,998,831
Accumulated depreciation and amortization	<u>(18,554,785)</u>	<u>(17,937,085)</u>
	<u>\$ 13,818,344</u>	<u>\$ 12,061,746</u>

6. Pensions

(a) Defined Benefit Pension Plan

The Settlement sponsors a noncontributory defined benefit pension plan (the "Plan") that provides retirement and death benefits which covers substantially all employees. Benefits are based upon years of service and salaries earned during the highest five consecutive years. The Settlement's funding policy is to contribute an amount at least equal to the minimum required contribution under the Employee Retirement Income Security Act of 1974, as amended.

On October 31, 2005, the Settlement made a decision to freeze the Plan and continue funding it only for existing participants. The Plan is currently in the process of termination, after receiving approval in October 2016 by the Internal Revenue Services approval in October 2016, and is expected to be terminated by February 2017.

Henry Street Settlement and Affiliates

Notes to Consolidated Financial Statements
June 30, 2016 and 2015

6. Pensions (continued)

(a) Defined Benefit Pension Plan (continued)

The following sets forth the Plan's funded status and amounts recognized in the consolidated statements of financial position at June 30:

	2016	2015
Benefit obligation	\$ (14,621,123)	\$ (14,226,799)
Fair value of plan assets	11,579,504	12,013,688
Funded status	\$ (3,041,619)	\$ (2,213,111)
Accumulated benefit obligation	\$ (14,621,123)	\$ (14,226,799)
Net pension cost recognized in consolidated statement of activities	284,032	286,231
Amortization of amounts previously not recognized as a component of net periodic cost	330,898	46,015
Accrued pension cost recognized in consolidated statement of financial position	3,041,619	2,213,111
Employer contributions to plan during the year	900,000	900,000
Employee contributions to plan during the year	-	-
Benefits paid	1,277,988	1,247,530

The following are weighted-average assumptions used to determine benefit obligations and net periodic benefit cost as of and for the years ended June 30:

	2016	2015
Weighted average assumptions as of June 30		
Discount rate	4.06%	4.06%
Expected return on plan assets	4.00%	4.00%
Rate of compensation increase (until October 31, 2005)	5.50%	5.50%

The table below reflects amounts recognized in unrestricted net assets at June 30, that have not yet been recognized in net periodic benefit costs:

	2016	2015
Unrecognized actuarial loss	\$ 4,363,271	\$ 2,918,795

For 2017, the amount that is expected to be recognized in net periodic pension costs is \$376,774.

Henry Street Settlement and Affiliates

Notes to Consolidated Financial Statements
June 30, 2016 and 2015

6. Pensions (continued)

(a) Defined Benefit Pension Plan (continued)

Asset Category

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 all plans, this rate is subject to review and may be revised in either direction in future disclosures.

	<u>2016</u>	<u>2015</u>
Short-term investments (Level 1)*	\$ 11,579,504	\$ 59,470
Mutual Funds - large cap blend (Level 1)*	<u>-</u>	<u>11,954,218</u>
	<u>\$ 11,579,504</u>	<u>\$ 12,013,688</u>

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

Contribution

The Settlement does not expect to contribute anything to the Plan in 2017.

Expected Future Benefit Payments

Benefit payments, which reflect expected future service, are expected to be paid as of June 30 as follows:

2017	\$ 1,192,475
2018	849,718
2019	851,476
2020	839,225
2021	873,062
Thereafter	<u>4,595,339</u>
	<u>\$ 9,201,295</u>

Henry Street Settlement and Affiliates

Notes to Consolidated Financial Statements
June 30, 2016 and 2015

6. Pensions (continued)

(b) Defined Contribution Plan

The Settlement provides a 403(b) defined contribution plan and contributes 5% of base salary for eligible employees. Contributions for the years ended June 30, 2016 and 2015 totaled \$792,524 and \$760,446.

(c) Defined Compensation Plan

The Settlement maintains a 457(b) deferred compensation arrangement for certain employees. Pension expense of \$39,455 and \$22,901 were recorded for the years ended June 30, 2016 and 2015 in connection with this plan. As of June 30, 2016 and 2015, there was no unfunded balance.

7. Line of Credit

The Settlement has a \$5,000,000 line of credit through October 31, 2017. Interest is charged at a rate of London Interbank Offered Rate plus 1% and is secured by the assets of the Endowment invested. During this fiscal year, there were no drawings on this line of credit.

The Settlement also had a \$3,000,000 line of credit through December 31, 2015. Interest is charged at the Prime Rate and the loan is secured by investments held by the Settlement. During 2016 there were no drawings on this line of credit. As of June 30, 2016, the interest rate was 3.25%. The line of credit was not renewed past the December 2015 renewal date.

8. Mortgages Payable

The balances due to the following organizations at June 30 are as follows:

	<u>2016</u>	<u>2015</u>
Department of Housing Preservation and Development (a)	\$ 5,013,173	\$ 5,013,173
Federal Home Loan Bank (b)	530,000	530,000
Homeless Housing Assistance Corporation (c)	<u>2,368,000</u>	<u>2,368,000</u>
	<u>\$ 7,911,173</u>	<u>\$ 7,911,173</u>

Henry Street Settlement and Affiliates

Notes to Consolidated Financial Statements
June 30, 2016 and 2015

8. Mortgages Payable (*continued*)

On May 31, 1989, HSHDFC received a 15-year mortgage commitment for \$2,066,329 from the Department of Housing Preservation and Development (“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, HSHDFC has 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, 2016 and 2015 were \$1,918,326. The mortgage did not bear interest. In February 2015, the Settlement obtained formal release from this liability from DHPD, and was recognized as a satisfaction of mortgage requirements.

In May 2005, the SHSHDFC entered into a construction financing agreement with the DHPD, in 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.

- (a) The total amount available from DHPD is \$5,465,523. As of June 30, 2016 and 2015, cumulative funds drawn down were \$5,013,173. Interest accrues at 1% beginning 270 days after substantial completion of construction, which was January 1, 2007. Interest of \$50,132 were accrued for the year ended June 30, 2016. Cumulative interest of \$436,757 and \$386,625 were accrued as of June 30, 2016 and 2015. The loan principal and accrued interest will be deemed satisfied in 2037 after operating the project in conformance with requirements for 30 years.
- (b) The total amount available from FHLB was \$530,000. As of June 30, 2016 and 2015, 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.
- (c) The total amount available for borrowing from HHAC was \$2,368,000. As of June 30, 2016 and 2015, cumulative funds drawn down were \$2,368,000. The mortgage does not bear interest. The loan principal will be deemed satisfied in 2032 after operating the project in conformance with requirements for 25 years.

Management intends to conform to the requirements of each loan.

As these financing arrangements bear no interest or below-market interest rates, in accordance with U.S. GAAP, an in-kind contribution of \$206,981 was included in grants and fees from contracting agencies and interest expense on the statement of activities to reflect the estimated value of contributed interest. Imputed interest expense was calculated at the weighted average prime rate which was 3.25% in 2016.

Henry Street Settlement and Affiliates

Notes to Consolidated Financial Statements
June 30, 2016 and 2015

9. Restricted Net Assets

Temporarily restricted net assets were available for the following purposes at June 30 :

	2016	2015 (As restated)
Arts program	\$ 1,104,834	\$ 1,344,279
Capital campaign	9,731,048	9,081,532
Community and social development	1,396,789	1,960,922
Millennium campaign	690,323	762,346
Workforce development center	920,726	1,221,632
Youth activities	813,567	1,062,447
Youth programs (BGR)	666,070	788,438
	<u>\$ 15,323,357</u>	<u>\$ 16,221,596</u>

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

	2016	2015
Satisfaction of program restrictions		
Arts programs	\$ 637,539	\$ 536,402
Community and social development	1,721,062	1,524,201
Workforce development center	1,307,868	1,398,227
Youth activities	482,359	365,791
Youth programs (BGR)	286,919	269,815
	<u>4,435,747</u>	<u>4,094,436</u>
Income distribution requirement		
Arts programs	130,217	112,699
Millennium campaign	47,601	41,050
Workforce development center	122,157	105,669
Youth activities	129,865	112,022
Youth programs (BGR)	98,860	79,083
	<u>528,700</u>	<u>450,523</u>
Satisfaction of capital restrictions	<u>1,829,878</u>	<u>1,606,962</u>
	<u>\$ 6,794,325</u>	<u>\$ 6,151,921</u>

Henry Street Settlement and Affiliates

Notes to Consolidated Financial Statements
June 30, 2016 and 2015

9. Restricted Net Assets (*continued*)

Permanently restricted net assets consist of the following at June 30:

	<u>2016</u>	<u>2015</u>
Arts program	\$ 2,373,168	\$ 2,373,168
Other Youth Programs (BGR)	1,442,881	1,442,881
Youth Summer Camp (BGR)	368,835	368,835
General purposes	6,771,237	6,771,237
Workforce development center	2,000,000	2,000,000
Youth activities	<u>1,924,014</u>	<u>1,924,014</u>
	<u>\$ 14,880,135</u>	<u>\$ 14,880,135</u>

10. Endowment Fund

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.

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

Interpretation of Relevant Law

The Board of Directors of the Settlement has adopted 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.

Henry Street Settlement and Affiliates

Notes to Consolidated Financial Statements
June 30, 2016 and 2015

10. Endowment Fund *(continued)*

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

The following is a reconciliation of the activity in the donor restricted endowment funds portion of the investment portfolio for the years ended June 30, 2016 and 2015:

	Temporarily Restricted	Permanently Restricted	Total
Balance, June 30, 2015	\$ 3,415,740	\$ 14,880,135	\$ 18,295,875
Interest and dividends	217,642	-	217,642
Investment loss, net	(430,850)	-	(430,850)
Appropriation for expenditure	(528,700)	-	(528,700)
Balance, June 30, 2016	\$ 2,673,832	\$ 14,880,135	\$ 17,553,967
	Temporarily Restricted	Permanently Restricted	Total
Balance, June 30, 2014	\$ 3,520,341	\$ 14,880,135	\$ 18,400,476
Interest and dividends	205,705	-	205,705
Investment gain, net	140,217	-	140,217
Appropriation for expenditure	(450,523)	-	(450,523)
Balance, June 30, 2015	\$ 3,415,740	\$ 14,880,135	\$ 18,295,875

Henry Street Settlement and Affiliates

Notes to Consolidated Financial Statements
June 30, 2016 and 2015

11. Rental Income

The Settlement leases apartments to qualifying low-income individuals under one-year non-cancelable leases expiring through June 30, 2016. Rental income was \$644,751 and \$629,706 for the years ended June 30, 2016 and 2015.

The Settlement rented out space, including theater facilities, under per diem lease arrangements. Rental income totaled \$149,057 and \$88,895 for the years ended June 30, 2016 and 2015.

12. Occupancy Expense

Included within occupancy costs is rent expense (exclusive of in-kind rentals) of \$489,956 and \$446,372 for the years ended June 30, 2016 and 2015. 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:

2017	\$ 1,192,475
2018	849,718
2019	851,476
2020	839,225
2021	873,062
Thereafter	<u>4,595,339</u>
	<u>\$ 9,201,295</u>

The Settlement and its affiliates provide program services from several locations for which rent is not currently being charged. In accordance with U.S. GAAP, the value of an in-kind contribution was included in grants and fees from contracting agencies and occupancy expense to reflect the estimated fair value of contributed rent. The value of an in-kind rental totaled \$1,911,000 and \$1,887,000 for the years ended June 30, 2016 and 2015. Total rent expense (including in-kind rentals) was \$2,400,956 and \$2,333,372 for 2016 and 2015.

13. Concentration of Credit Risk

Financial instruments that potentially subject the Settlement to concentrations of credit risk consist primarily of cash, investments and contributions receivable. Approximately 63% and 68% of the Settlement's contributions receivable is from one donor as of June 30, 2016 and 2015. The amount of this one contribution receivable as of June 30, 2016 and 2015 is \$3,500,000 and \$4,000,000, and comes from a long-standing donor to the Settlement. At times, the cash balance may be in excess of the Federal Deposit Insurance Corporation's insurance limits. The investment portfolio is diversified by type of investments and industry concentrations so that no individual investment or group of investments represents a significant concentration of risk.

Henry Street Settlement and Affiliates

Notes to Consolidated Financial Statements
June 30, 2016 and 2015

13. Concentration of Credit Risk *(continued)*

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.

14. Contingencies

The Settlement is subject to numerous laws and regulations imposed by federal state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation as well as regulatory actions unknown and unasserted at this time. In addition, certain cost reports which serve as the basis for final settlement with the Medicare program, remain open for audit and settlement, as are New York State Medicaid cost reports for prior years.

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

15. Restatement of Prior Year Net Assets

During the fiscal year ended June 30, 2016, management identified certain net assets that had been reported as temporarily restricted net assets should have been reported as unrestricted net assets. As a result, certain net assets have been reclassified, and the Settlement has restated its 2015 ending net assets as follows:

	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Net assets at July 1, 2015, as previously reported	\$ 43,472,899	\$ 11,901,168	\$ 16,691,596	\$ 14,880,135
Adjustments to net assets				
Reclassification of temporarily restricted and unrestricted net assets	<u>-</u>	<u>470,000</u>	<u>(470,000)</u>	<u>-</u>
Net assets at July 1, 2015, as restated	<u>\$ 43,472,899</u>	<u>\$ 12,371,168</u>	<u>\$ 16,221,596</u>	<u>\$ 14,880,135</u>

* * * * *