



AND AFH EPICENTER, INC.

COMBINING FINANCIAL STATEMENTS
DECEMBER 31, 2022

ARTISTS FOR HUMANITY, INC. AND AFH EPICENTER, INC.

Contents
December 31, 2022

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Independent Auditor's Report

To the Boards of Directors of
Artists for Humanity, Inc. and AFH Epicenter, Inc.:

Opinion

We have audited the combining financial statements of Artists for Humanity, Inc. and AFH Epicenter, Inc. (Massachusetts corporations, not for profit) (collectively, the Organization), which comprise the combining statement of financial position as of December 31, 2022, and the related combining statements of activities and changes in net assets, cash flows and functional expenses for the year then ended, and the related notes to the combining financial statements.

In our opinion, the accompanying combining financial statements present fairly, in all material respects, the combining financial position of Artists for Humanity, Inc. and AFH Epicenter, Inc. as of December 31, 2022, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 2 to the combining financial statements; effective January 1, 2022, the Organization adopted Financial Accounting Standards Board's (FASB) Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the combining financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combining financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the combining financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, which raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the combining financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the combining financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the combining financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the combining financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the combining financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the combining financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

The image shows a handwritten signature in black ink that reads "AAFCPA, Inc." in a cursive, stylized font.

Westborough, Massachusetts
August 15, 2023

ARTISTS FOR HUMANITY, INC. AND AFH EPICENTER, INC.

Combining Statement of Financial Position
December 31, 2022

Assets	Artists for Humanity, Inc.	AFH Epicenter, Inc.	Eliminations	Total
Current Assets:				
Cash and cash equivalents	\$ 3,054,718	\$ -	\$ -	\$ 3,054,718
Accounts receivable, net	482,902	-	-	482,902
Current portion of pledges receivable	275,000	-	-	275,000
Intercompany receivable (payable)	(1,573,766)	1,884,957	(311,191)	-
Current portion of intercompany note receivable	400,000	-	(400,000)	-
Prepaid expenses and other	56,829	-	-	56,829
Total current assets	2,695,683	1,884,957	(711,191)	3,869,449
Other Assets:				
Restricted cash	92,125	-	-	92,125
Pledges receivable, net of current portion and discount	310,351	-	-	310,351
Intercompany note receivable, net of current portion	795,792	-	(795,792)	-
Notes receivable	10,785,140	-	-	10,785,140
Right-of-use asset - finance lease	17,033,218	-	(17,033,218)	-
Property and equipment, net	188,443	21,703,719	-	21,892,162
Total other assets	29,205,069	21,703,719	(17,829,010)	33,079,778
Total assets	\$ 31,900,752	\$ 23,588,676	\$ (18,540,201)	\$ 36,949,227
Liabilities and Net Assets				
Current Liabilities:				
Current portion of notes payable and unamortized debt issuance costs	\$ 34,176	\$ 400,000	\$ (400,000)	\$ 34,176
Accounts payable and accrued expenses	700,201	4,321	-	704,522
Current portion of finance lease liability	237,360	-	(237,360)	-
Deferred revenue	441,245	-	-	441,245
Intercompany interest payable	-	311,191	(311,191)	-
Total current liabilities	1,412,982	715,512	(948,551)	1,179,943
Long-term liabilities:				
Intercompany note payable, net of current portion	-	795,792	(795,792)	-
Notes payable, net of unamortized debt issuance costs	615,824	14,860,965	-	15,476,789
Finance lease liability, net of current portion	17,047,317	-	(17,047,317)	-
Total long-term liabilities	17,663,141	15,656,757	(17,843,109)	15,476,789
Total liabilities	19,076,123	16,372,269	(18,791,660)	16,656,732
Net Assets:				
Without donor restrictions	11,629,759	7,216,407	251,459	19,097,625
With donor restrictions	1,194,870	-	-	1,194,870
Total net assets	12,824,629	7,216,407	251,459	20,292,495
Total liabilities and net assets	\$ 31,900,752	\$ 23,588,676	\$ (18,540,201)	\$ 36,949,227

ARTISTS FOR HUMANITY, INC. AND AFH EPICENTER, INC.

Combining Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2022

	Artists for Humanity, Inc.			AFH Epicenter, Inc.		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	Eliminations	Total
Operating Support and Revenue:						
Grants and contracts	\$ 2,827,150	\$ 1,267,500	\$ 4,094,650	\$ -	\$ -	\$ 4,094,650
Product sale revenue	1,356,209	-	1,356,209	-	-	1,356,209
Gallery rental revenue	1,204,232	-	1,204,232	-	-	1,204,232
Contributions	794,957	-	794,957	-	-	794,957
Events and sponsorships	501,430	-	501,430	-	-	501,430
Donated goods and services	136,815	-	136,815	-	-	136,815
Interest and other revenue	130,006	-	130,006	583,000	(583,000)	130,006
Net assets released from purpose restrictions	1,584,969	(1,584,969)	-	-	-	-
Net assets released from time restrictions	365,000	(365,000)	-	-	-	-
Total operating support and revenue	<u>8,900,768</u>	<u>(682,469)</u>	<u>8,218,299</u>	<u>583,000</u>	<u>(583,000)</u>	<u>8,218,299</u>
Operating Expenses:						
Program	5,818,706	-	5,818,706	796,543	(625,844)	5,989,405
General and administrative	865,284	-	865,284	-	(208,615)	656,669
Fundraising	876,087	-	876,087	-	-	876,087
Total operating expenses	<u>7,560,077</u>	<u>-</u>	<u>7,560,077</u>	<u>796,543</u>	<u>(834,459)</u>	<u>7,522,161</u>
Changes in net assets from operations	<u>1,340,691</u>	<u>(682,469)</u>	<u>658,222</u>	<u>(213,543)</u>	<u>251,459</u>	<u>696,138</u>
Non-Operating Revenue (Expense):						
Forgiveness of debt	610,872	-	610,872	-	-	610,872
Forgiveness of intercompany note	(1,350,000)	-	(1,350,000)	1,350,000	-	-
Total non-operating revenue (expense)	<u>(739,128)</u>	<u>-</u>	<u>(739,128)</u>	<u>1,350,000</u>	<u>-</u>	<u>610,872</u>
Changes in net assets	<u>601,563</u>	<u>(682,469)</u>	<u>(80,906)</u>	<u>1,136,457</u>	<u>251,459</u>	<u>1,307,010</u>
Net Assets:						
Beginning of year, as restated	<u>11,028,196</u>	<u>1,877,339</u>	<u>12,905,535</u>	<u>6,079,950</u>	<u>-</u>	<u>18,985,485</u>
End of year	<u>\$ 11,629,759</u>	<u>\$ 1,194,870</u>	<u>\$ 12,824,629</u>	<u>\$ 7,216,407</u>	<u>\$ 251,459</u>	<u>\$ 20,292,495</u>

The accompanying notes are an integral part of these combining statements.

ARTISTS FOR HUMANITY, INC. AND AFH EPICENTER, INC.

Combining Statement of Cash Flows
For the Year Ended December 31, 2022

	2022			
	Artists for Humanity, Inc.	AFH Epicenter, Inc.	Eliminations	Total
Cash Flows from Operating Activities:				
Changes in net assets	\$ (80,906)	\$ 1,136,457	\$ 251,459	\$ 1,307,010
Adjustments to reconcile changes in net assets to net cash provided by operating activities:				
Depreciation	100,720	620,785	-	721,505
Non-cash lease transactions - amortization	(98,892)	98,892	-	-
Amortization of debt issuance costs charged as interest expense	-	33,284	-	33,284
Forgiveness of debt	(610,872)	-	-	(610,872)
Forgiveness of intercompany note receivable	1,350,000	(1,350,000)	-	-
Bad debt	177,000	-	-	177,000
Changes in operating assets and liabilities:				
Accounts receivable	(315,649)	-	-	(315,649)
Pledges receivable	533,950	-	-	533,950
Prepaid expenses and other	(23,584)	-	-	(23,584)
Accounts payable and accrued expenses	472,339	-	-	472,339
Deferred revenue	170,151	-	-	170,151
Net cash provided by operating activities	1,674,257	539,418	251,459	2,465,134
Cash Flows from Investing Activities:				
Payments for purchases of property and equipment	(88,818)	-	-	(88,818)
Cash Flows from Financing Activities:				
Proceeds (payments) on intercompany loan	440,526	(440,526)	-	-
Proceeds from notes payable	500,000	-	-	500,000
Principal receipts (payments) on intercompany finance lease	350,351	(98,892)	(251,459)	-
Principal payments on notes payable	(1,190,860)	-	-	(1,190,860)
Net cash provided by (used in) financing activities	100,017	(539,418)	(251,459)	(690,860)
Net Change in Cash, Cash Equivalents and Restricted Cash	1,685,456	-	-	1,685,456
Cash, Cash Equivalents and Restricted Cash:				
Beginning of year	1,461,387	-	-	1,461,387
End of year	\$ 3,146,843	\$ -	\$ -	\$ 3,146,843
Reconciliation of Cash, Cash Equivalents and Restricted Cash Reported Within the Combining Statement of Financial Position:				
Cash	\$ 3,054,718	\$ -	\$ -	\$ 3,054,718
Restricted cash	92,125	-	-	92,125
Total cash, cash equivalents and restricted cash shown in the combining statement of cash flows	\$ 3,146,843	\$ -	\$ -	\$ 3,146,843
Supplemental Disclosure of Cash Flow Information:				
Cash paid for interest	\$ 42,741	\$ 142,473	\$ -	\$ 185,214

ARTISTS FOR HUMANITY, INC. AND AFH EPICENTER, INC.

Combining Statement of Functional Expenses
For the Year Ended December 31, 2022

	Artists for Humanity, Inc.				AFH Epicenter, Inc.		
		General and Adminis- trative	Fundraising	Total	Program	Eliminations	Total
Operating Expenses:	Program						
Personnel and related:							
Salaries - other staff	\$ 2,368,634	\$ 418,276	\$ 555,143	\$ 3,342,053	\$ -	\$ -	\$ 3,342,053
Salaries - youth artists	1,221,097	-	-	1,221,097	-	-	1,221,097
Payroll taxes and fringe benefits	412,306	62,224	82,585	557,115	-	-	557,115
Donated salaries - youth artists	53,363	-	-	53,363	-	-	53,363
Contracted artists and services	41,279	-	-	41,279	-	-	41,279
Total personnel and related	4,096,679	480,500	637,728	5,214,907	-	-	5,214,907
Depreciation	75,540	10,072	15,108	100,720	620,785	-	721,505
Professional services and consultants	204,298	68,098	-	272,397	-	-	272,397
Interest	52,892	7,052	10,578	70,522	175,758	-	246,280
Program supplies	167,060	22,275	33,412	222,746	-	-	222,746
Bad debts	177,000	-	-	177,000	-	-	177,000
Event expense	79,130	-	79,130	158,259	-	-	158,259
Utilities	92,445	12,326	18,489	123,260	-	-	123,260
Minor equipment and maintenance	57,662	7,688	11,532	76,883	-	-	76,883
Insurance	27,678	13,839	13,839	55,356	-	-	55,356
Miscellaneous	39,201	5,226	7,840	52,268	-	-	52,268
Cleaning	22,401	-	22,401	44,802	-	-	44,802
Telephone	27,938	5,587	3,725	37,251	-	-	37,251
Printing	26,286	3,504	5,257	35,048	-	-	35,048
Training and travel	11,174	5,587	5,587	22,348	-	-	22,348
Trash removal	15,245	2,033	3,049	20,326	-	-	20,326
Repairs and maintenance	14,778	1,970	2,955	19,702	-	-	19,702
Office supplies	4,189	8,377	4,189	16,754	-	-	16,754
Postage and shipping	1,266	2,535	1,268	5,069	-	-	5,069
Rent expense	363,080	121,027	-	484,107	-	(484,107)	-
Amortization of right-of-use finance asset	262,764	87,588	-	350,352	-	(350,352)	-
Total operating expenses	<u>\$ 5,818,706</u>	<u>\$ 865,284</u>	<u>\$ 876,087</u>	<u>\$ 7,560,077</u>	<u>\$ 796,543</u>	<u>\$ (834,459)</u>	<u>\$ 7,522,161</u>

The accompanying notes are an integral part of these combining statements.

ARTISTS FOR HUMANITY, INC. AND AFH EPICENTER, INC.

Notes to Combining Financial Statements
December 31, 2022

1. OPERATIONS AND NONPROFIT STATUS

Artists for Humanity, Inc. (AFH) was organized in 1991 as a Massachusetts not-for-profit corporation with a mission to provide urban young people with the keys to self-sufficiency through paid employment in the arts. AFH offers inner-city teens an intensive paid apprenticeship in which they work with professional artists and young artist mentors to design, create and sell art products. During out-of-school time, participants create art, work on exhibitions and respond to business clients by meeting their graphic service needs.

AFH Epicenter, Inc. (AFH Epicenter) is a Massachusetts not-for-profit corporation that was established in 2016 for the purpose of acquiring the existing Epicenter property in Boston, Massachusetts, constructing an addition to this property, and operating the property and the addition (collectively, the Boston Property) (see Note 3). The Boston Property is being leased to AFH (see Note 10). AFH Epicenter operates the Boston Property in a manner to enable AFH Epicenter to qualify as a qualified active low-income community business (QALICB) for the purpose of New Markets Tax Credits (NMTC), as defined in Section 45D(d) of the Internal Revenue Code (see Note 7). AFH also has to meet certain NMTC “low-income community” and “community benefit” criteria.

Two of the five members of the Board of Directors of AFH Epicenter are also Board members or officers of AFH. One of the five members of the Board of Directors of AFH Epicenter is related to a Board member of AFH. In addition, AFH has a significant economic interest in AFH Epicenter, as AFH has guaranteed AFH Epicenter’s debt, participated in NMTC financing for the Boston Property, has a thirty-year lease as the only tenant of AFH Epicenter, is the only source of revenue for AFH Epicenter, and manages AFH Epicenter. Accounting principles generally accepted in the United States of America (U.S. GAAP) require the financial statements of AFH and AFH Epicenter to be combined based on these criteria. AFH and AFH Epicenter are collectively referred to as the Organization.

AFH and AFH Epicenter are exempt from Federal income taxes as organizations (not private foundations) formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code (IRC). AFH and AFH Epicenter are also exempt from state income taxes. Donors may deduct contributions made to AFH and AFH Epicenter within the IRC regulations.

2. SIGNIFICANT ACCOUNTING POLICIES

The Organization prepares their combining financial statements in accordance with generally accepted accounting standards and principles established by the Financial Accounting Standards Board (FASB). References to U.S. GAAP in these notes are to the FASB Accounting Standards Codification (ASC).

Principles of Combination

The combining financial statements include the accounts and operations of AFH and AFH Epicenter. All significant intercompany balances and transactions have been eliminated in the accompanying combining financial statements.

Recently Adopted Accounting Pronouncements

In September 2020, the FASB issued Accounting Standards Update (ASU) 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. ASU 2020-07 is intended to increase the transparency of contributed nonfinancial assets (in-kind goods and services) for not-for-profit entities through enhancements to presentation and disclosure. The amendments in this ASU do not change the recognition and measurement requirements of in-kind goods and services.

ARTISTS FOR HUMANITY, INC. AND AFH EPICENTER, INC.

Notes to Combining Financial Statements
December 31, 2022

2. SIGNIFICANT ACCOUNTING POLICIES

Recently Adopted Accounting Pronouncements (Continued)

During 2022, the Organization adopted ASU 2020-07. The adoption of this ASU did not impact the Organization's net asset classes, changes in net assets, or cash flows.

In February 2016, FASB issued ASU 2016-02, *Leases (Topic 842)*. The most significant change in the new leasing guidance is the requirement to recognize a right-of-use (ROU) asset and lease liability for an operating lease on the combining statement of financial position. The Organization elected the package of practical expedients permitted under the transition guidance within the new standard, which, among other things, allowed the Organization to carry forward the historical lease classification as operating or capital leases. In addition, the Organization did not reassess whether any expired or existing contracts are, or contain, leases or existing leases, and the original treatment of the initial direct costs for any expired or existing leases. The Organization did not elect to combine lease and non-lease components. The Organization did not elect the hindsight practical expedient in determining the lease term for the existing lease as of January 1, 2022.

The Organization expects the impact of adoption to be immaterial to the combining statement of financial position and the combining statements of activities and cash flows on an ongoing basis.

Cash and Cash Equivalents

For the purpose of the combining statement of cash flows, cash and cash equivalents consist of checking and savings accounts and any investments with an initial maturity of three months or less.

Restricted Cash

Restricted cash consists of security deposits for events (see Note 11).

Property and Equipment and Depreciation

Purchased property and equipment are recorded at cost. Donated property and equipment are recorded at fair value at the time of donation. Renewals and betterments are capitalized, while repairs and maintenance are expensed as they are incurred. Depreciation is computed using the straight-line method over the following estimated useful lives:

	<u>Estimated Useful Lives</u>
Building	40 years
Office and artistic equipment	3 - 5 years
Furniture and fixtures	5 years

Land is not depreciated.

The Organization accounts for the carrying value of its long-lived assets in accordance with the requirements of ASC Topic, *Property, Plant and Equipment*. The carrying value is evaluated annually for impairment and no impairment loss was recognized in 2022.

ARTISTS FOR HUMANITY, INC. AND AFH EPICENTER, INC.

Notes to Combining Financial Statements
December 31, 2022

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Debt Issuance Costs

AFH Epicenter amortizes debt issuance costs using the straight-line method, which approximates the effective interest method, over the term of the notes payable (thirty years). Debt issuance costs are netted with notes payable in the accompanying combining statement of financial position (see Note 8), and the balances are as follows as of December 31, 2022:

Debt issuance costs	\$ 998,535
Less - accumulated amortization	<u>177,500</u>
Unamortized debt issuance costs (see Note 8)	<u>\$ 821,035</u>

Amortization expense was \$33,284 for the year ended December 31, 2022, and is included in interest in the accompanying combining statement of functional expenses.

Pledges Receivable

Pledges receivable consist of contributions committed to AFH for operating purposes. Pledges are recorded at their net present value when unconditionally committed and are due as follows as of December 31, 2022:

Due within one year	\$ 275,000
Due in two to five years	<u>335,000</u>
	610,000
Less - discount	(24,649)
Less - current portion	<u>(275,000)</u>
Long-term pledges receivable, net	<u>\$ 310,351</u>

Accounts Receivable

Accounts receivable consist of amounts owed to AFH in relation to gallery rentals, consulting services and other projects. Accounts receivables are recorded at the invoiced amounts and do not bear interest. The beginning balance of accounts receivable at January 1, 2022, was \$344,253.

Allowance for Doubtful Accounts and Pledges Receivable

Allowances for potentially uncollectible accounts and pledges receivable are provided based upon management's assessment of potential defaults. The allowance for doubtful accounts receivable was \$112,000 at December 31, 2022. There was no allowance deemed necessary for pledges receivable at December 31, 2022.

Expense Allocations

Expenses related directly to a function are distributed to that function, while other expenses are allocated based upon management's estimate of the percentage attributable to the function. The expenses that are allocated include salaries, employee benefits, payroll taxes, and other costs, which are allocated based on an estimate of time and level of effort spent by management on the Organization's programs and supporting functions.

ARTISTS FOR HUMANITY, INC. AND AFH EPICENTER, INC.

Notes to Combining Financial Statements
December 31, 2022

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donated Goods and Services

AFH receives services of professional volunteers, donated services and goods in various aspects of its programs and operations. The value assigned to these services, based on the donor's estimate of the fair value, has been reflected in the accompanying combining financial statements as follows for the year ended December 31, 2022:

Donated catering	\$ 83,452
Salaries - youth artists	<u>53,363</u>
Total donated goods and services	<u>\$ 136,815</u>

Catering received by AFH is recorded as in-kind goods and services with a corresponding increase to events expense. AFH utilized fair market value prices which were provided by the Organization that supplied the catering services and goods.

AFH also received in-kind youth artists services, which utilized fair market value prices that would have been paid to the individuals that provided the services. In-kind goods and service revenue was recorded for the in-kind youth artists services received.

Net Assets

Net Assets Without Donor Restrictions

Net assets without donor restrictions are those net resources that bear no external restrictions and are generally available for use by the Organization.

Net Assets With Donor Restrictions

Net assets with donor restrictions represent contributions which have not yet been expended for their designated purpose or are designated for a future time period. Net assets with donor restrictions are comprised of the following at December 31, 2022:

Purpose restricted	\$ 639,870
Time restricted	<u>555,000</u>
	<u>\$ 1,194,870</u>

Statement of Activities and Changes in Net Assets

Transactions deemed by management to be ongoing, major, or central to the provision of program services are reported as operating support and revenue and operating expenses in the accompanying combining statement of activities and changes in net assets. Peripheral or incidental transactions are reported as non-operating revenue (expense). Non-operating revenue (expense) includes activity related to debt forgiveness.

Advertising

Advertising costs are expensed in the period incurred. Advertising expense for 2022 was approximately \$2,000 and is included in miscellaneous in the accompanying combining statement of functional expenses.

ARTISTS FOR HUMANITY, INC. AND AFH EPICENTER, INC.

Notes to Combining Financial Statements
December 31, 2022

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements

The Organization follows the accounting and disclosure standards pertaining to ASC Topic, *Fair Value Measurements*, for qualifying assets and liabilities. Fair value is defined as the price that the Organization would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants.

The Organization uses a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. This hierarchy is broken down into three levels based on inputs that market participants would use in valuing the financial instruments based on market data obtained from sources independent of the Organization. Inputs refer broadly to the assumptions that market participants would use in pricing the financial instrument, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the financial instrument developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset developed based on the best information available.

The three-tier hierarchy of inputs is summarized in the three broad levels as follows:

Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets at the measurement date.

Level 2 - Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3 - Inputs that are unobservable and which require significant judgment or estimation.

An asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement. All qualifying assets and liabilities are valued using Level 1 inputs.

Estimates

The preparation of combining financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the combining financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

The Organization accounts for uncertainty in income taxes in accordance with ASC Topic, *Income Taxes*. This standard clarifies the accounting for uncertainty in tax positions and prescribes a recognition threshold and measurement attribute for the combining financial statements regarding a tax position taken or expected to be taken in a tax return. The Organization has determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the combining financial statements at December 31, 2022. The Organization's information returns are subject to examination by the Federal and state jurisdictions.

ARTISTS FOR HUMANITY, INC. AND AFH EPICENTER, INC.

Notes to Combining Financial Statements
December 31, 2022

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events

Subsequent events have been evaluated through August 15, 2023, which is the date the combining financial statements were available to be issued. An event that met the criteria for disclosure has been disclosed in Note 8.

Revenue Recognition

Contributions

In accordance with ASC Subtopic 958-605, *Revenue Recognition (Topic 958)*, the Organization must determine whether a contribution (or a promise) is conditional or unconditional for transactions deemed to be a contribution. A contribution is considered conditional when the donor imposes both a barrier and a right of return. Conditional contributions are recognized as revenue on the date all donor-imposed barriers are overcome or explicitly waived by the donor. Barriers may include specific and measurable outcomes, limitations on the performance of an activity, and other stipulations related to the grant or contribution. A donor has a right of return of any assets transferred or a right of release of its obligation to transfer any assets in the event the Organization fails to overcome one or more barriers. Assets received before the barrier is overcome are accounted for as deferred revenue.

Grants and contributions without donor restrictions are recorded as revenue when received or unconditionally pledged. Grants and contributions with donor restrictions are recorded as revenues and net assets with donor restrictions when received or unconditionally pledged. Transfers are made to net assets without donor restrictions as costs are incurred or time restrictions lapse. Contract revenue is recorded over the contract period as services are provided and costs are incurred.

AFH receives grants from foundations and other parties in support of specific projects. The grants and contributions committed in support of projects are transferred to net assets without donor restrictions as AFH expends effort and incurs costs or as specified milestones are achieved for the related projects, as specified in the grant agreements.

Revenue from Contracts with Customers

AFH generally measures revenue from exchange transactions based on the amount of consideration the Organization expects to be entitled for the transfer of goods or services to a customer, then recognizes this revenue when or as the Organization satisfies its performance obligations under a contract, except in transactions where U.S. GAAP provides other applicable guidance. The Organization evaluates its revenue recognition based on the five-step model under *Topic 606*: (1) Identify the contract with the customer; (2) Identify the performance obligations in the contract; (3) Determine the transaction price; (4) Allocate the transaction price to separate performance obligations; and (5) Recognize revenue when (or as) each performance obligation is satisfied.

ARTISTS FOR HUMANITY, INC. AND AFH EPICENTER, INC.

Notes to Combining Financial Statements
December 31, 2022

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Product Sale Revenue

Product sale revenue is recognized from the sale of merchandise when a customer purchases and takes delivery of the merchandise. Reported sales are net of returns and estimated possible returns and exclude sales taxes. The elements of this arrangement contain a single performance obligation which is the transfer of goods to the intended party. This generally occurs and is recognized at a point in time.

Gallery Rental Revenue

Gallery rental revenue is recognized when services are rendered. Gallery rental revenue received in advance of the service is shown as deferred revenue in the accompanying combining statement of financial position. During 2022, the amount of deferred revenue related to the gallery rental was \$296,110. This revenue generally contains a single performance obligation which is satisfied upon redemption by the outside party or individual. These services are generally recognized at a single point in time. The beginning balance of deferred revenue at January 1, 2022, was \$238,214.

All other revenues are recorded when earned.

3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of December 31, 2022:

Land	\$ 2,265,716
Building	24,092,147
Office and artistic equipment	541,257
Furniture and fixtures	<u>264,755</u>
	27,163,875
Less - accumulated depreciation	<u>5,271,713</u>
	<u>\$ 21,892,162</u>

In 2017, AFH transferred land and building to AFH Epicenter, which was determined to be made as an in-kind capital contribution to AFH Epicenter. In September 2018, AFH Epicenter placed a building into service in the amount of \$18,554,735 upon construction completion. During 2022, upon the adoption of ASU 2016-02, *Leases (Topic 842)*, management transferred the building asset from AFH to AFH Epicenter in the net amount of \$22,324,505. Further, AFH and AFH Epicenter wrote-off the corresponding lease receivable (payable) of \$22,575,348. This transaction resulted in the prior period adjustment disclosed in Note 14.

4. CONDITIONAL GRANTS

During 2022, AFH received a \$200,915 grant from the City of Boston to sponsor salaries related to the internship program, which is included in deferred revenue in the accompanying combining statement of financial position. AFH is accounting for the funding as a conditional grant under ASC 958-605 since the conditions under the funding are subject to return if the terms and conditions are not complied with.

ARTISTS FOR HUMANITY, INC. AND AFH EPICENTER, INC.

Notes to Combining Financial Statements
December 31, 2022

5. RETIREMENT PLAN

AFH maintains an IRC Section 403(b) retirement plan for qualified salaried employees. Eligible employees may elect to contribute the maximum amount of compensation allowed by law each year. AFH does not contribute to the plan.

6. CONCENTRATIONS

The Organization maintains its cash balances in Massachusetts banks which are insured within the limits of the Federal Deposit Insurance Corporation (FDIC). At certain times during the year, cash balances exceeded the insured amounts. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant credit risk on its cash. Management monitors, on a regular basis, the financial condition of the financial institutions, along with their balances, to keep this potential risk to a minimum.

7. NEW MARKET TAX CREDITS AND NMTC CALL OPTION AGREEMENT

During 2017, AFH, through AFH Epicenter, embarked on a series of transactions to effectuate a NMTC structure to assist with the construction of the addition to the Boston Property (see Note 1). The involvement of NMTC allows for larger net proceeds than would otherwise be available under classic financing, thereby producing a public benefit greater than would otherwise be achieved. AFH loaned the proceeds of a bridge loan and a portion of capital campaign proceeds, as well as the reimbursement of certain predevelopment costs totaling \$10,785,140 (under two separate note receivable agreements) (see Note 9), to BOA AFH Investment Fund, LLC and BOA Investment Fund V, LLC (the Investment Funds). The Investment Funds loaned these funds, along with capital contributions totaling \$5,332,860, net of transaction costs, to MassDevelopment NMTC CDE #23, LLC and BOA CDE V, LLC (the Sub CDEs), which qualified as a qualifying equity investment (QEI). The Sub CDEs ultimately loaned the funds, net of fees, to AFH Epicenter (see Note 8) for use with the Boston Property building addition project, which is a qualified low-income community investment (QLICI).

The Sub CDEs received allocations of NMTC pursuant to Section 45D(d) of the IRC in order to assist eligible businesses in making investments in certain low-income communities. The availability of NMTC allowed Bank of America Community Development Corporation (the Investor) to invest \$5,332,860 in the Sub CDEs.

During the 180-day period beginning on September 20, 2029, AFH has a right and option, but not an obligation, to purchase the Investor's 100% ownership interest in the BOA AFH Investment Fund, LLC for fair market value, as determined by an independent appraiser.

ARTISTS FOR HUMANITY, INC. AND AFH EPICENTER, INC.

Notes to Combining Financial Statements
December 31, 2022

8. NOTES PAYABLE

The Organization had the following notes payable outstanding at December 31, 2022:

AFH

On June 22, 2020, AFH entered into an Economic Injury Disaster Loan (EIDL) agreement with the U.S. Small Business Administration (SBA) in the original amount of \$150,000, with an interest rate of 2.75%. The note may be prepaid in part or in full at anytime without notice or penalty. AFH must make a payment of \$641 per month beginning twelve months from the date of the note. During 2021, a deferral of payments was given by the SBA extending the first required payment to June 2022. SBA will apply each installment payment first to pay interest accrued to the day SBA receives the payment and will then apply any remaining balance to reduce principal. All remaining principal and accrued interest are due and payable thirty years from the date of the note. In 2022, AFH modified the loan to draw an additional \$500,000 against the EIDL loan. This additional draw modified the payments to be \$2,848 per month beginning twenty-four months from the original date of the note.

\$ 650,000

Note payable in the amount of \$3,900,000 with Blue Hub Capital (Direct Loan). The note bore interest at 4.5% per annum and required payments on any draws made as follows: monthly interest-only payments through September 2019, and then monthly payments of interest and principal until maturity on January 25, 2028. This note was secured by a security interest in AFH's assets, including a pledge and assignment of AFH's and AFH Epicenter's pledges and receipts to Blue Hub Capital. As an additional security for this loan, AFH had assigned its interest in the AFH Loan (see Note 9). The Organization fully paid off this note payable in 2022.

Less - current portion

Total - notes payable - AFH

-
650,000
<u>34,176</u>
<u>\$ 615,824</u>

During fiscal year 2022, AFH incurred \$42,741 of interest on the above notes payable, which is included in interest expense in the accompanying combining statement of functional expenses.

ARTISTS FOR HUMANITY, INC. AND AFH EPICENTER, INC.

Notes to Combining Financial Statements
December 31, 2022

8. NOTES PAYABLE (Continued)

AFH Epicenter

Note payable in the amount of \$7,462,140 with MassDevelopment New Markets CDE #23, LLC under the QLICI program (QLICI Loan A-1). This note bears interest at 1.079% and matures on October 1, 2047. This note is due in quarterly interest-only payments through January 2025, at which time principal and interest will be due in accordance with a set schedule as defined in the note agreement through October 2047. The note is secured by a second priority on a shared mortgage on the Boston Property (see Note 1) and is guaranteed by AFH.

\$ 7,462,140

Note payable in the amount of \$3,323,000 with Banc of America CDE V, LLC under the QLICI program (QLICI Loan A-2). This note bears interest at 0.5% and matures on October 1, 2047. This note is due in quarterly interest-only payments through January 2025, at which time principal and interest will be due in accordance with a set schedule as defined in the note agreement through October 2047. The note is secured by a third priority on a shared mortgage on the Boston Property and is guaranteed by AFH.

3,323,000

Note payable in the amount of \$3,219,860 with MassDevelopment New Markets CDE #23, LLC under the QLICI program (QLICI Loan B-1). This note bears interest at 1.079% and matures on October 1, 2047. This note is due in quarterly interest-only payments through January 2025, at which time principal and interest will be due in accordance with a set schedule as defined in the note agreement through October 2047. The note is secured by a fifth priority on a shared mortgage on the Boston Property and is guaranteed by AFH.

3,219,860

Note payable in the amount of \$1,677,000 with Banc of America CDE V, LLC under the QLICI program (QLICI Loan B-2). This note bears interest at 0.632% and matures on October 1, 2047. This note is due in quarterly interest-only payments through January 2025, at which time principal and interest will be due in accordance with a set schedule as defined in the note agreement through October 2047. The note is secured by a fourth priority on a shared mortgage on the Boston Property and is guaranteed by AFH.

1,677,000

15,682,000

821,035

Less - unamortized debt issuance costs (see page 8)

Total notes payable - AFH Epicenter

\$ 14,860,965

For the year ended December 31, 2022, AFH Epicenter incurred \$142,473 in interest on notes payable, which is included in interest expense in the accompanying combining statement of functional expenses.

ARTISTS FOR HUMANITY, INC. AND AFH EPICENTER, INC.

Notes to Combining Financial Statements
December 31, 2022

8. NOTES PAYABLE (Continued)

Future Minimum Payments

Future minimum principal payments on notes payable are as follows for the years ending December 31:

2023	\$	34,176
2024	\$	34,176
2025	\$	651,298
2026	\$	656,786
2027	\$	662,328

The QLICI notes payable on page 15 contain various covenants and restrictions with which AFH and AFH Epicenter must comply. AFH and AFH Epicenter were in compliance with these covenants or obtained waivers of the covenants at December 31, 2022. Under the terms of the QLICI loans, AFH Epicenter cannot make any prepayments on the notes payable during the first seven years.

Intercompany Note Payable

In September 2017, AFH and AFH Epicenter entered into a \$3,900,000 note payable agreement (the Direct Loan). The non-interest-bearing note requires payments on any draws made in accordance with a payment schedule in the note agreement. All unpaid principal is due at maturity in March 2025. During 2022, AFH forgave \$1,350,000 of the intercompany note payable. The outstanding loan balance as of December 31, 2022, was \$1,195,792. The total loan balance is reflected as an intercompany note payable and receivable and is eliminated as an intercompany transaction in the accompanying combining statement of financial position as of December 31, 2022. AFH had assigned its interest in the AFH Loan to Blue Hub Capital. Subsequent to year-end, AFH forgave an additional \$400,000 of the intercompany note payable.

9. NOTES RECEIVABLE

Notes receivable are comprised of the following at December 31, 2022:

BOA AFH Investment Fund, LLC	\$	7,462,140
BOA Investment Fund V, LLC		<u>3,323,000</u>
Total		<u>\$ 10,785,140</u>

AFH provided the Investment Funds (see Note 7) each with a 0.5% interest loan totaling \$10,785,140. AFH utilized the proceeds from a bridge loan and a portion of the capital campaign proceeds to make these loans. The Investment Funds utilized the proceeds from these loans, as well as proceeds from the capital contributions of its Investor (see Note 7), to make equity investments to the Sub CDEs (see Note 7). The Sub CDEs used the proceeds from these investment loans to make four separate loans (Notes A-1, B-1, A-2, and B-02) to AFH Epicenter (see Note 8).

Interest-only payments are due beginning in October 2017 through maturity in October 2047. Commencing in January 2025, principal payments are due in the amounts defined in the agreements.

The note to BOA AFH Investment Fund, LLC is secured by the Investment Funds' membership interest in MassDevelopment New Markets CDE #23, LLC.

The note to BOA Investment Fund V, LLC is guaranteed by the Investor (see Note 7).

ARTISTS FOR HUMANITY, INC. AND AFH EPICENTER, INC.

Notes to Combining Financial Statements
December 31, 2022

9. NOTES RECEIVABLE (Continued)

For the year ended December 31, 2022, AFH earned \$53,926 in interest, which is included in interest and other revenue in the accompanying combining statement of activities and changes in net assets.

Future minimum receipts under these notes are as follows:

2023	\$ -
2024	-
2025	443,596
2026	445,819
2027	448,052
Thereafter	<u>9,447,673</u>
	<u>\$ 10,785,140</u>

10. LEASES

The Organization determines if an arrangement is a lease or contains a lease at inception of a contract. A contract is determined to be a lease or contain a lease if the contract conveys the right to control the use of identified property, plant, or equipment (an identified asset) in exchange for consideration. The Organization determines such assets are leased because has the right to obtain substantially all of the economic benefits from and the right to direct the use of the identified asset. Assets in which the supplier or lessor has the practical ability and right to substitute alternative assets for the identified asset and would benefit economically from the exercise of its right to substitute the asset are not considered to be or contain a lease because the Organization determines it does not have the right to control and direct the use of the identified asset. The Organization's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

In evaluating its contracts, the Organization separately identifies lease and non-lease components, such as common area and other maintenance costs, in calculating the ROU assets and lease liabilities for its building and equipment. The Organization has elected the practical expedient to classify the contract as a lease if consideration in the contract allocated to the lease component is greater than the consideration allocated to the non-lease component.

Leases result in the recognition of ROU assets and lease liabilities on the combining statement of financial position. ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease, measured on a discounted basis.

At lease inception, the lease liability is measured at the present value of the lease payments over the lease term. The ROU asset equals the lease liability. The Organization uses the implicit rate when readily determinable. As most of the leases do not provide an implicit rate, the Organization uses a risk-free rate based on the information available at the commencement date of the lease to determine the present value of lease payments.

The lease term may include options to extend or to terminate the lease that the Organization is reasonably certain to exercise.

The Organization has elected not to record leases with an initial term of twelve months or less on the combining statement of financial position.

ARTISTS FOR HUMANITY, INC. AND AFH EPICENTER, INC.

Notes to Combining Financial Statements
December 31, 2022

10. LEASES (Continued)

Nature of Lease

AFH entered into a thirty-year intercompany building lease agreement with AFH Epicenter commencing in September 2017 through September 2047. Base rents, as defined in the lease agreement, are payable in quarterly installments of \$145,700, escalating to \$229,755 starting in 2024 through the end of the lease.

Lease Costs and Other Information

The lease costs related to the intercompany finance lease are included in rent expense and amortization of right-of-use finance asset in the accompanying combining statement of functional expenses.

The maturities of the lease liability for the AFH's intercompany finance lease as of December 31, 2022, were as follows:

2023	\$ 583,000
2024	919,020
2025	919,020
2026	919,020
2027	919,020
Thereafter	<u>17,710,282</u>
Total future undiscounted lease payments	21,969,362
Less - present value discount/interest	(4,684,685)
Less - current portion	<u>(237,360)</u>
	<u>\$ 17,047,317</u>

The weighted-average discount rate associated with the finance lease for the year ended December 31, 2022, is 2.01%. The Organization's weighted-average lease term is twenty-four years for the year ended December 31, 2022.

11. RESTRICTED CASH

Restricted cash consists of security deposits for events in the amount of \$92,125 as of December 31, 2022.

12. RELATED PARTY TRANSACTIONS

A member of the Organization's Board of Directors is a member of senior management at a contributing organization that provided funding to the Organization. During the year ended December 31, 2022, this organization contributed approximately \$242,000 to the Organization.

ARTISTS FOR HUMANITY, INC. AND AFH EPICENTER, INC.

Notes to Combining Financial Statements
December 31, 2022

13. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. For purposes of analyzing resources available to meet general expenditures over a twelve-month period, the Organization considers all expenditures related to its ongoing activities. The Organization receives contributions and promises to give restricted by donors and considers contributions restricted for programs which are ongoing, major and central to its annual operations to be available to meet cash needs for general expenditures. The Organization earns revenue through its various programs, events and sponsorships, and interest revenue.

Financial assets available for general expenditure within one year consist of the following at December 31, 2022:

Cash	\$ 3,054,718
Accounts receivable	482,902
Current portion of pledges receivable	<u>275,000</u>
Total financial assets	3,812,620
Less - donor restricted funds for a specific purpose and time restricted for use beyond one year	<u>844,870</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 2,967,750</u>

14. PRIOR PERIOD ADJUSTMENT

During fiscal year 2022, management identified that the previous interest rate utilized to value the finance lease was not accurate causing the finance lease to be overstated which resulted in a prior period adjustment of \$250,843.

	Net Assets Without Donor Restrictions	
	AFH	AFH Epicenter
Balance, as of December 31, 2021, as previously reported	\$ 10,777,353	\$ 6,330,793
Prior period adjustment to properly account for the finance lease under the new interest rate	<u>250,843</u>	<u>(250,843)</u>
Balance, as of December 31, 2021, as restated	<u>\$ 11,028,196</u>	<u>\$ 6,079,950</u>