HENRY STREET SETTLEMENT
AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS
AND AUDITOR'S REPORT

JUNE 30, 2015

HENRY STREET SETTLEMENT AND AFFILIATES

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LOEB & TROPER LLP

Independent Auditor's Report

Board of Directors
Henry Street Settlement
and Affiliates

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Henry Street Settlement and Affiliates, which comprise the consolidated balance sheet as of June 30, 2015, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Henry Street Settlement and Affiliates as of June 30, 2015, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Henry Street Settlement and Affiliates' June 30, 2014 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated December 17, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Loeb & Troper LLP

January 28, 2016

EXHIBIT A

HENRY STREET SETTLEMENT AND AFFILIATES

CONSOLIDATED BALANCE SHEET

JUNE 30, 2015
(With Summarized Financial Information for June 30, 2014)

	2015	2014
ASSETS		
Cash (Note 10)	$ 3,942,301	$ 8,801,560
Certificates of deposit	5,137,867	3,119,112
Investments (Note 4)	26,923,401	26,742,814
Due from contracting agencies - net (Note 2)	5,832,612	4,294,837
Accounts receivable - net (Note 2)	298,320	233,015
Deposits, prepaid expenses and other assets	245,014	524,599
Contributions receivable (Note 3)	5,606,485	7,401,624
Fixed assets - net (Note 5)	12,061,746	10,721,677
Total assets	$ 60,047,746	$ 61,839,238
LIABILITIES AND NET ASSETS		
Liabilities		
Accrued salaries and related liabilities	$ 1,050,802	$ 931,899
Accounts and accrued expenses payable	2,485,007	3,267,965
Accrued defined benefit pension plan costs (Note 8)	2,213,111	2,568,898
Refundable advances (Note 2)	2,914,754	3,087,838
Mortgages payable (Note 7)	7,911,173	9,829,499
Total liabilities	16,574,847	19,686,099
Net assets (Exhibit B)		
Unrestricted		
Operating fund	145,663	521,476
Board-designated fund	7,551,152	8,307,491
Plant fund	4,204,353	994,844
Total unrestricted	11,901,168	9,823,811
Temporarily restricted (Note 12)	16,691,596	17,449,193
Permanently restricted (Note 12)	14,880,135	14,880,135
Total net assets	43,472,899	42,153,139
Total liabilities and net assets	$ 60,047,746	$ 61,839,238

See independent auditor's report.

The accompanying notes are an integral part of these statements.

HENRY STREET SETTLEMENT AND AFFILIATES **EXHIBIT B**

CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2015
(With Summarized Financial Information
for the Year Ended June 30, 2014)

		Unrestricted							Total	
		Operating Fund	Boys and Girls Republic	Board Designated Fund	Plant Fund	Total	Temporarily Restricted	Permanently Restricted	2015	2014
Revenues, gains (losses) and other support										
Contributions										
General Public		$ 981,935	$ 76			$ 982,011	$ 4,564,494		$ 5,546,505	$ 5,899,740
Capital campaign							483,908		483,908	4,739,273
Special events	$ 2,005,611									
Less costs of direct benefits of special events	(268,428)									
Net revenues from special events		1,737,183				1,737,183			1,737,183	2,015,253
Legacies and bequests		5,693		$ 253,900		259,593			259,593	105,763
Grants and fees from contracting agencies		26,515,811	505,638			27,021,449			27,021,449	25,680,741
Program service fees		2,550,311	120			2,550,431			2,550,431	2,173,286
Interest and dividends		3,180	62	279,376	$ 226	282,844	205,705		488,549	479,815
Realized gains (losses) on sale of investments - net				481,484		481,484	343,519		825,003	(142,979)
Unrealized gains (losses) on investments - net				(285,055)		(285,055)	(203,302)		(488,357)	3,006,721
Income distribution (Note 2)		552,477	50,000	(602,477)						
Rental income		697,641	20,960			718,601			718,601	782,379
Other income		96,823	32,724			129,547			129,547	124,489
Net assets released from restrictions (Note 12)										
Satisfaction of program restrictions		3,824,621	269,815			4,094,436	(4,094,436)			
Satisfaction of income distribution requirement		371,440	79,083			450,523	(450,523)			
Satisfaction of capital acquisition restrictions					1,606,962	1,606,962	(1,606,962)			
Total revenues, gains (losses) and other support		37,337,115	958,478	127,228	1,607,188	40,030,009	(757,597)		39,272,412	44,864,481

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HENRY STREET SETTLEMENT AND AFFILIATES **EXHIBIT B**

CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2015
(With Summarized Financial Information
for the Year Ended June 30, 2014)

	Unrestricted							Total	
	Operating Fund	Boys and Girls Republic	Board Designated Fund	Plant Fund	Total	Temporarily Restricted	Permanently Restricted	2015	2014
Expenses (Exhibit C)									
Program services									
Health and wellness	$ 9,607,358			$ 85,958	$ 9,693,316			$ 9,693,316	$ 9,803,193
Arts center	2,780,107			30,041	2,810,148			2,810,148	2,507,468
Education and employment training	9,520,696	$ 925,821		127,252	10,573,769			10,573,769	9,308,718
Shelter and transitional housing	11,075,597			349,740	11,425,337			11,425,337	11,091,121
Total program services	32,983,758	925,821		592,991	34,502,570			34,502,570	32,710,500
Supporting services									
Management and general	3,994,795	75,386		20,222	4,090,403			4,090,403	3,922,137
Fund raising	1,018,707			1,316	1,020,023			1,020,023	960,598
Total supporting services	5,013,502	75,386		21,538	5,110,426			5,110,426	4,882,735
Total expenses	37,997,260	1,001,207		614,529	39,612,996			39,612,996	37,593,235
Change in net assets before other changes	(660,145)	(42,729)	$ 127,228	992,659	417,013	$ (757,597)		(340,584)	7,271,246
Transfer to Boys and Girls Republic, Inc. - Operating Fund		42,729	(42,729)						
Transfers to fund fixed asset acquisitions	(126,113)		(172,411)	298,524					
Adjustment to pension funded status	(257,982)				(257,982)			(257,982)	896,330
Transfer to Operating Fund	668,427		(668,427)						
Satisfaction of mortgage requirements (Note 7)				1,918,326	1,918,326			1,918,326	
Change in net assets (Exhibit D)	(375,813)	-	(756,339)	3,209,509	2,077,357	(757,597)		1,319,760	8,167,576
Net assets - beginning of year	521,476		8,307,491	994,844	9,823,811	17,449,193	$ 14,880,135	42,153,139	33,985,563
Net assets - end of year (Exhibit A)	$ 145,663	$ -	$ 7,551,152	$ 4,204,353	$ 11,901,168	$ 16,691,596	$ 14,880,135	$ 43,472,899	$ 42,153,139

See independent auditor's report.

The accompanying notes are an integral part of these statements.

HENRY STREET SETTLEMENT AND AFFILIATES **EXHIBIT C**

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2015
(With Summarized Financial Information
for the Year Ended June 30, 2014)

	Program Services					Supporting Services				Total	
	Health and Wellness	Arts Center	Education and Employment Training	Shelter and Transitional Housing	Total	Cost of Direct Benefits of Special Events	Management and General	Fund Raising	Total	2015	2014
Salaries	$ 4,018,614	$ 1,148,065	$ 5,661,990	$ 4,599,823	$ 15,428,492		$ 2,203,230	$ 587,335	$ 2,790,565	$ 18,219,057	$ 17,246,199
Payroll taxes and employee benefits	1,281,295	273,454	1,540,259	1,664,653	4,759,661		707,331	173,797	881,128	5,640,789	5,501,685
Total salaries and related expenses	5,299,909	1,421,519	7,202,249	6,264,476	20,188,153		2,910,561	761,132	3,671,693	23,859,846	22,747,884
Professional fees and contract service payments	1,328,904	696,385	594,863	1,060,541	3,680,693	$ 6,988	556,410	118,739	682,137	4,362,830	4,126,880
Supplies	203,056	138,551	546,191	624,547	1,512,345	141,221	185,761	53,981	380,963	1,893,308	1,699,201
Telephone and internet	150,472	32,824	136,736	118,896	438,928		78,993	5,595	84,588	523,516	530,995
Postage and shipping	10,078	114,927	36,455	7,981	169,441		71,685	46,211	117,896	287,337	231,386
Occupancy (Note 9)	481,851	175,322	895,751	1,676,242	3,229,166		25,725	4,165	29,890	3,259,056	3,270,188
Equipment purchases and rentals	182,183	115,998	262,784	496,366	1,057,331	17,623	47,675	9,779	75,077	1,132,408	931,036
Transportation	103,745	25,577	148,103	58,199	335,624		11,357	1,497	12,854	348,478	260,740
Insurance	71,050	24,831	77,940	289,085	462,906		16,715	1,088	17,803	480,709	538,449
Bank charges and custodial fees	492	11,134	8,320		19,946		85,201	6,470	91,671	111,617	165,042
Interest (Note 7)				257,113	257,113					257,113	319,459
Food	1,478,710	16,973	269,082	214,610	1,979,375	102,596	29,952	5,401	137,949	2,117,324	1,910,187
Stipends	291,560	668	112,248		404,476					404,476	387,169
Membership fees and conferences	5,348	5,398	49,407	7,541	67,694		9,978	4,649	14,627	82,321	118,755
Scholarships			106,388		106,388					106,388	51,662
Depreciation and amortization	85,958	30,041	127,252	349,740	592,991		20,222	1,316	21,538	614,529	615,618
Bad debts							40,168		40,168	40,168	7,017
Total expenses	9,693,316	2,810,148	10,573,769	11,425,337	34,502,570	268,428	4,090,403	1,020,023	5,378,854	39,881,424	37,911,668
Less expenses deducted directly from revenues on the statement of activities											
Cost of direct benefits of special events						(268,428)			(268,428)	(268,428)	(318,433)
Total expenses reported by function on the statement of activities (Exhibit B)	$ 9,693,316	$ 2,810,148	$ 10,573,769	$ 11,425,337	$ 34,502,570	$ -	$ 4,090,403	$ 1,020,023	$ 5,110,426	$ 39,612,996	$ 37,593,235

See independent auditor's report.

The accompanying notes are an integral part of these statements.

EXHIBIT D

HENRY STREET SETTLEMENT AND AFFILIATES

CONSOLIDATED STATEMENT OF CASH FLOWS

YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
Cash flows from operating activities		
Change in net assets (Exhibit B)	$ 1,319,760	$ 8,167,576
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation and amortization	614,529	615,618
Satisfaction of mortgage requirements	(1,918,326)	
(Gain) loss on sale of investments - net	(825,003)	142,979
Unrealized (gain) loss on investments - net	488,357	(3,006,721)
Decrease (increase) in assets		
Due from contracting agencies	(1,537,775)	2,382,000
Accounts receivable	(65,305)	5,353
Deposits, prepaid expenses and other assets	279,585	(301,978)
Contributions receivable	1,795,139	(3,810,937)
Increase (decrease) in liabilities		
Accrued salaries and related liabilities	118,903	133,305
Accounts and accrued expenses payable	(782,958)	1,813,536
Accrued defined benefit pension plan costs	(355,787)	(1,020,763)
Refundable advances	(173,084)	(1,863,957)
Net cash provided (used) by operating activities	(1,041,965)	3,256,011
Cash flows from investing activities		
Purchase of investments	(8,584,840)	(3,142,105)
Proceeds from sale of investments	6,722,144	3,777,651
Purchase of fixed assets	(1,954,598)	(582,382)
Net cash provided (used) by investing activities	(3,817,294)	53,164
Net change in cash	(4,859,259)	3,309,175
Cash - beginning of year	8,801,560	5,492,385
Cash - end of year	$ 3,942,301	$ 8,801,560
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	$ -	$ -

See independent auditor's report.

The accompanying notes are an integral part of these statements.

NOTE 1 - NATURE OF ORGANIZATION

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

The Settlement is the parent company of the following entities which are consolidated within these financial statements:

Henry Street Housing Development Fund Corporation (HSHDFC)
The Second Henry Street Housing Development Fund Corporation (SHSHDFC)
Boys and Girls Republic Inc. (BGR)
Henry Street Settlement Health Services, Inc. d/b/a Health Unlimited (HUL)
Henry Street Housekeeping Assistance Services, Inc. (HSHAS)
Henry Street Home Care Services (HSHCS)

All of the above companies are not-for-profit corporations exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, except for HSHCS, which is a for-profit corporation.

HSHCS did not have any revenue in 2015 and did not have any tax liability.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Method of Accounting

The financial statements are prepared on the accrual basis of accounting.

B. Consolidation

All material intercompany transactions and balances have been eliminated in the consolidation.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

D. Summarized Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Settlement's financial statements for the year ended June 30, 2014, from which the summarized information was derived.

E. Reclassification

2014 interest expense amounts by functional category have been reclassified to conform to the current year's presentation.

F. Certificates of Deposit

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

G. Investments

Investments are reported at their fair value. The Settlement invests in various types of investment securities. Investment securities, in general, are exposed to various risks such as interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term, based on the markets' fluctuations, and that such changes could materially affect the amounts reported in the Settlement's financial statements.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Investments (continued)

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

Funds are to be distributed at a level amount to be determined annually within a range of 3.5% to 4.5% of the portfolio's values. For the year ended June 30, 2015, the distribution amount was set at $1,053,000 (or approximately 4%). The distribution is allocated between income distribution from the Board Designated Fund and releases from Temporarily Restricted Funds (provided sufficient expenses were incurred to demonstrate that restrictions were satisfied) based on the rolling average net assets of the funds associated with these investments. This amount is reflected in Operating Fund activities as:

Income distribution - Board Designated Fund	$ 602,477
Net assets released from program restrictions - satisfaction of income distribution requirement	450,523
	$ 1,053,000

H. Due from Contracting Agencies

The Settlement records revenue and receivables for grants from contracting agencies based on claims for expense reimbursements and program utilization at contracted rates. Receivables are charged to bad debt expense when they are determined to be uncollectible based upon a periodic review of the accounts by management. Interest is not accrued or recorded on outstanding accounts receivable.

I. Accounts Receivable

The Settlement records revenue and receivables for program service fees due from individuals based on program utilization at approved rates. Receivables are charged to bad debt expense when they are determined to be uncollectible based upon a periodic review of the accounts by management. Interest is not accrued or recorded on outstanding accounts receivable.

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HENRY STREET SETTLEMENT AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Allowance for Doubtful Accounts

Factors used to determine whether an allowance should be recorded include the age of the receivable and a review of payments subsequent to year end. As of June 30, 2015, management has recorded an allowance for doubtful accounts pertaining to amounts due from contracting agencies and accounts receivable of $38,257 and $20,393, respectively.

K. Contributions Receivable

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

L. Fixed Assets

The Settlement capitalizes all expenditures for fixed assets in excess of $5,000 with a useful life greater than one year. Depreciation is provided over the estimated useful lives of the assets and is determined on the straight-line method. Amortization of leasehold improvements is provided over the lesser of the estimated useful lives of the assets or lease term and is determined on the straight-line method.

M. Remainder Interest

The Settlement is the beneficiary of a remainder interest trust, the value of which is indeterminable. Accordingly, this interest has not been reflected in the financial statements.

N. Refundable Advances

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

O. Net Assets

Unrestricted net assets include funds having no restrictions as to use or purpose imposed by donors. Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose. Permanently restricted net assets are limited by donors for investment.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

P. Board Designated Fund

The Board Designated Fund, a component of unrestricted net assets, has been created by an action of the Settlement's Board of Directors. The balance is accumulated from the following sources:

- Contributions from board members as part of a campaign; legacies and bequests greater than $5,000; investment income from certain board-designated unrestricted investments; and the unrestricted portion of realized and unrealized gains and losses on the permanently restricted investments, subject to restrictions by the New York Prudent Management of Institutional Funds Act (NYPMIFA).

- The accumulated balance is used to fund any fixed asset acquisitions which have not been otherwise funded and deficits in the Operating Fund and to offset pension funded status adjustments when necessary and if approved by the Board.

Q. Grants and Fees from Contracting Agencies

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

Revenues from fee-for-service and reimbursement contracts with New York State and New York City are recorded at rates established by the governmental payors. Revenues are recorded based on estimated allowable costs and are subject to audit and adjustment by governmental payors. The effects of such adjustments are recorded when reasonably determinable.

Laws and regulations governing the Settlement's programs, including Medicaid-funded programs, are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Additionally, noncompliance with such laws and regulations could result in fines, penalties, and exclusion from such programs. The Settlement is not aware of any allegations of noncompliance that could have a material adverse effect on the Settlement's consolidated change in net assets or consolidated financial position and believes that it is substantially in compliance with all applicable laws and regulations.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Q. ***Grants and Fees from Contracting Agencies*** *(continued)*

The Settlement receives certain funding for its programs in the form of operational grants, which usually run for a period of one year or longer. This support is restricted to operations within the terms of the grants and, accordingly, recognition of grant support is deferred until qualified expenditures are incurred. The excess of grant support over expenses incurred is recorded and reflected within refundable advances.

R. ***Satisfaction of Mortgage Requirements***

Satisfaction of mortgage requirements is recorded for mortgages which the Settlement has obtained formal release approval from the funding source after satisfying contractual requirements. See Note 7.

S. ***Contributions***

Unconditional contributions, including promises to give cash and other assets, are reported at fair value at the date the contribution is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

T. ***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.

U. ***Program Service Fees***

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

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

V. Rental Income and Expense

All leases are operating leases and are reflected on the straight-line basis for all lease agreements. Deferred rent is recorded when material.

W. Functional Expense Presentation

The costs of providing the Settlement's services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

X. Fair Value Measurements

Fair Value Measurements establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are described below.

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Settlement has the ability to access. Level 2 inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability. Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement. The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2015 as compared to those used in 2014.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

X. Fair Value Measurements (continued)

- ***Short-term investments* -** Short-term investments consist of cash and money market funds which are being maintained within the investment portfolio. Value is based on actual cash balance, net asset value (NAV) or closing price reported on the active market on which the individual security is traded, as applicable.

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

- ***Mutual funds and exchange-traded fund* -** Valued at the net asset value (NAV) of shares held at year end.

- ***Alternative investments* -** Estimated fair values, in the absence of readily ascertainable market values, have been determined by the investment managers. The methods and procedures used to value these investments may include, but are not limited to: (1) performing comparisons with prices of comparable or similar securities; (2) obtaining valuation-related information from issuers; and/or (3) other analytical data relating to the investment and using other available indications of value.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Settlement believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

A table setting forth by level, within the fair value hierarchy, the assets at fair value as of June 30, 2015 is included in Note 4.

Y. Uncertainty in Income Taxes

Henry Street Settlement and Affiliates has determined that there are no material uncertain tax positions that require recognition or disclosure in the consolidated financial statements. Periods ending June 30, 2012 and subsequent remain subject to examination by applicable taxing authorities.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Z. Subsequent Events

Subsequent events have been evaluated through January 28, 2016, which is the date the consolidated financial statements were available to be issued.

NOTE 3 - CONTRIBUTIONS RECEIVABLE

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

2015-2016	$ 2,697,135
2016-2017	1,911,334
2017-2018	1,169,500
2018-2019	91,000
2019-2020	51,000
	5,919,969
Less discount to present value	(313,484)
	$ 5,606,485

$4,000,000 of the gross contributions receivable as of June 30, 2015 is due from one donor.

NOTE 4 - INVESTMENTS

The following table sets forth by level, within the fair value hierarchy as described in Note 2, the investment portfolio's assets at fair value as of June 30, 2015:

	Level 1*	Level 3*	Total
Short-term investments	$ 1,255,993		$ 1,255,993
Common and preferred stock			
U.S. large cap equity	4,685,352		4,685,352
U.S. mid cap equity	1,819,857		1,819,857
U.S. small cap equity	244,635		244,635
International equity	5,614,026		5,614,026
	12,363,870		12,363,870
Corporate obligations	3,767,691		3,767,691

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HENRY STREET SETTLEMENT AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 4 - INVESTMENTS (continued)

	Level 1*	Level 3*	Total
Mutual funds			
Intermediate government	$ 333,617		$ 333,617
Intermediate-term bonds	7,877		7,877
Large cap - blend	4,481		4,481
Large cap - growth	16,582		16,582
Large cap - value	21,953		21,953
Medium cap - growth	36,404		36,404
Real estate and commodities	1,915,715		1,915,715
Medium cap - value	20,763		20,763
Small cap - value	3,002		3,002
	2,360,394		2,360,394
Exchange-traded fund	231,064		231,064
Alternative investments		$ 6,944,389	6,944,389
Grand total	$ 19,979,012	$ 6,944,389	$ 26,923,401

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

A summary of changes in Level 3 investments is as follows:

	Level 3
Balance, beginning of year	$ 6,545,378
Unrealized gain	284,305
Realized gain	92,549
Sales	(402,585)
Purchases	424,742
Balance, end of year	$ 6,944,389
* The amount of total gain for the period included in changes in net assets attributable to the change in unrealized gain relating to assets still held at the reporting date	$ 284,305

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NOTE 4 - INVESTMENTS (continued)

Level 3 investments (continued)

Fund Name	Unfunded Commitments	Redemption Frequency	Notice Period	Description of Fund	Amount
Fund A	None	Quarterly	70 days	The overall long/short strategy of the fund seeks to construct a portfolio in which performance of the fund is determined by stock selection and not overly influenced by overall market direction. The fund aims to construct each portfolio with low gross and low net market exposures to allow stock selection on both the long and short sides to drive returns.	$ 653,589
Fund B	None	Quarterly	45 days	The fund employs a macro strategy emphasizing strategic asset allocation and trading and major markets of a diversified, fundamental global macro fund.	718,762
Fund C	None	Quarterly	50 days	The fund is designed to benefit from the complementary risk profiles of the Impala Fund and the Steenbok Fund. Additionally, exposure to the transportation-focused Steenbok Fund may present attractive opportunities for the Diversified Fund.	565,624
Fund D	None	Quarterly	65 days	The fund focuses on three investment strategies: trading, arbitrage and long/short investment. The market-neutral trading and arbitrage strategies give the fund the flexibility to pursue long-term opportunities in its long/short investment strategy.	741,870

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NOTE 4 - INVESTMENTS (continued)

<u>Level 3 investments</u> (continued)

Fund Name	Unfunded Commitments	Redemption Frequency	Notice Period	Description of Fund	Amount
Fund E	None	Semi-annually	65 days	The fund is a $1.0 billion multi-strategy credit hedge fund which seeks to provide investors with attractive risk-adjusted returns through fundamental, bottom-up research in under-followed securities.	$ 566,515
Fund F	None	Quarterly	65 days	The fund is an event-driven fund focused on achieving strong total returns by using a value-based, bottom-up approach to investing globally. The fund intends to be both long and short in securities throughout companies' capital structures.	700,249
Fund G	None	Monthly	7 days	The fund is a diversified systematic fund. The fund seeks long-term capital appreciation through the development of mathematical methods applied to investments in futures markets. Specifically, the fund creates statistically-driven computer models that are designed to identify small but persistent inefficiencies across various equity, interest rate, commodity and currency futures markets.	612,919
Fund H	None	Annually	65 days	The fund seeks to generate positive returns across market cycles by investing principally in the securities of companies undergoing credit oriented restructuring and reorganizations, including, pursuant to Chapter 11 of the United States Bankruptcy Code, companies engaged in various types of balance sheet restructurings, and companies whose securities trade at levels that the fund does not believe reflect their intrinsic value.	728,700

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HENRY STREET SETTLEMENT AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 4 - INVESTMENTS (continued)

<u>Level 3 investments</u> (continued)

Fund Name	Unfunded Commitments	Redemption Frequency	Notice Period	Description of Fund		Amount
Fund I	None	Quarterly	65 days	The fund seeks to generate positive returns across market cycles by investing principally in the securities of companies undergoing credit oriented restructuring and reorganizations, including, pursuant to Chapter 11 of the United States Bankruptcy Code, companies engaged in various types of balance sheet restructurings, and companies whose securities trade at levels that the fund does not believe reflect their intrinsic value.	$	555,326
Fund J	None	10 years	N/A	The fund is a leading buyout and growth equity investor that focuses on four industry verticals in North America and Europe: Consumer/Retail, Industrial, Healthcare and Energy.		198,899
Fund K	None	10 years	N/A	The fund targets mid-to-late stage private technology companies which have achieved market validation, are scaling rapidly, and address large market opportunities with innovative products and services.		302,799
Fund L	None	11 years	N/A	The fund seeks to take advantage of the market opportunity by investing in large, industry-leading businesses in Asia. The fund will seek to employ a pan-Asian investment strategy diversified by country, sector, size and structure. The fund will seek to combine the global resources of the fund with local expertise to develop a tailored investment approach.		186,026

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NOTE 4 - INVESTMENTS (continued)

Level 3 investments (continued)

Fund Name	Unfunded Commitments	Redemption Frequency	Notice Period	Description of Fund	Amount
Fund M	None	10 years	N/A	The fund is a locked-down fund for 10 years. Starwood has established the fund to pursue a global opportunistic real estate strategy. The fund seeks to achieve attractive returns by focusing opportunistically on transactions in the following categories: i) distressed debt, ii) direct / income-producing assets, iii) development in emerging markets and iv) corporate.	$ 352,939
Fund N	None	Quarterly	65 days	Inflation protection is a broad asset category which includes investments that are designed to protect the portfolio during heightened inflationary environments, but are not entirely dependent upon inflation for a successful outcome. These strategies can include Emerging Market Currencies, Global Macro, Real Estate, Commodities, and the like.	60,172
				Total Level 3 investments	$ 6,944,389

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NOTE 5 - FIXED ASSETS

		Useful Life
Land	$ 716,984	
Building, building improvements and leasehold improvements	23,017,586	5-40 years
Furniture and equipment	4,351,993	5-25 years
Construction in progress	1,912,268	
	29,998,831	
Accumulated depreciation and amortization	(17,937,085)	
	$ 12,061,746	

NOTE 6 - LINE OF CREDIT

The Settlement has a $3,000,000 line of credit from Citibank N.A. through December 31, 2015. Interest is charged at the Prime Rate and the loan is secured by investments held by the Settlement (see Note 4). During this fiscal year there were no drawings on this line of credit. As of June 30, 2015, the interest rate was 3.25%.

The Settlement has a $5,000,000 line of credit with JP Morgan Chase Bank through October 31, 2016. Interest is charged at a rate of LIBOR plus 1%, which was 1.18% as of June 30, 2015. The line is secured by the assets of the investments held with JP Morgan Chase Bank. During this fiscal year there were no drawings on this line of credit.

NOTE 7 - MORTGAGES PAYABLE

A. On May 31, 1989, HSHDFC received a 15-year mortgage commitment for $2,066,329 from the Department of Housing Preservation and Development of The City of New York (DHPD) for the rehabilitation and renovation of 309-311 Henry Street. Financing provided under this mortgage is secured by the project’s building. Pursuant to an arrangement between the lender and New York State, HSHDFC has received a revised mortgage agreement extending the loan term to 2013, at which point the mortgage will become a grant provided the project is utilized in conformance with requirements. Cumulative drawdowns as of June 30, 2015 were $1,918,326. The mortgage did not bear interest. In February 2015, the Settlement obtained formal release from this liability from DHPD, and was recognized as a satisfaction of mortgage requirements.

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NOTE 7 - MORTGAGES PAYABLE (continued)

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

The total amount available from DHPD is $5,465,523. As of June 30, 2015, cumulative funds drawn down were $5,013,173. Interest accrues at 1% beginning from 270 days after substantial completion of construction. The building was substantially completed as of January 1, 2007. Interest of $50,132 was accrued for the year ended June 30, 2015. Cumulative interest of $386,625 was accrued as of June 30, 2015. The loan principal and accrued interest will be deemed satisfied in 2037 after operating the project in conformance with requirements for 30 years.

The total amount available from FHLB was $530,000. As of June 30, 2015, cumulative funds drawn down were $530,000. The mortgage does not bear interest. The loan principal will be deemed satisfied in 2022 after operating the project in conformance with requirements for 15 years.

The total amount available for borrowing from HHAC is $2,368,000. As of June 30, 2015, cumulative funds drawn down were $2,368,000. The mortgage does not bear interest. The loan principal will be deemed satisfied in 2032 after operating the project in conformance with requirements for 25 years.

As these financing arrangements bear no interest or below market interest rates, in accordance with accounting principles generally accepted in the United States of America, in-kind contributions of $206,981 in 2015 were included in grants and fees from contracting agencies and interest expense to reflect the estimated value of contributed interest. Imputed interest expense was calculated at the weighted average prime rate, which was 3.25% in 2015.

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NOTE 8 - PENSION PLANS

On October 31, 2005, the Settlement made a decision to freeze its current Defined Benefit Pension Plan and continue funding it only for existing participants. The Settlement is currently in the process of terminating the plan effective March 31, 2015.

The following table summarizes the benefit obligations, fair value of assets, funded status and accrued benefit costs as of June 30, 2015, and employer contributions, benefits paid and net periodic pension plan cost for the year then ended.

Benefit obligation	$ (14,226,799)
Fair value of plan assets	12,013,688
Funded status	$ (2,213,111)
Accrued benefit cost recognized in the balance sheet	$ (2,213,111)
Employer contributions	900,000
Benefits paid	1,247,530
Net periodic pension plan cost	286,231
Weighted average assumptions as of June 30	
Discount rate	4.06%
Expected return on plan assets	4.00
Rate of compensation increase (until October 31, 2005)	5.50

The investment policy is a conservative policy with respect to investment of assets with the primary objective being preservation of capital and the achievement of the maximum possible investment return. With the unusual market downturns experienced in 2009, the investment policy was changed to maintain a greater percentage in liquid assets to safeguard against drastic losses. The expected rate of return on plan assets assumption of 4.0% reflects market expectations as the best estimate for long-term asset performance. As for all plans, this rate is subject to review and may be revised in either direction in future disclosures.

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NOTE 8 - PENSION PLANS (continued)

	Level 1*
Mutual funds	
Large cap - blend	$ 11,954,218
Short-term investments	59,470
Grand total	$ 12,013,688

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

The Settlement expects to contribute between $900,000 and $3,500,000 to the defined-benefit pension plan in fiscal year 2016. Although the plan is currently being terminated, benefit payments, reflecting expected future service, are actuarially calculated and projected as follows:

2016	$ 843,380
2017	837,154
2018	847,489
2019	859,810
2020	846,829
2021-End	4,392,219

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

The Settlement maintains 457(b) and 457(f) deferred compensation arrangements for certain employees. Pension expense of $22,901 was recorded for the fiscal year ended June 30, 2015 in connection with these plans. As of June 30, 2015, the unfunded balance totaled $0.

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NOTE 9 - OCCUPANCY

Included within occupancy costs is rent expense (exclusive of in-kind rentals) of $446,372 for the year ended June 30, 2015. These costs are largely associated with month-to-month rentals and include rental assistance paid on behalf of housing assistance program participants.

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

2015-2016	$ 291,761
2016-2017	297,597
2017-2018	303,548
2018-2019	309,619
2019-2020	315,812
Thereafter	595,027
	$ 2,113,364

The Settlement and its affiliates provide program services from several locations for which rent is not currently being charged. In 2015, in accordance with accounting principles generally accepted in the United States of America, the value of an in-kind contribution of $1,887,000 was included in grants and fees from contracting agencies and occupancy expense to reflect the estimated fair value of contributed rent. Total rent expense (including in-kind rentals) for 2015 was $2,333,372.

NOTE 10 - CONCENTRATIONS

Financial instruments which potentially subject the organization to a concentration of credit risk are cash accounts with major financial institutions in excess of FDIC insurance limits. Management believes that credit risk related to these accounts is minimal.

Most of the Settlement's programs are funded by contracts from various government agencies. Thus, the Settlement is highly dependent on government reimbursement systems. Federal, state and local governments can propose reductions in the funding of many programs. This may impact revenues in the future.

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HENRY STREET SETTLEMENT AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 11 - RENTAL INCOME

The Settlement leases apartments to qualifying low-income individuals under one-year non-cancelable leases expiring through June 30, 2015. Rental income for the year ended June 30, 2015 was $629,706. Future minimum rentals through June 30, 2016 are $655,920.

The Settlement rented out space, including theater facilities, under per diem lease arrangements. Rental income for the year ended June 30, 2015 was $88,895.

NOTE 12 - NET ASSETS

Temporarily Restricted Funds

At June 30, 2015, temporarily restricted net assets are available for the following purposes:

Arts programs	$ 1,344,279
Capital campaign	9,081,532
Community and social development	2,430,922
Millennium campaign	762,346
Workforce Development Center	1,221,632
Youth activities	1,062,447
Youth programs - BGR	788,438
	$ 16,691,596

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NOTE 12 - NET ASSETS (continued)

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

Satisfaction of program restrictions	
Arts programs	$ 536,402
Community and social development	1,524,201
Workforce Development Center	1,398,227
Youth activities	365,791
Youth programs - BGR	269,815
	4,094,436
Income distribution requirements	
Arts programs	112,699
Millennium campaign	41,050
Workforce Development Center	105,669
Youth activities	112,022
Youth programs - BGR	79,083
	450,523
Satisfaction of capital acquisition restrictions	1,606,962
Total	$ 6,151,921

Permanently Restricted Funds - Endowments

General

The Settlement's permanently restricted net assets consist of 9 endowment funds which assets are to be held in perpetuity. The income from the assets can be used to support the programs delineated on the next page.

As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

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NOTE 12 - NET ASSETS (continued)

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

Interpretation of Relevant Law

The Board of Directors of the Settlement has adopted the New York Prudent Management of Institutional Funds Act (NYPMIFA). NYPMIFA permits charities to apply a spending policy to endowments based on certain specified standards of prudence. The Settlement is governed by the NYPMIFA spending policy, which establishes a maximum prudent spending limit of 7% of the average of its previous five years' balance. As a result of this interpretation, the Settlement classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Settlement in a manner consistent with the standards of prudence prescribed by NYPMIFA.

Return Objectives, Strategies Employed and Spending Policy

The objective of the Settlement is to maintain the principal endowment funds at the original amount designated by the donor. The investment policy to achieve this objective is to invest in low-risk securities. Interest earned in relation to the endowment funds is recorded as temporarily restricted income and released from restriction upon expenditure for the program for which the endowment fund was established.

Funds with Deficiencies

The Settlement does not have any funds with deficiencies.

Endowment Net Asset Composition by Type of Fund

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

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NOTE 12 - NET ASSETS (continued)

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

Changes in Endowment Net Assets for the Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year		$ 3,520,341	$ 14,880,135	$ 18,400,476
Contributions				
Interest and dividends		205,705		205,705
Net realized and unrealized gain on investment		140,217		140,217
Appropriated for expenditures	$ 450,523	(450,523)		
Expenses	(450,523)			(450,523)
Endowment net assets, end of year	$ -	$ 3,415,740	$ 14,880,135	$ 18,295,875

NOTE 13 - CONTINGENCIES

The Settlement is responsible to report to and is regulated by various governmental third parties, among which are the Centers for Medicare and Medicaid Services (CMS), New York State Department of Health (DOH) as well as other Federal, New York State and New York City agencies. These agencies, as well as the New York State Office of Attorney General’s Medicaid Fraud Control Unit (MFCU), the Internal Revenue Service, the New York State Office of Attorney General’s Charities Bureau, the New York State Department of Health’s Independent Office of the Medicaid Inspector General (OMIG), the New York City Human Resources Administration (HRA), the Office of Inspector General (OIG) and other agencies have the right to audit the Settlement and adjust assigned reimbursement rates. These agencies have the right to audit fiscal as well as programmatic compliance, i.e., clinical documentation and physician certifications, among other compliance requirements.