

Henry Street Settlement and Affiliates

Consolidated Financial Statements

June 30, 2019

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, 2019, 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, 2019, 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.

Other Matters

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, during the year ended June 30, 2019, Henry Street Settlement and Affiliates adopted new accounting guidance resulting in a change in the manner in which they present net assets and report certain aspects of their consolidated financial statements. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited Henry Street Settlement and Affiliates' 2018 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated January 25, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

PKF O'Connor Davies, LLP

January 30, 2020

Henry Street Settlement and Affiliates

Consolidated Statement of Financial Position

June 30, 2019

(with comparative amounts at June 30, 2018)

	2019	2018
ASSETS		
Cash (Note 14)	\$ 165,126	\$ 814,963
Investments (Note 3)	32,930,141	32,776,987
Due from contracting agencies, net (Note 2)	10,178,142	8,129,591
Accounts receivable (Note 2)	592,157	532,693
Deposits, prepaid expenses and other assets	189,576	764,153
Contributions receivable (Note 4)	2,372,292	3,468,029
Property and equipment, net (Note 5)	22,325,196	17,943,317
	\$ 68,752,630	\$ 64,429,733
LIABILITIES AND NET ASSETS		
Liabilities		
Accrued salaries and related liabilities	\$ 1,671,737	\$ 1,443,652
Accounts and accrued expenses payable	2,788,767	2,936,637
Refundable advances (Note 2)	2,192,147	2,167,539
Line of credit (Note 8)	4,753,648	2,450,000
Mortgages payable (Note 9)	7,911,173	7,911,173
Total Liabilities	19,317,472	16,909,001
Net Assets		
Without Donor Restrictions		
Undesignated and plant fund	13,010,832	9,847,555
Board designated fund	6,465,139	6,291,677
Total Without Donor Restrictions	19,475,971	16,139,232
With Donor Restrictions (Note 10)		
Temporary in nature	9,079,052	10,501,365
Permanent in nature	20,880,135	20,880,135
Total With Donor Restrictions	29,959,187	31,381,500
Total Net Assets	49,435,158	47,520,732
	\$ 68,752,630	\$ 64,429,733

See notes to consolidated financial statements

Henry Street Settlement and Affiliates

Consolidated Statement of Activities Year Ended June 30, 2019 (with summarized totals for the year ended June 30, 2018)

	Without Donor Restrictions			With Donor Restrictions	Total	
	Undesignated and Plant Fund	Board Designated Fund	Total		2019	2018
REVENUES, GAINS AND OTHER SUPPORT						
Contributions	\$ 1,195,942	\$ -	\$ 1,195,942	\$ 4,779,612	\$ 5,975,554	\$ 5,243,069
Contributions, Capital Campaign	-	-	-	1,311,500	1,311,500	2,500
Special events, less costs of direct benefit to donors of \$407,104 and \$191,854	1,477,882	-	1,477,882	-	1,477,882	1,434,544
Legacies and bequests	-	300,509	300,509	-	300,509	6,284,456
Grants and fees from contracting agencies	32,716,886	-	32,716,886	-	32,716,886	31,044,270
Program service fees	3,406,898	-	3,406,898	-	3,406,898	3,020,803
Realized gains on sale of investments	-	20,882	20,882	33,045	53,927	2,827,682
Unrealized gains (losses) on investments	-	82,128	82,128	214,854	296,982	(2,033,699)
Interest and dividends	268	400,242	400,510	432,035	832,545	760,372
Income distribution (Note 2)	350,000	(350,000)	-	-	-	-
Rental revenue (Note 12)	876,056	-	876,056	-	876,056	901,730
Other income	500,272	-	500,272	-	500,272	865,367
Net Assets Released from Restrictions (Note 10)						
Satisfaction of program restrictions	5,001,012	(166,183)	4,834,829	(4,834,829)	-	-
Satisfaction of income distribution requirement (Note 2)	220,000	-	220,000	(220,000)	-	-
Satisfaction of capital acquisition restrictions	3,138,530	-	3,138,530	(3,138,530)	-	-
Total Revenues, Gains and Other Support	<u>48,883,746</u>	<u>287,578</u>	<u>49,171,324</u>	<u>(1,422,313)</u>	<u>47,749,011</u>	<u>50,351,094</u>
EXPENSES						
Program Services						
Health and wellness	11,285,373	-	11,285,373	-	11,285,373	10,928,807
Arts center	2,598,667	-	2,598,667	-	2,598,667	2,551,732
Youth and employment training	12,174,211	-	12,174,211	-	12,174,211	11,630,470
Shelter and Transitional Housing	13,796,723	-	13,796,723	-	13,796,723	12,895,986
Total Program Services	<u>39,854,974</u>	<u>-</u>	<u>39,854,974</u>	<u>-</u>	<u>39,854,974</u>	<u>38,006,995</u>
Supporting Services						
Management and general	4,799,001	-	4,799,001	-	4,799,001	4,152,475
Fundraising	1,180,610	-	1,180,610	-	1,180,610	1,083,866
Total Supporting Services	<u>5,979,611</u>	<u>-</u>	<u>5,979,611</u>	<u>-</u>	<u>5,979,611</u>	<u>5,236,341</u>
Total Expenses	<u>45,834,585</u>	<u>-</u>	<u>45,834,585</u>	<u>-</u>	<u>45,834,585</u>	<u>43,243,336</u>
Change in Net Assets Before Other Changes	3,049,161	287,578	3,336,739	(1,422,313)	1,914,426	7,107,758
OTHER CHANGES						
Transfer from Board Designated Fund	114,116	(114,116)	-	-	-	-
Adjustment of prior year reserves	-	-	-	-	-	537,000
Change in Net Assets	<u>3,163,277</u>	<u>173,462</u>	<u>3,336,739</u>	<u>(1,422,313)</u>	<u>1,914,426</u>	<u>7,644,758</u>
NET ASSETS						
Beginning of year	<u>9,847,555</u>	<u>6,291,677</u>	<u>16,139,232</u>	<u>31,381,500</u>	<u>47,520,732</u>	<u>39,875,974</u>
End of year	<u>\$ 13,010,832</u>	<u>\$ 6,465,139</u>	<u>\$ 19,475,971</u>	<u>\$ 29,959,187</u>	<u>\$ 49,435,158</u>	<u>\$ 47,520,732</u>

See notes to consolidated financial statements

Henry Street Settlement and Affiliates

Consolidated Statement of Functional Expenses Year Ended June 30, 2019 (with summarized totals for the year ended June 30, 2018)

	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	2019	2018	
Salaries	\$ 4,703,991	\$ 1,266,009	\$ 7,064,395	\$ 5,038,876	\$ 18,073,271	\$ 2,744,004	\$ 689,070	\$ -	\$ 3,433,074	\$ 21,506,345	\$ 20,634,099
Payroll taxes and employee benefits	<u>1,443,302</u>	<u>334,702</u>	<u>1,864,927</u>	<u>1,878,207</u>	<u>5,521,138</u>	<u>661,917</u>	<u>165,631</u>	<u>-</u>	<u>827,548</u>	<u>6,348,686</u>	<u>5,851,327</u>
Total Salaries and Related Expenses	6,147,293	1,600,711	8,929,322	6,917,083	23,594,409	3,405,921	854,701	-	4,260,622	27,855,031	26,485,426
Professional fees and contract service payments	1,587,117	460,697	507,363	1,685,702	4,240,879	703,219	151,548	90,682	945,449	5,186,328	4,430,992
Supplies	273,075	64,270	668,437	814,518	1,820,300	147,918	94,739	71,131	313,788	2,134,088	1,764,165
Telephone	146,949	19,882	160,337	174,779	501,947	58,957	4,690	-	63,647	565,594	496,910
Postage and shipping	25,180	45,422	30,515	21,335	122,452	97,264	37,925	-	135,189	257,641	256,854
Occupancy expense (Note 13)	596,481	220,848	908,595	2,101,570	3,827,494	38,515	11,032	-	49,547	3,877,041	3,829,479
Equipment purchases and rentals	163,991	79,352	137,266	591,788	972,397	55,432	8,903	73,524	137,859	1,110,256	1,123,298
Transportation	133,676	14,433	169,691	58,277	376,077	21,433	1,985	-	23,418	399,495	395,733
Insurance	68,014	21,830	60,596	278,413	428,853	14,694	956	-	15,650	444,503	436,398
Bank charges and custodial fees	1,757	19,120	7,137	172	28,186	40,938	2,093	-	43,031	71,217	239,592
Interest	-	-	-	421,026	421,026	114,116	-	-	114,116	535,142	388,962
Food	1,724,320	11,108	269,718	226,014	2,231,160	59,231	8,268	171,767	239,266	2,470,426	2,344,390
Stipends	294,349	-	19,019	-	313,368	-	-	-	-	313,368	306,560
Membership fees and conferences	7,142	3,754	41,068	31,089	83,053	16,296	2,138	-	18,434	101,487	107,726
Scholarships	-	-	133,925	-	133,925	-	-	-	-	133,925	138,366
Depreciation and amortization	116,029	37,240	131,222	474,957	759,448	25,067	1,632	-	26,699	786,147	681,314
Bad debt expense	-	-	-	-	-	-	-	-	-	-	9,025
Total Expenses	11,285,373	2,598,667	12,174,211	13,796,723	39,854,974	4,799,001	1,180,610	407,104	6,386,715	46,241,689	43,435,190
Less costs with direct benefit to donors	-	-	-	-	-	-	-	(407,104)	(407,104)	(407,104)	(191,854)
Total Expenses Reported by Function on the Statement of Activities	<u>\$ 11,285,373</u>	<u>\$ 2,598,667</u>	<u>\$ 12,174,211</u>	<u>\$ 13,796,723</u>	<u>\$ 39,854,974</u>	<u>\$ 4,799,001</u>	<u>\$ 1,180,610</u>	<u>\$ -</u>	<u>\$ 5,979,611</u>	<u>\$ 45,834,585</u>	<u>\$ 43,243,336</u>

See notes to consolidated financial statements

Henry Street Settlement and Affiliates

Consolidated Statement of Cash Flows
Year Ended June 30, 2019
(with comparative amounts for the year ended June 30, 2018)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,914,426	\$ 7,644,758
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	786,147	681,314
Realized gains on sale of investments	(53,927)	(2,827,682)
Unrealized (gains) losses on investments	(296,982)	2,033,699
Bad debt expense	-	9,025
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	(2,048,551)	(793,402)
Accounts receivable	(59,464)	(66,143)
Deposits, prepaid expenses and other assets	574,577	(274,618)
Contributions receivable	1,095,737	1,313,126
Accrued salaries and related liabilities	228,085	719,220
Accounts and accrued expenses payable	(147,870)	881,326
Refundable advances	24,608	(126,253)
	<u>2,016,786</u>	<u>2,657,370</u>
Net Cash from Operating Activities		
	<u>2,016,786</u>	<u>2,657,370</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(10,707,151)	(18,008,485)
Proceeds from sale of investments	10,904,906	12,989,648
Purchase of property and equipment	(5,168,026)	(3,942,048)
	<u>(4,970,271)</u>	<u>(8,960,885)</u>
Net Cash from Investing Activities		
	<u>(4,970,271)</u>	<u>(8,960,885)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for investment in endowment	-	6,000,000
Proceeds from line of credit	4,253,648	-
Payments on line of credit	(1,950,000)	(900,000)
	<u>2,303,648</u>	<u>5,100,000</u>
Net Cash from Financing Activities		
	<u>2,303,648</u>	<u>5,100,000</u>
Net Change in Cash	(649,837)	(1,203,515)
CASH		
Beginning of year	814,963	2,018,478
End of year	<u>\$ 165,126</u>	<u>\$ 814,963</u>
SUPPLEMENTARY CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ 114,116	\$ 85,692

See notes to consolidated financial statements

Henry Street Settlement and Affiliates

Notes to Consolidated Financial Statements
June 30, 2019

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”), which was dissolved during the year ended June 30, 2018
- 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”), which, during 2019, filed a petition of dissolution with the New York State Attorney General’s office.

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. Net assets without donor restrictions are those whose use is not subject to any donor imposed restrictions. The Board Designated Fund is a component of net assets without donor restrictions and have been created by an action of the Settlement’s Board of Directors. The balance is accumulated from the following source:

Henry Street Settlement and Affiliates

Notes to Consolidated Financial Statements
June 30, 2019

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 investments; and portions 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”).

Net assets with donor restrictions 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions. Net assets held as endowment in perpetuity are donor restricted gifts that must be maintained permanently by the Settlement to provide present and future income for operations.

Change in Accounting Principle

On July 1, 2018, the Settlement adopted new guidance, ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements for Not-for-Profit Entities*. This guidance requires the Settlement to collapse the three-category (unrestricted, temporarily restricted, and permanently restricted) classification of net assets into two categories: with donor restrictions and without donor restrictions. In addition, the new guidance requires the Settlement to make certain expanded disclosures relating to (1) the liquidity of financial assets, and (2) expenses by both their natural and functional classification in one location in the consolidated financial statements. As a result of implementing this standard, prior year amounts for temporarily restricted and permanently restricted net assets were combined as net assets with donor restrictions. In addition, prior year amounts for unrestricted net assets were reclassified to net assets without donor restrictions.

Additionally, the new guidance allows for the reporting of investment income net of external and direct internal investment expenses on the consolidated statement of activities, without additional note disclosure.

Henry Street Settlement and Affiliates

Notes to Consolidated Financial Statements
June 30, 2019

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

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, 2018, 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.

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.

Henry Street Settlement and Affiliates

Notes to Consolidated Financial Statements
June 30, 2019

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

Investments Valuation (continued)

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. During the years ended June 30, 2019 and 2018, following the termination of the defined benefit pension plan, management made the decision to distribute only a minimal amount of \$570,000 and \$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>2019</u>	<u>2018</u>
Income distribution - Board Designated Fund	\$ 350,000	\$ 50,000
Net assets released from restrictions - satisfaction of income distribution requirement (See Note 10)	<u>220,000</u>	<u>100,000</u>
	<u>\$ 570,000</u>	<u>\$ 150,000</u>

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 \$1,600 and \$1,800 at June 30, 2019 and 2018.

Henry Street Settlement and Affiliates

Notes to Consolidated Financial Statements
June 30, 2019

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

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.

Property and Equipment

The Settlement capitalizes all expenditures for its property and equipment 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

Impairment of Long-Lived Assets

Long-lived assets such as property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Settlement records impairment losses on long lived assets used in 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, 2019 and 2018.

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.

Henry Street Settlement and Affiliates

Notes to Consolidated Financial Statements
June 30, 2019

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

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 with donor restrictions 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.

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.

Henry Street Settlement and Affiliates

Notes to Consolidated Financial Statements
June 30, 2019

2. Summary of Significant Accounting Policies (continued)

Program Service Fees

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

Advertising Costs

Advertising costs are expensed when incurred. Advertising costs for the years ended June 30, 2019 and 2018 were \$63,277 and \$42,078.

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 based on a time and effort methodology.

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, 2016.

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 30, 2020.

Henry Street Settlement and Affiliates

Notes to Consolidated Financial Statements June 30, 2019

3. Investments

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

	June 30, 2019		June 30, 2018	
	Level 1	Total	Level 1	Total
Short-term investments	\$ 8,157,080	\$ 8,157,080	\$ 6,876,935	\$ 6,876,935
Common and Preferred stock				
U.S. large cap equity	7,034,140	7,034,140	5,858,758	5,858,758
U.S. mid cap equity	2,132,283	2,132,283	1,827,440	1,827,440
International equity	7,347,613	7,347,613	8,751,146	8,751,146
	<u>16,514,036</u>	<u>16,514,036</u>	<u>16,437,344</u>	<u>16,437,344</u>
Mutual Funds				
Intermediate government	371,472	371,472	347,857	347,857
Intermediate-term bonds	-	-	8,317	8,317
Large cap-blend	-	-	551,197	551,197
Large cap-growth	-	-	21,486	21,486
Large cap-value	-	-	26,243	26,243
Medium cap-growth	-	-	45,898	45,898
Medium cap-value	-	-	24,985	24,985
Small cap-value	-	-	3,867	3,867
Real estate and commodities	1,209,333	1,209,333	2,811,440	2,811,440
	<u>1,580,805</u>	<u>1,580,805</u>	<u>3,841,290</u>	<u>3,841,290</u>
	<u>\$ 26,251,921</u>	26,251,921	<u>\$ 27,155,569</u>	27,155,569
Certificates of deposit, at cost		423,300		652,198
Investment in limited partnerships (1)		<u>6,254,920</u>		<u>4,969,220</u>
		<u>\$ 32,930,141</u>		<u>\$ 32,776,987</u>

Henry Street Settlement and Affiliates

Notes to Consolidated Financial Statements
June 30, 2019

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, 2019 and 2018, 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:

	2019			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Equity long/short hedge funds (a)	\$ 3,271,709	\$ -	varies	7-70 days
Private equity (b)	<u>2,983,211</u>	<u>1,762,266</u>	N/A	N/A
Total	<u>\$ 6,254,920</u>	<u>\$ 1,762,266</u>		
	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>	N/A	N/A
Total	<u>\$ 4,969,220</u>	<u>\$ 1,385,657</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, 2019

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 estimated 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 \$2,372,292 and \$3,468,029 at June 30, 2019 and 2018. Management determined that there was no need for an allowance for doubtful accounts at June 30, 2019 and 2018.

5. Property and Equipment

Property and equipment consist of the following at June 30:

	<u>2019</u>	<u>2018</u>
Land	\$ 716,984	\$ 716,984
Building, building improvements and leasehold improvements	28,407,980	27,654,322
Furniture and equipment	4,670,623	4,641,196
Construction in progress	<u>8,685,643</u>	<u>4,733,970</u>
	42,481,230	37,746,472
Accumulated depreciation and amortization	<u>(20,156,034)</u>	<u>(19,803,155)</u>
	<u>\$ 22,325,196</u>	<u>\$ 17,943,317</u>

Assets with a cost basis and accumulated depreciation of \$433,268 were disposed of during the year ended June 30, 2019.

Henry Street Settlement and Affiliates

Notes to Consolidated Financial Statements
June 30, 2019

6. Liquidity and Availability of Financial Assets

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of the statement of financial position date, are comprised of the following at June 30, 2019:

Financial assets at year end:	
Cash	\$ 165,126
Investments	32,930,141
Due from contracting agencies	10,178,142
Accounts receivable	592,157
Contributions receivable	<u>2,372,292</u>
Total financial assets	<u>46,237,858</u>
Less: amounts not available to be used within one year:	
Net assets with donor restrictions	(29,959,187)
Board designated fund	(6,465,139)
Add: net assets with purpose restrictions expected to be met in less than one year	<u>2,307,890</u> <u>(34,116,436)</u>
Financial assets at year end available to meet cash needs for general expenditures within one year:	<u>\$ 12,121,422</u>

The Settlement has a line of credit available to meet cash flow needs in the amount of \$5,000,000, which has been subsequently increased to \$7,000,000 during fiscal year 2020. As of June 30, 2019, \$246,352 was available for drawdown on this line of credit. The Settlement's Board Designated Fund balance of \$6.5M is also available for operations after action by the Board of Directors.

7. 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, 2019 and 2018, no liability remains.

Henry Street Settlement and Affiliates

Notes to Consolidated Financial Statements
June 30, 2019

7. Pensions (continued)

(b) Defined Contribution Plan

The Settlement provides a 403(b) defined contribution plan and contributes 5% of base salary for eligible employees. Contributions for the years ended June 30, 2019 and 2018 totaled \$856,943 and \$780,029.

(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, 2019 and 2018 in connection with this plan. At June 30, 2019 and 2018, there was no unfunded balance.

8. 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, 2019, \$4,253,648 was drawn down on this line of credit. Balance due on this line of credit at June 30, 2019 and 2018 was \$4,753,648 and \$2,450,000. Interest expense for the years ended June 30, 2019 and 2018 was \$114,116 and \$85,692. Two investment accounts held with J.P. Morgan are identified as specific collateral for this commitment. The line of credit was renewed on October 31, 2019 to expire on October 31, 2020 and increased to \$7,000,000.

9. Mortgages Payable

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

	<u>2019</u>	<u>2018</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, 2019

9. 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, 2019 and 2018, 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, 2019 and 2018. Cumulative interest of \$587,153 and \$537,021 has been accrued as of June 30, 2019 and 2018. 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, 2019 and 2018 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, 2019 and 2018, 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 \$370,894 is included in grants and fees from contracting agencies and interest expense for each of the years ended June 30, 2019 and 2018 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:

7/1/2017 – 12/13/2017	4.25%
12/14/2017 – 3/21/2018	4.50%
3/22/2018 – 6/13/2018	4.75%
6/14/2018 – 9/26/2018	5.00%
9/27/2018 – 12/19/2018	5.25%
12/20/2018 – 6/30/2019	5.50%

Henry Street Settlement and Affiliates

Notes to Consolidated Financial Statements June 30, 2019

10. Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes at June 30:

	2019	2018
Subject to expenditure for specified purpose or period:		
Arts program	\$ 1,663,770	\$ 1,502,404
Capital campaign	1,554,592	3,544,508
Community and social development	1,358,424	1,062,630
Millennium campaign	916,304	857,317
Workforce development center	1,376,629	1,491,961
Youth activities	1,499,264	1,371,582
Youth programs	710,069	670,963
Total subject to expenditure for specified purpose or period	9,079,052	10,501,365
Endowments subject to the Settlement's spending policy and appropriation:		
Arts program	2,373,168	2,373,168
Workforce development center	2,000,000	2,000,000
Youth activities	7,924,014	7,924,014
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
Total endowments subject to the Settlement's spending policy and appropriation	20,880,135	20,880,135
Total net assets with donor restrictions	\$ 29,959,187	\$ 31,381,500

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

	2019	2018
Satisfaction of Program Restrictions		
Arts program	\$ 571,820	\$ 566,253
Capital campaign	162,886	140,208
Community and social development	1,768,630	1,880,105
Workforce development center	1,449,164	1,265,986
Youth activities	753,634	792,792
Youth programs	128,695	107,000
Total	4,834,829	4,752,344
Income Distribution Requirement		
Youth programs	220,000	100,000
Total	220,000	100,000
Satisfaction of capital acquisition restrictions	3,138,530	3,296,749
Total	\$ 8,193,359	\$ 8,149,093

Henry Street Settlement and Affiliates

Notes to Consolidated Financial Statements
June 30, 2019

11. Endowment Fund

General

The Settlement's net assets with donor restrictions include 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 fair value of the funds previous five years' balance. As a result of this interpretation, the Settlement retains in perpetuity (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the 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 retained in perpetuity is subject to appropriation for expenditure 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 donor 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, 2019

11. 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, 2019 and 2018:

	Temporary in Nature	Permanent in Nature	Total
Balance, June 30, 2017	\$ 3,295,531	\$ 14,880,135	\$ 18,175,666
Contributions	-	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	3,910,911	20,880,135	24,791,046
Interest and dividends	432,035	-	432,035
Investment gain, net	247,899	-	247,899
Appropriation for expenditure	(220,000)	-	(220,000)
Balance, June 30, 2019	<u>\$ 4,370,845</u>	<u>\$ 20,880,135</u>	<u>\$ 25,250,980</u>

12. Rental Revenue

The Settlement leases apartments to qualifying low-income individuals under one-year non-cancelable leases. Rental revenue was \$653,121 and \$636,371 for the years ended June 30, 2019 and 2018.

The Settlement rented out space, including theater facilities, under per diem lease arrangements. Rental income totaled \$222,935 and \$265,359 for the years ended June 30, 2019 and 2018.

13. Occupancy Expense

Included within occupancy costs is rent expense (exclusive of in-kind rentals) of \$760,632 and \$814,594 for the years ended June 30, 2019 and 2018. These costs are largely associated with month-to-month rentals and include rental assistance paid on behalf of housing assistance program participants.

The Settlement leases space at 99 Essex Street under a noncancelable operating lease agreement expiring May 2022. In May 2019, the Settlement opted to early terminate this lease as of August 2019, in accordance with the terms of the lease agreement.

Henry Street Settlement and Affiliates

Notes to Consolidated Financial Statements
June 30, 2019

13. Occupancy Expense (*continued*)

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, 2019 and 2018. Total rent expense (including in-kind rentals) was \$3,877,041 and \$3,829,479 for June 30, 2019 and 2018.

14. 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 42% and 58% of the Settlement's contributions receivable is from one donor as of June 30, 2019 and 2018. The amount of this one contribution receivable as of June 30, 2019 and 2018 is \$1,000,000 and \$2,000,000, 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, 2019 and 2018, the uninsured portion of the cash balance was \$116,388 and \$125,845. 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. All receivables are expected to be collected in the normal course of business operations.

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.

15. 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.

Henry Street Settlement and Affiliates

Notes to Consolidated Financial Statements
June 30, 2019

16. Dissolution

During the year ended June 30, 2019, the Board adopted a resolution to formally close HUL. Legal counsel is proceeding with the necessary steps to accomplish this but has not received final attorney general approval as of yet. Showing this as a discontinued operation is not appropriate as this requires attorney general approval. However, management does not believe that there would be any significant difference in the consolidated financial statements as of and for the years ended June 30, 2019 if HUL was shown as a discontinued operation as the net assets of HUL are expected to be transferred to Henry Street.

The remaining net assets and activities will transfer into Henry Street upon receiving final attorney general approval. The below table shows the financial activity for HUL for the years ended June 30, 2019:

Assets	\$ 16,780
Liabilities	<u>921,997</u>
Net Assets	<u>\$ (905,217)</u>
Revenues	\$ 220,211
Expenses	<u>528,866</u>
Change in Net Assets	<u>\$ (308,655)</u>

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