

Henry Street Settlement and Affiliates

Consolidated Financial Statements

June 30, 2018

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, 2018, 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 Henry Street Settlement and Affiliates as of June 30, 2018, 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' 2017 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated February 12, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

PKF O'Connor Davies, LLP

January 25, 2019

Henry Street Settlement and Affiliates

Consolidated Statement of Financial Position
June 30, 2018
(with comparative amounts at June 30, 2017)

	2018	2017
ASSETS		
Cash (Note 13)	\$ 814,963	\$ 2,018,478
Investments (Note 3)	32,776,987	26,964,167
Due from contracting agencies, net (Note 2)	8,129,591	7,336,189
Accounts receivable (Note 2)	532,693	475,575
Deposits, prepaid expenses and other assets	764,153	489,535
Contributions receivable (Note 4)	3,468,029	4,781,155
Fixed assets, net (Note 5)	<u>17,943,317</u>	<u>14,682,583</u>
	<u>\$ 64,429,733</u>	<u>\$ 56,747,682</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accrued salaries and related liabilities	\$ 1,443,652	\$ 724,432
Accounts and accrued expenses payable	2,936,637	2,055,311
Refundable advances (Note 2)	2,167,539	2,830,792
Line of credit (Note 7)	2,450,000	3,350,000
Mortgages payable (Note 8)	<u>7,911,173</u>	<u>7,911,173</u>
Total Liabilities	<u>16,909,001</u>	<u>16,871,708</u>
Net Assets		
Unrestricted		
Operating fund	45,237	401,218
Board designated fund	6,291,677	4,967,755
Plant fund	<u>9,802,318</u>	<u>6,108,659</u>
Total Unrestricted	16,139,232	11,477,632
Temporarily restricted (Note 9)	10,501,365	13,518,207
Permanently restricted (Note 9)	<u>20,880,135</u>	<u>14,880,135</u>
Total Net Assets	<u>47,520,732</u>	<u>39,875,974</u>
	<u>\$ 64,429,733</u>	<u>\$ 56,747,682</u>

See notes to consolidated financial statements

Henry Street Settlement and Affiliates

Consolidated Statement of Activities Year Ended June 30, 2018 (with summarized totals for the year ended June 30, 2017)

	Unrestricted						Total		
	Operating Fund	Board		Plant Fund	Total	Temporarily Restricted	Permanently Restricted	2018	2017
		Designated Fund	-						
REVENUES, GAINS AND OTHER SUPPORT									
Contributions	\$ 1,080,700	\$ -	\$ -	\$ 1,080,700	\$ 4,162,369	\$ -	\$ 5,243,069	\$ 5,894,077	
Contributions, Capital Campaign	-	-	-	-	2,500	-	2,500	112,367	
Special events, less costs of direct benefit to donors of \$191,854 and \$197,737	1,434,544	-	-	1,434,544	-	-	1,434,544	1,258,884	
Legacies and bequests	500	43,956	-	44,456	240,000	6,000,000	6,284,456	-	
Grants and fees from contracting agencies	30,733,003	-	311,267	31,044,270	-	-	31,044,270	28,884,408	
Program service fees	3,020,803	-	-	3,020,803	-	-	3,020,803	2,725,280	
Realized gains on sale of investments	-	1,640,839	-	1,640,839	1,186,843	-	2,827,682	653,016	
Unrealized gains (losses) on investments	-	(1,219,039)	-	(1,219,039)	(814,660)	-	(2,033,699)	1,110,385	
Interest and dividends	2,114	403,059	-	405,173	355,199	-	760,372	724,784	
Income distribution (Note 2)	50,000	(50,000)	-	-	-	-	-	-	
Rental revenue (Note 11)	901,730	-	-	901,730	-	-	901,730	821,953	
Other income	395,366	470,001	-	865,367	-	-	865,367	200,943	
Net Assets Released from Restrictions (Note 9)									
Satisfaction of program restrictions	4,066,544	685,800	-	4,752,344	(4,752,344)	-	-	-	
Satisfaction of income distribution requirement (Note 2)	100,000	-	-	100,000	(100,000)	-	-	-	
Satisfaction of capital acquisition restrictions	-	-	3,296,749	3,296,749	(3,296,749)	-	-	-	
Total Revenues, Gains and Other Support	<u>41,785,304</u>	<u>1,974,616</u>	<u>3,608,016</u>	<u>47,367,936</u>	<u>(3,016,842)</u>	<u>6,000,000</u>	<u>50,351,094</u>	<u>42,386,097</u>	
EXPENSES									
Program Services									
Health and wellness	10,827,900	-	100,907	10,928,807	-	-	10,928,807	10,713,477	
Arts center	2,519,346	-	32,386	2,551,732	-	-	2,551,732	2,359,870	
Youth and employment training	11,518,722	-	111,748	11,630,470	-	-	11,630,470	10,775,854	
Shelter and Transitional Housing	<u>12,482,932</u>	<u>-</u>	<u>413,054</u>	<u>12,895,986</u>	<u>-</u>	<u>-</u>	<u>12,895,986</u>	<u>12,364,744</u>	
Total Program Services	<u>37,348,900</u>	<u>-</u>	<u>658,095</u>	<u>38,006,995</u>	<u>-</u>	<u>-</u>	<u>38,006,995</u>	<u>36,213,945</u>	
Supporting Services									
Management and general	4,130,675	-	21,800	4,152,475	-	-	4,152,475	4,065,224	
Fundraising	<u>1,082,447</u>	<u>-</u>	<u>1,419</u>	<u>1,083,866</u>	<u>-</u>	<u>-</u>	<u>1,083,866</u>	<u>1,077,432</u>	
Total Supporting Services	<u>5,213,122</u>	<u>-</u>	<u>23,219</u>	<u>5,236,341</u>	<u>-</u>	<u>-</u>	<u>5,236,341</u>	<u>5,142,656</u>	
Total Expenses	<u>42,562,022</u>	<u>-</u>	<u>681,314</u>	<u>43,243,336</u>	<u>-</u>	<u>-</u>	<u>43,243,336</u>	<u>41,356,601</u>	
Change in Net Assets Before Other Changes	(776,718)	1,974,616	2,926,702	4,124,600	(3,016,842)	6,000,000	7,107,758	1,029,496	
OTHER CHANGES									
Transfers to fund fixed assets acquisitions	(116,263)	(650,694)	766,957	-	-	-	-	-	
Adjustment of prior year reserves	537,000	-	-	537,000	-	-	537,000	-	
Pension liability adjustment	-	-	-	-	-	-	-	4,780,907	
Pension liability settlement charge	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,537,029)</u>	
Change in Net Assets	(355,981)	1,323,922	3,693,659	4,661,600	(3,016,842)	6,000,000	7,644,758	(726,626)	
NET ASSETS									
Beginning 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>	
End of year	<u>\$ 45,237</u>	<u>\$ 6,291,677</u>	<u>\$ 9,802,318</u>	<u>\$ 16,139,232</u>	<u>\$ 10,501,365</u>	<u>\$ 20,880,135</u>	<u>\$ 47,520,732</u>	<u>\$ 39,875,974</u>	

See notes to consolidated financial statements

Henry Street Settlement and Affiliates

Consolidated Statement of Functional Expenses Year Ended June 30, 2018 (with summarized totals for the year ended June 30, 2017)

	Program Services				Total	Supporting Services			Total		
	Health and Wellness	Arts Center	Youth and Employment Training	Shelter and Transitional Housing		Management and General	Fundraising	Direct Benefit to Donors	2018	2017	
Salaries	\$ 4,749,559	\$ 1,229,306	\$ 6,581,531	\$ 4,991,462	\$ 17,551,858	\$ 2,423,261	\$ 658,980	\$ -	\$ 3,082,241	\$ 20,634,099	\$ 19,518,445
Payroll taxes and employee benefits	1,436,268	226,652	1,700,687	1,663,257	5,026,864	640,438	184,025	-	824,463	5,851,327	6,329,094
Total Salaries and Related Expenses	6,185,827	1,455,958	8,282,218	6,654,719	22,578,722	3,063,699	843,005	-	3,906,704	26,485,426	25,847,539
Professional fees and contract service payments	1,506,128	433,335	486,137	1,514,649	3,940,249	345,862	94,681	50,200	490,743	4,430,992	4,128,207
Supplies	188,208	120,623	594,775	696,537	1,600,143	107,604	55,918	500	164,022	1,764,165	1,722,147
Telephone	137,405	21,588	123,695	151,547	434,235	58,966	3,709	-	62,675	496,910	498,925
Postage and shipping	12,904	41,568	34,678	24,758	113,908	96,933	46,013	-	142,946	256,854	246,883
Occupancy expense (Note 12)	569,161	238,543	1,020,810	1,965,637	3,794,151	28,213	7,115	-	35,328	3,829,479	3,533,962
Equipment purchases and rentals	125,731	120,647	207,622	582,097	1,036,097	54,760	9,165	23,276	87,201	1,123,298	999,568
Transportation	122,534	21,158	187,405	48,285	379,382	13,749	2,602	-	16,351	395,733	330,840
Insurance	66,774	21,432	59,491	273,336	421,033	14,426	939	-	15,365	436,398	447,531
Bank charges and custodial fees	792	16,462	11,181	120	28,555	206,284	4,753	-	211,037	239,592	165,221
Interest	-	-	-	303,270	303,270	85,692	-	-	85,692	388,962	317,335
Food	1,615,187	11,088	300,844	246,465	2,173,584	42,809	10,119	117,878	170,806	2,344,390	2,172,658
Stipends	290,989	500	15,071	-	306,560	-	-	-	-	306,560	313,432
Membership fees and conferences	6,260	7,419	56,429	21,512	91,620	11,678	4,428	-	16,106	107,726	80,783
Scholarships	-	-	138,366	-	138,366	-	-	-	-	138,366	108,938
Depreciation and amortization	100,907	32,386	111,748	413,054	658,095	21,800	1,419	-	23,219	681,314	598,296
Bad debt expense	-	9,025	-	-	9,025	-	-	-	-	9,025	40,000
Miscellaneous	-	-	-	-	-	-	-	-	-	-	2,073
Total Expenses	10,928,807	2,551,732	11,630,470	12,895,986	38,006,995	4,152,475	1,083,866	191,854	5,428,195	43,435,190	41,554,338
Less costs with direct benefit to donors	-	-	-	-	-	-	-	(191,854)	(191,854)	(191,854)	(197,737)
Total Expenses Reported by Function on the Statement of Activities	\$ 10,928,807	\$ 2,551,732	\$ 11,630,470	\$ 12,895,986	\$ 38,006,995	\$ 4,152,475	\$ 1,083,866	\$ -	\$ 5,236,341	\$ 43,243,336	\$ 41,356,601

See notes to consolidated financial statements

Henry Street Settlement and Affiliates

Consolidated Statement of Cash Flows
Year Ended June 30, 2018
(with comparative amounts for the year ended June 30, 2017)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 7,644,758	\$ (726,626)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	681,314	598,296
Realized gains on sale of investments	(2,827,682)	(653,016)
Unrealized (gains) losses on investments	2,033,699	(1,110,385)
Pension liability adjustment	-	(4,780,907)
Pension liability settlement charge	-	6,537,029
Bad debt expense	9,025	40,000
Contributions restricted for investment in endowment	(6,000,000)	-
Adjustment of prior year reserves	(537,000)	-
Changes in operating assets and liabilities		
Due from contracting agencies	(793,402)	(654,831)
Accounts receivable	(66,143)	(264,816)
Deposits, prepaid expenses and other assets	(274,618)	100,085
Contributions receivable	1,313,126	695,705
Accrued salaries and related liabilities	719,220	(546,265)
Accounts and accrued expenses payable	881,326	4,984
Refundable advances	(126,253)	(68,095)
Accrued defined benefit pension plan liability	-	(4,797,741)
	<u>2,657,370</u>	<u>(5,626,583)</u>
Net Cash from Operating Activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(18,008,485)	(4,348,833)
Proceeds from sale of investments	12,989,648	6,677,977
Purchase of fixed assets	(3,942,048)	(1,462,535)
	<u>(8,960,885)</u>	<u>866,609</u>
Net Cash from Investing Activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for investment in endowment	6,000,000	-
Proceeds from line of credit	-	3,500,000
Payments on line of credit	(900,000)	(150,000)
	<u>5,100,000</u>	<u>3,350,000</u>
Net Cash from Financing Activities		
Net Change in Cash	(1,203,515)	(1,409,974)
CASH		
Beginning of year	<u>2,018,478</u>	<u>3,428,452</u>
End of year	<u>\$ 814,963</u>	<u>\$ 2,018,478</u>
SUPPLEMENTARY CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ 85,692	\$ 19,018

See notes to consolidated financial statements

Henry Street Settlement and Affiliates

Notes to Consolidated Financial Statements
June 30, 2018

1. Organization and Tax Status

Henry Street Settlement (“Henry Street”) was founded in 1893 on the Lower East Side of Manhattan to help newly arrived immigrants. Today, Henry Street provides a wide range of social services to the people who reside on the Lower East Side of Manhattan and in other communities of New York City through social service 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”)

HSHDFC was dissolved during the year ended June 30, 2018.

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, 2018

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, 2017, 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, 2018

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 up to 4.5% of the portfolio's values. For the year ended June 30, 2017, the distribution amount was set at \$1,115,000, representing approximately 4.5% of the portfolio value. During the year ended June 30, 2018, following the termination of the defined benefit pension plan, management made the decision to distribute only a minimal amount of \$150,000 and allow the portfolio to accumulate value. The distribution is allocated between income distribution from the Board Designated Fund and net assets released from restrictions (provided sufficient expenses were incurred to demonstrate that restrictions were satisfied) based on the current value of the funds associated with these investments.

This amount is reflected in the Operating Fund as follows for the years ended June 30:

	<u>2018</u>	<u>2017</u>
Income distribution - Board Designated Fund	\$ 50,000	\$ 635,239
Net assets released from restrictions - satisfaction of income distribution requirement (See Note 9)	<u>100,000</u>	<u>479,761</u>
	<u>\$ 150,000</u>	<u>\$ 1,115,000</u>

Henry Street Settlement and Affiliates

Notes to Consolidated Financial Statements
June 30, 2018

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 at June 30, 2018 and 2017.

Contributions Receivable

Unconditional contributions receivable that are expected to be collected within one year are recorded at net realizable value. Unconditional contributions receivable that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contributions on the consolidated statement of activities. Conditional contributions 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, 2018

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 operations when the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets. No impairment charges were recognized during the years ended June 30, 2018 and 2017.

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, 2018

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 years ended June 30, 2018 and 2017 were \$42,078 and \$62,806.

Functional Allocation of Expenses

The costs of providing programs by the Settlement have been summarized on a functional basis in the accompanying financial statements. Accordingly, expenses have been charged to program and supporting services based on direct expenses and other specific allocation methods.

Henry Street Settlement and Affiliates

Notes to Consolidated Financial Statements
June 30, 2018

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

Accounting for Uncertainty in Income Taxes

The Settlement recognizes the effect of tax positions only when they are more likely than not to be sustained. Management has determined that the Settlement had no uncertain tax positions that would require financial statement recognition or disclosure. The Settlement is no longer subject to examinations by the applicable taxing jurisdictions for periods prior to June 30, 2015.

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 January 25, 2019.

3. Investments

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

	June 30, 2018		June 30, 2017	
	Level 1	Total	Level 1	Total
Short-term investments	\$ 6,876,935	\$ 6,876,935	\$ 5,274,356	\$ 5,274,356
Common and Preferred stock				
U.S. large cap equity	5,858,758	5,858,758	3,355,459	3,355,459
U.S. mid cap equity	1,827,440	1,827,440	749,908	749,908
U.S. small cap equity	-	-	268,400	268,400
International equity	8,751,146	8,751,146	5,585,982	5,585,982
	<u>16,437,344</u>	<u>16,437,344</u>	<u>9,959,749</u>	<u>9,959,749</u>
Mutual Funds				
Intermediate government	347,857	347,857	344,716	344,716
Intermediate-term bonds	8,317	8,317	8,373	8,373
Large cap-blend	551,197	551,197	362,805	362,805
Large cap-growth	21,486	21,486	18,106	18,106
Large cap-value	26,243	26,243	25,508	25,508
Medium cap-growth	45,898	45,898	39,734	39,734
Medium cap-value	24,985	24,985	23,626	23,626
Small cap-value	3,867	3,867	3,553	3,553
Real estate and commodities	2,811,440	2,811,440	2,016,654	2,016,654
	<u>3,841,290</u>	<u>3,841,290</u>	<u>2,843,075</u>	<u>2,843,075</u>
	<u>\$ 27,155,569</u>	27,155,569	<u>\$ 18,077,180</u>	18,077,180
Certificates of deposit, at cost		652,198		2,693,075
Investment in limited partnerships (1)		<u>4,969,220</u>		<u>6,193,912</u>
		<u>\$ 32,776,987</u>		<u>\$ 26,964,167</u>

Henry Street Settlement and Affiliates

Notes to Consolidated Financial Statements
June 30, 2018

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, 2018 and 2017, 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:

	2018			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Equity long/short hedge funds (a)	\$ 2,688,007	\$ -	varies	7-70 days
Private equity (b)	<u>2,281,213</u>	<u>1,385,657</u>	10-11 years	N/A
Total	<u>\$ 4,969,220</u>	<u>\$ 1,385,657</u>		
	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>		

(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 8 percent of the value of the investments in this category cannot be redeemed because the investments include restrictions that do not allow for redemption in the first 12 to 18 months after acquisition. The remaining restriction period for these investments ranged from 7 to 70 days.

(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, 2018

3. Investments (continued)

Investment Risks and Uncertainties

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

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

4. Contributions Receivable

Contributions receivable are expected to be collected within one year and total \$3,468,029 and \$4,781,155 at June 30, 2018 and 2017. There was no need for an allowance for doubtful accounts at June 30, 2018 and 2017.

5. Fixed Assets

Fixed assets consist of the following at June 30:

	<u>2018</u>	<u>2017</u>
Land	\$ 716,984	\$ 716,984
Building, building improvements and leasehold improvements	27,654,322	25,085,156
Furniture and equipment	4,641,196	4,606,996
Construction in progress	<u>4,733,970</u>	<u>3,395,288</u>
	37,746,472	33,804,424
Accumulated depreciation and amortization	<u>(19,803,155)</u>	<u>(19,121,841)</u>
	<u>\$ 17,943,317</u>	<u>\$ 14,682,583</u>

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

Henry Street Settlement and Affiliates

Notes to Consolidated Financial Statements
June 30, 2018

6. Pensions

(a) Defined Benefit Pension Plan

The Settlement sponsored a noncontributory defined benefit pension plan (the "Plan") that provided retirement and death benefits which covered substantially all employees. Benefits were based upon years of service and salaries earned during the highest five consecutive years. The Settlement's funding policy was to contribute an amount at least equal to the minimum required contribution under the Employee Retirement Income Security Act of 1974, as amended. During the year ended June 30, 2017, the Plan was terminated with final payments made during the year ended June 30, 2018. At June 30, 2018 no liability remains.

(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, 2018 and 2017 totaled \$780,029 and \$792,524.

(c) Defined Compensation Plan

The Settlement maintains a 457(b) deferred compensation arrangement for certain employees. Pension expense of \$39,455 and \$44,955 was recorded for the years ended June 30, 2018 and 2017 in connection with this plan. At June 30, 2018, there was no unfunded balance. At June 30, 2017, there was an unfunded balance of \$44,955.

7. Line of Credit

The Settlement secured a \$5,000,000 line of credit through October 31, 2019. Interest is charged at the London Interbank Offered Rate plus 1% and is secured by the assets of the Endowment invested. During the year ended June 30, 2017, \$3,500,000 was drawn down on this line of credit. Balance due on this line of credit at June 30, 2018 and 2017 was \$2,450,000 and \$3,350,000. Interest expense for the years ended June 30, 2018 and 2017 was \$85,692 and \$19,018. Two investment accounts held with J.P. Morgan are identified as specific collateral for this commitment.

8. Mortgages Payable

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

	<u>2018</u>	<u>2017</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, 2018

8. Mortgages Payable (*continued*)

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

- (a) The total amount available from DHPD is \$5,465,523. As of June 30, 2018 and 2017, cumulative funds drawn down were \$5,013,173. The balance of \$452,350 was unused and is not available since construction is complete. Interest accrues at 1% beginning 270 days after substantial completion of construction, which was January 1, 2007. Interest of \$50,132 was accrued for both the years ended June 30, 2018 and 2017. Cumulative interest of \$537,021 and \$486,889 has been accrued as of June 30, 2018 and 2017. The loan principal and accrued interest will be deemed satisfied in 2037 if the project is operated in conformance with the contract requirements for 30 years.
- (b) The total amount available from FHLB was \$530,000 which was fully drawn as of June 30, 2018 and 2017 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, 2018 and 2017, 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 \$253,138 is included in grants and fees from contracting agencies and interest expense for each of the years ended June 30, 2018 and 2017 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:

7/1/2016 – 12/15/2016	3.50%
12/16/2016 – 3/16/2017	4.00%
3/16/2017 – 12/13/2017	4.25%
12/14/2017 – 3/21/2018	4.50%
3/22/2018 – 6/13/2018	4.75%
6/14/2018 – 6/30/2018	5.00%

Henry Street Settlement and Affiliates

Notes to Consolidated Financial Statements
June 30, 2018

9. Restricted Net Assets

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

	2018	2017
Arts program	\$ 1,502,404	\$ 1,516,279
Capital campaign	3,544,508	6,966,960
Community and social development	1,062,630	1,571,939
Millennium campaign	857,317	787,506
Workforce development center	1,491,961	1,085,711
Youth activities	1,371,582	897,661
Youth programs (BGR)	670,963	692,151
	\$ 10,501,365	\$ 13,518,207

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

	2018	2017
Satisfaction of Program Restrictions		
Arts program	\$ 566,253	\$ 507,211
Capital campaign	140,208	2,201,270
Community and social development	1,880,105	1,856,600
Workforce development center	1,265,986	1,203,615
Youth activities	792,792	542,817
Youth programs (BGR)	107,000	219,806
	4,752,344	6,531,319
Income Distribution Requirement		
Arts programs	-	119,206
Millennium campaign	-	43,575
Workforce development center	-	111,825
Youth activities	-	118,883
Youth programs (BGR)	100,000	86,272
	100,000	479,761
Satisfaction of capital acquisition restrictions	3,296,749	698,996
	\$ 8,149,093	\$ 7,710,076

Henry Street Settlement and Affiliates

Notes to Consolidated Financial Statements
June 30, 2018

9. Restricted Net Assets *(continued)*

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

	<u>2018</u>	<u>2017</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	7,924,014	1,924,014
	<u>\$ 20,880,135</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 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.

Henry Street Settlement and Affiliates

Notes to Consolidated Financial Statements
June 30, 2018

10. Endowment Fund (continued)

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, 2018 and 2017:

	Temporarily Restricted	Permanently Restricted	Total
Balance, June 30, 2017	\$ 3,295,531	\$ 14,880,135	\$ 18,175,666
Additions	-	6,000,000	6,000,000
Interest and dividends	343,194	-	343,194
Investment gain, net	372,186	-	372,186
Appropriation for expenditure	(100,000)	-	(100,000)
Balance, June 30, 2018	<u>\$ 3,910,911</u>	<u>\$ 20,880,135</u>	<u>\$ 24,791,046</u>

	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>

11. Rental Revenue

The Settlement leases apartments to qualifying low-income individuals under one-year non-cancelable leases. Rental revenue was \$636,371 and \$632,018 for the years ended June 30, 2018 and 2017.

The Settlement rented out space, including theater facilities, under per diem lease arrangements. Rental income totaled \$265,359 and \$189,935 for the years ended June 30, 2018 and 2017.

12. Occupancy Expense

Included within occupancy costs is rent expense (exclusive of in-kind rentals) of \$814,594 and \$578,710 for the years ended June 30, 2018 and 2017. 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, 2018

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:

2019	\$ 309,619
2020	315,812
2021	322,128
2022	<u>272,899</u>
	<u>\$ 1,220,458</u>

The Settlement provides program services from several locations for which rent is not currently being charged. In accordance with U.S. GAAP, the value of an in-kind contribution was included in 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 for each of the years ended June 30, 2018 and 2017. Total rent expense (including in-kind rentals) was \$3,829,479 and \$3,533,962 for 2018 and 2017.

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 58% and 63% of the Settlement's contributions receivable is from one donor as of June 30, 2018 and 2017. The amount of this one contribution receivable as of June 30, 2018 and 2017 is \$2,000,000 and \$3,000,000, 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, 2018 and 2017, the uninsured portion of these balances were \$223,146 and \$1,511,000. 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, 2018

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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