

Henry Street Settlement and Affiliates

Consolidated Financial Statements

June 30, 2017

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, 2017, 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, 2017, and the consolidated 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' 2016 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated February 28, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

PKF O'Connor Davies, LLP

February 12, 2018

Henry Street Settlement and Affiliates

Consolidated Statement of Financial Position
June 30, 2017
(with comparative amounts at June 30, 2016)

	2017	2016
ASSETS		
Cash (Note 13)	\$ 2,018,478	\$ 3,428,452
Investments (Note 3)	26,964,167	27,529,910
Due from contracting agencies, net (Note 2)	7,336,189	6,681,358
Accounts receivable, net (Note 2)	475,575	250,759
Deposits, prepaid expenses and other assets	489,535	589,620
Contributions receivable, net (Note 4)	4,781,155	5,476,860
Fixed assets, net (Note 5)	14,682,583	13,818,344
	\$ 56,747,682	\$ 57,775,303
LIABILITIES AND NET ASSETS		
Liabilities		
Accrued salaries and related liabilities	\$ 724,432	\$ 1,270,697
Accounts and accrued expenses payable	2,055,311	2,050,327
Refundable advances (Note 2)	2,830,792	2,898,887
Line of credit (Note 7)	3,350,000	-
Accrued defined benefit pension plan liability (Note 6)	-	3,041,619
Mortgages payable (Note 8)	7,911,173	7,911,173
Total Liabilities	16,871,708	17,172,703
Net Assets		
Unrestricted		
Operating fund	401,218	214,631
Board designated fund	4,967,755	4,632,171
Plant fund	6,108,659	5,552,306
Total Unrestricted	11,477,632	10,399,108
Temporarily restricted (Note 9)	13,518,207	15,323,357
Permanently restricted (Note 9)	14,880,135	14,880,135
Total Net Assets	39,875,974	40,602,600
	\$ 56,747,682	\$ 57,775,303

See notes to consolidated financial statements

Henry Street Settlement and Affiliates

Consolidated Statement of Activities Year Ended June 30, 2017 (with summarized totals for the year ended June 30, 2016)

	Unrestricted				Temporarily Restricted	Permanently Restricted	Total	
	Operating Fund	Board Designated Fund	Plant Fund	Total			2017	2016
REVENUES, GAINS AND OTHER SUPPORT								
Contributions	\$ 1,228,182	\$ -	\$ -	\$ 1,228,182	\$ 4,665,895	\$ -	\$ 5,894,077	\$ 4,660,126
Contributions, Capital Campaign	-	-	-	-	112,367	-	112,367	2,442,046
Special events, less costs of direct benefit to donors of \$197,737 and \$142,429	1,258,884	-	-	1,258,884	-	-	1,258,884	1,072,608
Legacies and bequests	-	-	-	-	-	-	-	193,338
Grants and fees from contracting agencies	28,695,675	-	188,733	28,884,408	-	-	28,884,408	27,578,153
Program service fees	2,725,280	-	-	2,725,280	-	-	2,725,280	2,903,525
Realized gains on sale of investments	-	378,450	-	378,450	274,566	-	653,016	277,777
Unrealized gains (losses) on investments	-	570,559	-	570,559	539,826	-	1,110,385	(1,306,776)
Interest and dividends	2,080	410,432	-	412,512	312,272	-	724,784	559,121
Income distribution (Note 2)	635,239	(635,239)	-	-	-	-	-	-
Rental revenue (Note 11)	821,953	-	-	821,953	-	-	821,953	793,808
Other income	200,943	-	-	200,943	-	-	200,943	200,026
Net Assets Released from Restrictions (Note 9)								
Satisfaction of program restrictions	5,302,155	1,229,164	-	6,531,319	(6,531,319)	-	-	-
Satisfaction of income distribution requirement (Note 2)	479,761	-	-	479,761	(479,761)	-	-	-
Satisfaction of capital acquisition restrictions	-	-	698,996	698,996	(698,996)	-	-	-
Total Revenues, Gains and Other Support	<u>41,350,152</u>	<u>1,953,366</u>	<u>887,729</u>	<u>44,191,247</u>	<u>(1,805,150)</u>	<u>-</u>	<u>42,386,097</u>	<u>39,373,752</u>
EXPENSES								
Program Services								
Health and wellness	10,625,540	-	87,937	10,713,477	-	-	10,713,477	10,137,530
Arts center	2,331,646	-	28,224	2,359,870	-	-	2,359,870	2,870,089
Youth and employment training	10,673,918	-	101,936	10,775,854	-	-	10,775,854	10,821,079
Shelter and transitional housing	12,004,779	-	359,965	12,364,744	-	-	12,364,744	11,980,834
Total Program Services	<u>35,635,883</u>	<u>-</u>	<u>578,062</u>	<u>36,213,945</u>	<u>-</u>	<u>-</u>	<u>36,213,945</u>	<u>35,809,532</u>
Supporting Services								
Management and general	4,046,227	-	18,997	4,065,224	-	-	4,065,224	3,906,047
Fundraising	1,076,195	-	1,237	1,077,432	-	-	1,077,432	1,083,996
Total Supporting Services	<u>5,122,422</u>	<u>-</u>	<u>20,234</u>	<u>5,142,656</u>	<u>-</u>	<u>-</u>	<u>5,142,656</u>	<u>4,990,043</u>
Total Expenses	<u>40,758,305</u>	<u>-</u>	<u>598,296</u>	<u>41,356,601</u>	<u>-</u>	<u>-</u>	<u>41,356,601</u>	<u>40,799,575</u>
Change in Net Assets Before Other Changes	591,847	1,953,366	289,433	2,834,646	(1,805,150)	-	1,029,496	(1,425,823)
OTHER CHANGES								
Transfers to fund fixed assets acquisitions	(266,920)	-	266,920	-	-	-	-	-
Pension liability adjustment	4,780,907	-	-	4,780,907	-	-	4,780,907	(1,444,476)
Pension liability settlement charge	(6,537,029)	-	-	(6,537,029)	-	-	(6,537,029)	-
Transfer to operating fund	1,617,782	(1,617,782)	-	-	-	-	-	-
Change in Net Assets	186,587	335,584	556,353	1,078,524	(1,805,150)	-	(726,626)	(2,870,299)
NET ASSETS								
Beginning 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
End of year	<u>\$ 401,218</u>	<u>\$ 4,967,755</u>	<u>\$ 6,108,659</u>	<u>\$ 11,477,632</u>	<u>\$ 13,518,207</u>	<u>\$ 14,880,135</u>	<u>\$ 39,875,974</u>	<u>\$ 40,602,600</u>

See notes to consolidated financial statements

Henry Street Settlement and Affiliates

Consolidated Statement of Functional Expenses Year Ended June 30, 2017 (with summarized totals for the year ended June 30, 2016)

	Program Services				Total	Supporting Services			Total		
	Health and Wellness	Arts Center	Youth and Employment Training	Shelter and Transitional Housing		Management and General	Fundraising	Direct Cost of Special Events	Total	2017	2016
Salaries	\$ 4,527,629	\$ 1,180,043	\$ 6,017,710	\$ 4,720,565	\$ 16,445,947	\$ 2,420,447	\$ 652,051	\$ -	\$ 3,072,498	\$ 19,518,445	\$ 19,228,314
Payroll taxes and employee benefits	<u>1,557,647</u>	<u>323,866</u>	<u>1,780,061</u>	<u>1,886,039</u>	<u>5,547,613</u>	<u>582,160</u>	<u>199,321</u>	<u>-</u>	<u>781,481</u>	<u>6,329,094</u>	<u>5,787,149</u>
Total Salaries and Related Expenses	6,085,276	1,503,909	7,797,771	6,606,604	21,993,560	3,002,607	851,372	-	3,853,979	25,847,539	25,015,463
Professional fees and contract service payments	1,470,749	265,851	381,160	1,366,558	3,484,318	491,950	97,598	54,341	643,889	4,128,207	4,210,546
Supplies	184,592	82,269	622,999	677,688	1,567,548	99,947	41,367	13,285	154,599	1,722,147	1,813,603
Telephone	151,190	29,388	128,693	140,327	449,598	43,694	5,633	-	49,327	498,925	633,837
Postage and shipping	8,972	99,682	24,456	15,914	149,024	62,694	35,165	-	97,859	246,883	270,045
Occupancy expense (Note 12)	570,916	172,215	925,934	1,834,910	3,503,975	25,940	4,047	-	29,987	3,533,962	3,365,462
Equipment purchases and rentals	122,791	109,202	167,117	469,652	868,762	95,096	14,517	21,193	130,806	999,568	1,011,466
Transportation	100,802	17,048	138,363	53,820	310,033	18,062	2,745	-	20,807	330,840	345,381
Insurance	68,478	21,978	61,009	280,309	431,774	14,794	963	-	15,757	447,531	488,725
Bank charges and custodial fees	594	13,605	9,510	6,907	30,616	125,222	9,383	-	134,605	165,221	124,045
Interest	-	-	-	298,317	298,317	19,018	-	-	19,018	317,335	257,113
Food	1,491,483	13,869	259,363	243,030	2,007,745	43,777	12,218	108,918	164,913	2,172,658	2,240,220
Stipends	299,458	-	13,974	-	313,432	-	-	-	-	313,432	369,002
Membership fees and conferences	30,239	2,630	32,558	10,743	76,170	3,426	1,187	-	4,613	80,783	78,395
Scholarships	-	-	108,938	-	108,938	-	-	-	-	108,938	100,976
Depreciation and amortization	87,937	28,224	101,936	359,965	578,062	18,997	1,237	-	20,234	598,296	617,700
Bad debt expense	40,000	-	-	-	40,000	-	-	-	-	40,000	-
Miscellaneous	-	-	2,073	-	2,073	-	-	-	-	2,073	25
Total Expenses	10,713,477	2,359,870	10,775,854	12,364,744	36,213,945	4,065,224	1,077,432	197,737	5,340,393	41,554,338	40,942,004
Less direct costs of special events	-	-	-	-	-	-	-	(197,737)	(197,737)	(197,737)	(142,429)
Total Expenses Reported by Function on the Statement of Activities	<u>\$ 10,713,477</u>	<u>\$ 2,359,870</u>	<u>\$ 10,775,854</u>	<u>\$ 12,364,744</u>	<u>\$ 36,213,945</u>	<u>\$ 4,065,224</u>	<u>\$ 1,077,432</u>	<u>\$ -</u>	<u>\$ 5,142,656</u>	<u>\$ 41,356,601</u>	<u>\$ 40,799,575</u>

See notes to consolidated financial statements

Henry Street Settlement and Affiliates

Consolidated Statement of Cash Flows
Year Ended June 30, 2017
(with comparative amounts for the year ended June 30, 2016)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (726,626)	\$ (2,870,299)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	598,296	617,700
Realized gains on sale of investments	(653,016)	(277,777)
Unrealized (gains) losses on investments	(1,110,385)	1,306,776
Pension liability adjustment	(4,780,907)	1,444,476
Pension liability settlement charge	6,537,029	-
Bad debt expense	40,000	-
Changes in operating assets and liabilities		
Due from contracting agencies	(654,831)	(848,746)
Accounts receivable	(264,816)	47,561
Deposits, prepaid expenses and other assets	100,085	(344,606)
Contributions receivable	695,705	129,625
Accrued salaries and related liabilities	(546,265)	219,895
Accounts and accrued expenses payable	4,984	(434,680)
Refundable advances	(68,095)	(15,867)
Accrued defined benefit pension plan liability	(4,797,741)	(615,968)
	(5,626,583)	(1,641,910)
Net Cash from Operating Activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(4,348,833)	(3,464,849)
Proceeds from sale of investments	6,677,977	6,967,208
Purchase of fixed assets	(1,462,535)	(2,374,298)
	866,609	1,128,061
Net Cash from Investing Activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit	3,500,000	-
Payments on line of credit	(150,000)	-
	3,350,000	-
Net Cash from Financing Activities		
Net Change in Cash	(1,409,974)	(513,849)
CASH		
Beginning of year	3,428,452	3,942,301
End of year	\$ 2,018,478	\$ 3,428,452
SUPPLEMENTARY CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ 19,018	\$ -

See notes to consolidated financial statements

Henry Street Settlement and Affiliates

Notes to Consolidated Financial Statements
June 30, 2017

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 and the Plant Fund, are components of unrestricted net assets, and have 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, 2017

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 Plant fund consists of the accumulated balance which is used to fund any fixed asset acquisitions which have not been otherwise funded and deficits in the Operating Fund and Board Designated 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 statement 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 as of and for the year ended June 30, 2016, 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, 2017

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.

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

Investments Valuation

Investments are carried at fair value.

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

Funds are to be distributed at a level amount to be determined annually within a range of 3.5% to 4.5% of the portfolio's values. The distribution amount was set at \$1,115,000 (or approximately 4.0%) and \$1,218,000 (approximately 4.5%) for the years ended June 30, 2017 and 2016. 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 for the years ended June 30:

	<u>2017</u>	<u>2016</u>
Income distribution - Board Designated Fund	\$ 635,239	\$ 689,300
Net assets released from restrictions - satisfaction of income distribution requirement (See Note 9)	<u>479,761</u>	<u>528,700</u>
	<u>\$ 1,115,000</u>	<u>\$ 1,218,000</u>

Henry Street Settlement and Affiliates

Notes to Consolidated Financial Statements
June 30, 2017

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.

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

The Settlement records revenue and receivables for grants from contracting agencies based on claims for expense reimbursements and program utilization at contracted rates. Receivables are stated net of an allowance. Receivables are charged to the allowance when they are determined to be uncollectible based upon a periodic review of the accounts by management. Interest is not accrued or recorded on outstanding accounts receivable. Factors used to determine whether an allowance should be recorded include the age of the receivable and a review of payments subsequent to year end. The allowance for doubtful accounts on due from contracting agencies amounted to \$1,800 and \$48,000 at June 30, 2017 and 2016.

Contributions Receivable

Unconditional contributions receivable that are expected to be collected within one year are recorded at net realizable value. Unconditional contributions receivable that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contributions. Conditional contributions receivable are not included as support until the conditions are substantially met.

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, 2017

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

Impairment of Long-Lived Assets

Long-lived assets such as fixed assets 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, 2017 and 2016.

Conditional Asset Retirement Obligations

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

Refundable Advances

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

Contributions and Contributions, Capital Campaign

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, 2017

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.

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, 2017 and 2016 were \$62,806 and \$51,184.

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, 2014.

Henry Street Settlement and Affiliates

Notes to Consolidated Financial Statements
June 30, 2017

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 12, 2018.

3. Investments

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

	June 30, 2017		June 30, 2016	
	Level 1	Total	Level 1	Total
Short-term investments	\$ 5,274,356	\$ 5,274,356	\$ 1,346,060	\$ 1,346,060
Common and preferred stock				
U.S. large cap equity	3,355,459	3,355,459	3,533,146	3,533,146
U.S. mid cap equity	749,908	749,908	1,147,913	1,147,913
U.S. small cap equity	268,400	268,400	255,262	255,262
International equity	5,585,982	5,585,982	4,763,913	4,763,913
	<u>9,959,749</u>	<u>9,959,749</u>	<u>9,700,234</u>	<u>9,700,234</u>
Corporate obligations	-	-	5,232,311	5,232,311
Mutual funds				
Intermediate government	344,716	344,716	339,157	339,157
Intermediate-term bonds	8,373	8,373	8,278	8,278
Large cap-blend	362,805	362,805	4,348	4,348
Large cap-growth	18,106	18,106	15,150	15,150
Large cap-value	25,508	25,508	22,707	22,707
Medium cap-growth	39,734	39,734	33,508	33,508
Medium cap-value	23,626	23,626	19,924	19,924
Small cap-value	3,553	3,553	2,874	2,874
Real estate and commodities	2,016,654	2,016,654	1,679,945	1,679,945
	<u>2,843,075</u>	<u>2,843,075</u>	<u>2,125,891</u>	<u>2,125,891</u>
Exchange-traded funds	-	-	223,249	223,249
	<u>\$ 18,077,180</u>	18,077,180	<u>\$ 18,627,745</u>	18,627,745
Certificates of deposit, at cost		2,693,075		3,043,396
Investment in limited partnerships (1)		6,193,912		5,858,769
		<u>\$ 26,964,167</u>		<u>\$ 27,529,910</u>

Henry Street Settlement and Affiliates

Notes to Consolidated Financial Statements June 30, 2017

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.

During the years ended June 30, 2017 and 2016, there were no transfers in or out of Levels 1, 2, or 3 of the fair value hierarchy. Information regarding alternative investments measured at NAV using the practical expedient are as follows at June 30:

	2017			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Equity long/short hedge funds (a)	\$ 4,225,937	\$ -	varies	7-70 days
Private equity (b)	<u>1,967,975</u>	<u>701,880</u>	10-11 years	N/A
Total	<u>\$ 6,193,912</u>	<u>\$ 701,880</u>		
	2016			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Equity long/short hedge funds (a)	\$ 4,419,269	\$ -	varies	7-70 days
Private equity (b)	<u>1,439,500</u>	<u>1,308,192</u>	10-11 years	N/A
Total	<u>\$ 5,858,769</u>	<u>\$ 1,308,192</u>		

- (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.

Henry Street Settlement and Affiliates

Notes to Consolidated Financial Statements
June 30, 2017

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:

	<u>2017</u>	<u>2016</u>
Receivable in less than one year	\$ 4,781,155	\$ 4,408,422
Receivable in one to five years	-	1,162,000
Discount to present value	-	(93,562)
	<u>\$ 4,781,155</u>	<u>\$ 5,476,860</u>

5. Fixed Assets

Fixed assets consist of the following at June 30:

	<u>2017</u>	<u>2016</u>
Land	\$ 716,984	\$ 716,984
Building, building improvements and leasehold improvements	25,085,156	23,983,936
Furniture and equipment	4,606,996	4,410,850
Construction in progress	<u>3,395,288</u>	<u>3,261,359</u>
	33,804,424	32,373,129
Accumulated depreciation and amortization	<u>(19,121,841)</u>	<u>(18,554,785)</u>
	<u>\$ 14,682,583</u>	<u>\$ 13,818,344</u>

Assets with a cost basis and accumulated depreciation of \$31,240 were disposed of during the year ended June 30, 2017.

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 Service.

The Plan is expected to be terminated during fiscal year 2018.

Henry Street Settlement and Affiliates

Notes to Consolidated Financial Statements
June 30, 2017

6. Pensions *(continued)*

(a) Defined Benefit Pension Plan (continued)

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

	2017	2016
Benefit obligation	\$ (226,000)	\$ (14,621,123)
Fair value of plan assets	412,917	11,579,504
Funded Status	\$ 186,917	\$ (3,041,619)
Accumulated benefit obligation	\$ (226,000)	\$ (14,621,123)
Net pension cost recognized in consolidated statement of activities	7,043,891	284,032
Amortization of amounts previously not recognized as a component of net periodic cost	376,774	330,898
Accrued pension asset (liability) recognized in consolidated statement of financial position*	186,917	(3,041,619)
Employer contributions to plan during the year	5,491,521	900,000
Benefits paid	16,568,315	1,277,988

*Amounts for 2017 are shown as part of deposits, prepaid expenses and other assets while amounts for 2016 are shown as part of accrued defined benefit plan liability.

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:

	2017	2016
Discount rate	4.06%	4.06%
Expected return on plan assets	4.00%	4.00%

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

	2017	2016
Unrecognized actuarial gain (loss)	\$ 417,636	\$ (4,363,271)

For 2018, there is no amount that is expected to be recognized in net periodic pension costs.

Henry Street Settlement and Affiliates

Notes to Consolidated Financial Statements
June 30, 2017

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>2017</u>	<u>2016</u>
Short-term investments (Level 1)*	\$ 412,917	\$ 11,579,504

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

Contribution

The Settlement does not expect to contribute to the Plan in 2018.

Expected Future Benefit Payments

A benefit payment of \$226,000, which reflects expected future service, is expected to be paid as of June 30, 2018.

(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, 2017 and 2016 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 was recorded for the years ended June 30, 2017 and 2016 in connection with this plan. As of June 30, 2017 there was a balance of \$44,955. As of June 30, 2016, there was no unfunded balance.

Henry Street Settlement and Affiliates

Notes to Consolidated Financial Statements June 30, 2017

7. Line of Credit

The Settlement secured a \$5,000,000 line of credit through October 31, 2018. 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, \$3,500,000 was drawn down on this line of credit. Balance due on this line of credit at June 30, 2017 was \$3,350,000 and an additional \$225,000 has been subsequently paid during fiscal year 2018. There were no drawings on this line of credit nor any balance due as of June 30, 2016. Interest expense for the year ended June 30, 2017 was \$19,018.

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 was secured by investments held by the Settlement. During 2016 there were no drawings on this line of credit. The line of credit was not renewed past the December 2015 renewal date.

8. Mortgages Payable

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

	<u>2017</u>	<u>2016</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>

In May 2005, the SHSHDFC entered into a construction financing agreement with the Department of Housing Preservation and Development (“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, 2017 and 2016, 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 was accrued for both the years ended June 30, 2017 and 2016. Cumulative interest of \$486,889 and \$436,757 has been accrued as of June 30, 2017 and 2016. The loan principal and accrued interest will be deemed satisfied in 2037 if the project is operated in conformance with the contract requirements for 30 years.

Henry Street Settlement and Affiliates

Notes to Consolidated Financial Statements
June 30, 2017

8. Mortgages Payable (continued)

(b) The total amount available from FHLB was \$530,000 which was fully drawn as of June 30, 2017 and 2016 and does not bear interest. The loan principal will convert to a grant in 2022 if the project is operated in conformance with the contract requirements for 15 years.

(c) The total amount available for borrowing from HHAC was \$2,368,000 which was fully drawn as of June 30, 2017 and 2016, and does not bear interest. The loan principal will be deemed satisfied in 2032 after operating the project in conformance with requirements for 25 years.

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

As these financing arrangements bear no interest or below-market interest rates, an in-kind contribution of \$248,185 is included in grants and fees from contracting agencies and interest expense to reflect the estimated value of contributed interest as required under U.S. GAAP. Imputed interest expense was calculated at the weighted average prime rates below:

7/1/2015 – 6/30/2016	3.25%
7/1/2016 – 12/15/2016	3.50%
12/16/2016 – 3/16/2017	4.00%
3/16/2017 – 6/30/2017	4.25%

9. Restricted Net Assets

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

	2017	2016
Arts program	\$ 1,516,279	\$ 1,104,834
Capital campaign	6,966,960	9,731,048
Community and social development	1,571,939	1,396,789
Millennium campaign	787,506	690,323
Workforce development center	1,085,711	920,726
Youth activities	897,661	813,568
Youth programs (BGR)	692,151	666,069
	<u>\$ 13,518,207</u>	<u>\$ 15,323,357</u>

Henry Street Settlement and Affiliates

Notes to Consolidated Financial Statements
June 30, 2017

9. Restricted Net Assets *(continued)*

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

	2017	2016
Satisfaction of Program Restrictions		
Arts program	\$ 507,211	\$ 637,539
Capital campaign	2,201,270	-
Community and social development	1,856,600	1,721,062
Workforce development center	1,203,615	1,307,868
Youth activities	542,817	482,358
Youth programs (BGR)	219,806	286,920
	6,531,319	4,435,747
Income Distribution Requirement		
Arts programs	119,206	130,217
Millennium campaign	43,575	47,601
Workforce development center	111,825	122,157
Youth activities	118,883	129,865
Youth programs (BGR)	86,272	98,860
	479,761	528,700
Satisfaction of capital restrictions	698,996	1,829,878
	\$ 7,710,076	\$ 6,794,325

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

	2017	2016
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	1,924,014	1,924,014
	\$ 14,880,135	\$ 14,880,135

Henry Street Settlement and Affiliates

Notes to Consolidated Financial Statements
June 30, 2017

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 based on certain specified standards of prudence. The Settlement is now governed by the NYPMIFA spending policy, which establishes a 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.

Henry Street Settlement and Affiliates

Notes to Consolidated Financial Statements
June 30, 2017

10. Endowment Fund *(continued)*

Endowment Net Asset Composition by Type of Fund

The following is a reconciliation of the activity in the donor restricted endowment funds portion of the investment portfolio for the years ended June 30, 2017 and 2016:

	Temporarily Restricted	Permanently Restricted	Total
Balance, June 30, 2016	\$ 2,673,832	\$ 14,880,135	\$ 17,553,967
Interest and dividends	287,068	-	287,068
Investment gain, net	814,392	-	814,392
Appropriation for expenditure	(479,761)	-	(479,761)
Balance, June 30, 2017	<u>\$ 3,295,531</u>	<u>\$ 14,880,135</u>	<u>\$ 18,175,666</u>

	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	<u>\$ 2,673,832</u>	<u>\$ 14,880,135</u>	<u>\$ 17,553,967</u>

11. Rental Income

The Settlement leases apartments to qualifying low-income individuals under one-year non-cancelable leases. Rental income was \$632,018 and \$644,751 for the years ended June 30, 2017 and 2016.

The Settlement rented out space, including theater facilities, under per diem lease arrangements. Rental income totaled \$189,934 and \$149,057 for the years ended June 30, 2017 and 2016.

12. Occupancy Expense

Included within occupancy costs is rent expense (exclusive of in-kind rentals) of \$578,710 and \$489,956 for the years ended June 30, 2017 and 2016. These costs are largely associated with month-to-month rentals and include rental assistance paid on behalf of housing assistance program participants.

Henry Street Settlement and Affiliates

Notes to Consolidated Financial Statements
June 30, 2017

12. Occupancy Expense (continued)

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

2018	\$ 303,548
2019	309,619
2020	315,812
2021	322,128
2022	<u>272,899</u>
	<u>\$1,524,006</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 the in-kind rental totaled \$2,015,000 and \$1,911,000 for the years ended June 30, 2017 and 2016. Total rent expense (including in-kind rentals) was \$3,533,962 and \$3,365,462 for 2017 and 2016.

13. Concentration of Credit Risk

Financial instruments that potentially subject the Settlement to concentrations of credit risk consist primarily of cash, investments and all receivables. Approximately 63% of the Settlement's contributions receivable is from one donor as of June 30, 2017 and 2016. The amount of this one contribution receivable as of June 30, 2017 and 2016 is \$3,000,000 and \$3,500,000, and is promised 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. At June 30, 2017 and 2016, the uninsured portion of these balances were \$1,511,000 and \$2,267,000. The investment portfolio is diversified by type of investments and industry concentrations so that no individual investment or group of investments represents a significant concentration of risk.

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

Henry Street Settlement and Affiliates

Notes to Consolidated Financial Statements
June 30, 2017

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.

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