

ABBY KELLEY FOSTER HOUSE, INC. AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS

with

INDEPENDENT AUDITORS' REPORT

YEAR ENDED DECEMBER 31, 2022

Smith  Sullivan
& Brown PC
CERTIFIED PUBLIC ACCOUNTANTS

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ABBY KELLEY FOSTER HOUSE, INC. AND AFFILIATES
REPORT ON CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2022



Our Mission

*To provide shelter and affordable housing,
as well as advocacy and support services,
to homeless, battered and low-income women,
with or without children.*

Our Vision

*Abby's House empowers the
women we serve to lead self-directed lives
filled with dignity and hope.*

ABBY KELLEY FOSTER HOUSE, INC. AND AFFILIATES

REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2022

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Abby Kelley Foster House, Inc. and Affiliates
Worcester, Massachusetts

Opinion

We have audited the accompanying consolidated financial statements of Abby Kelley Foster House, Inc. (a Massachusetts nonprofit organization) and Affiliates, which comprise the Consolidated Statement of Financial Position as of December 31, 2022, 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Abby Kelley Foster House, Inc. and Affiliates as of December 31, 2022, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Abby Kelley Foster House, Inc. and Affiliates 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.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Abby Kelley Foster House, Inc. and Affiliates' ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We did not audit the financial statements of AKFH Renovations LLC, which statements reflect total assets of \$14,181,617 as of December 31, 2022. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for those Affiliates, is based solely on the report of the other auditors.

To the Board of Directors
Abby Kelley Foster House, Inc. and Affiliates

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 generally accepted auditing standards 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, including omissions, 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 consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated 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 consolidated 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 Abby Kelley Foster House, Inc. and Affiliates' 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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Abby Kelley Foster House, Inc. and Affiliates' 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.

Report on Consolidating Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statements on pages 26 - 29 are presented for purposes of additional analysis of the consolidated statements rather than to present the financial position changes in net assets and cash flows of the individual entities and it is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Smith, Sullivan & Brown, PC

Westborough, Massachusetts
May 10, 2023

ABBY KELLEY FOSTER HOUSE, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2022

ASSETS

CURRENT ASSETS:

Cash and Cash Equivalents	\$ 3,170,579
Accounts and Other Receivables	17,133
Gifts, Grants and Pledges Receivable	129,500
Prepaid Expenses and Other Current Assets	43,799
Total Current Assets	3,361,011

PROPERTY AND EQUIPMENT, NET

13,750,835

NON-CURRENT ASSETS:

Board Designated Operating, Building and Capital Asset Reserves	1,347,803
Beneficial Interest in Agency Fund	1,621,558
Operational Capacity Building Funds	613,689
Reserve Funds Held in Escrow	501,911
Gifts, Grants and Pledges Receivable	24,000
Pre-Development Costs	112,243
Deferred Costs, Net	25,893
Total Non-Current Assets	4,247,097

TOTAL ASSETS

\$ 21,358,943

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Accounts Payable and Accrued Expenses	\$ 86,641
Accrued Payroll and Related Costs	73,007
Tenant Security Deposits	10,956
Deferred Revenue	6,235
Total Current Liabilities	176,839

LONG-TERM LIABILITIES:

Mortgage Notes Payable	8,246,562
Deferred Forgivable Debt	287,300
Total Long-Term Liabilities	8,533,862

TOTAL LIABILITIES

8,710,701

NET ASSETS:

Net Assets Without Donor Restrictions	5,375,150
Net Assets With Donor Restrictions	2,265,629
Total Net Assets - Abby's House	7,640,779
Non-Controlling Interest (MHIC)	5,007,463
Total Net Assets	12,648,242

TOTAL LIABILITIES AND NET ASSETS

\$ 21,358,943

ABBY KELLEY FOSTER HOUSE, INC. AND AFFILIATES

CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2022

	<u>WITHOUT</u> <u>DONOR</u> <u>RESTRICTIONS</u>	<u>WITH</u> <u>DONOR</u> <u>RESTRICTIONS</u>	<u>TOTAL</u> <u>ACTIVITIES</u>
<u>SUPPORT, REVENUES AND RECLASSIFICATIONS:</u>			
<i>Support and Revenues:</i>			
Gifts, Grants and Contributions	\$ 1,564,177	\$ 174,388	\$ 1,738,565
Rental Income	636,333	-	636,333
Thrift Shop Donations	251,990	-	251,990
Donated Goods and Services	21,672	-	21,672
Special Fund Raising Event Proceeds	227,841	-	227,841
Change in Beneficial Interest in Agency Fund	-	(302,233)	(302,233)
Interest Income	10,556	-	10,556
Other Income	40,315	-	40,315
Total Support and Revenues	<u>2,752,884</u>	<u>(127,845)</u>	<u>2,625,039</u>
<i>Reclassifications of Net Assets:</i>			
Net Assets Released to Operating Activities	<u>462,182</u>	<u>(462,182)</u>	<u>-</u>
<u>TOTAL SUPPORT, REVENUES AND RECLASSIFICATIONS</u>	<u>3,215,066</u>	<u>(590,027)</u>	<u>2,625,039</u>
<u>FUNCTIONAL EXPENSES:</u>			
Program Services	2,574,973	-	2,574,973
Administrative	245,301	-	245,301
Fund Raising	189,983	-	189,983
<u>TOTAL FUNCTIONAL EXPENSES</u>	<u>3,010,257</u>	<u>-</u>	<u>3,010,257</u>
<u>CHANGE IN NET ASSETS</u>	<u>204,809</u>	<u>(590,027)</u>	<u>(385,218)</u>
<u>NET ASSETS - BEGINNING OF YEAR</u>	<u>10,177,804</u>	<u>2,855,656</u>	<u>13,033,460</u>
<u>NET ASSETS - END OF YEAR</u>	<u>\$10,382,613</u>	<u>\$ 2,265,629</u>	<u>\$12,648,242</u>

ABBY KELLEY FOSTER HOUSE, INC. AND AFFILIATES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2022

	<u>PROGRAM</u> <u>SERVICES</u>	<u>ADMINI-</u> <u>STRATIVE</u>	<u>FUND</u> <u>RAISING</u>	<u>TOTAL</u> <u>FUNCTIONAL</u> <u>EXPENSES</u>
Salaries and Wages	\$ 1,035,534	\$ 56,780	\$ 88,420	\$ 1,180,734
Payroll Taxes	91,113	4,855	7,560	103,528
Employee Benefits	81,688	5,021	7,818	94,527
Direct Client Assistance - Rental and Thrift Shop Subsidies	129,066	-	-	129,066
Program Supplies and Expenses	49,765	-	-	49,765
Costs of Fund Raising Events	-	-	9,193	9,193
Repairs and Maintenance	159,116	-	-	159,116
Utilities	168,178	-	-	168,178
Real Estate Taxes	31,540	-	-	31,540
Insurance	70,123	2,474	756	73,353
Accounting and Legal Expense	470	61,154	-	61,624
Other Professional Fees and Consultants	133,608	84,407	63,700	281,715
Office Supplies and Expenses	13,477	6,695	1,290	21,462
Printing and Postage	17,355	1,067	9,697	28,119
Bank and Payroll Fees	-	18,114	-	18,114
Staff Training and Workshops	771	1,634	362	2,767
Staff Travel and Related Expenses	12,405	887	1,187	14,479
Dues, Fees and Subscriptions	25,243	2,213	-	27,456
Depreciation and Amortization Expense	430,137	-	-	430,137
Interest Expense	117,761	-	-	117,761
Real Estate Project Costs	7,623	-	-	7,623
	<u>7,623</u>	<u>-</u>	<u>-</u>	<u>7,623</u>
Total Functional Expenses	<u>\$ 2,574,973</u>	<u>\$ 245,301</u>	<u>\$ 189,983</u>	<u>\$ 3,010,257</u>

ABBY KELLEY FOSTER HOUSE, INC. AND AFFILIATES

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2022

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in Net Assets	\$ (385,218)
<i>Adjustments to Reconcile the Above to Net Cash Provided by Operating Activities:</i>	
Forgiveness of Advances from Affiliates	6,573
Depreciation and Amortization Expense	430,137
Accrued Interest	117,761
Change in Fair Value of Beneficial Interest	302,233
Distribution from Beneficial Interest	85,000
<i>(Increase) Decrease in Current Assets:</i>	
Accounts and Other Receivables	(8,441)
Gifts, Grants and Pledges Receivable	(77,500)
Prepaid Expenses and Other Current Assets	23,441
<i>Increase (Decrease) in Current Liabilities:</i>	
Accounts Payable and Accrued Expenses	29,486
Accrued Payroll and Related Costs	8,529
Tenant Security Deposits	139
Deferred Revenue	6,235
<i>(Increase) Decrease in Non-Current Assets:</i>	
Gifts, Grants and Pledges Receivable	12,000
Net Adjustment	<u>935,593</u>
<u>NET CASH PROVIDED BY OPERATING ACTIVITIES</u>	<u>550,375</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Contribution to Beneficial Interest in Agency Fund	(7,500)
Cash Outlay for Pre-Development Costs	(83,187)
Acquisition of Property and Equipment	<u>(28,690)</u>
Net Cash Flows Used by Investing Activities	<u>(119,377)</u>

NET INCREASE IN CASH BALANCES

430,998

CASH BALANCES - BEGINNING OF YEAR

5,213,273

CASH BALANCES - END OF YEAR

\$ 5,644,271

ABBY KELLEY FOSTER HOUSE, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022

NOTE 1 ORGANIZATION

Abby Kelley Foster House, Inc.:

Abby Kelley Foster House, Inc. (“Abby’s House” or the “Organization”) was incorporated in 1976 under the provisions of Massachusetts General Laws Chapter 180 and qualifies as a tax-exempt not-for-profit corporation under Section 501(c)(3) of the Internal Revenue Code (“IRC”). Abby Kelley Foster House, Inc. has been classified as an organization which is not a private foundation under IRC Section 509(a); accordingly, contributions made to this Organization qualify for the maximum charitable deduction for federal income tax purposes. In 2017, in connection with a major facility capital renovation project, Abby’s House established the following entities in order to receive and transfer federal and state tax credits.

AKFH Renovations MM LLC:

AKFH Renovations MM LLC (“the Managing Member”) was established as a Massachusetts Limited Liability Company pursuant to Chapter 156C of the Massachusetts General Laws on March 24, 2017. The Managing Member is a tax-exempt controlled entity as defined in IRC Section 168, owned 50% by Abby’s House and 50% by Main South Community Development Corporation (“Main South”), an unrelated Massachusetts charitable nonprofit corporation, as a Non-Voting Member. Abby’s House serves as the General Partner of the Managing Member. Pursuant to IRC Section 168, the Managing Member elected to be taxed as a corporation.

AKFH Renovations LLC:

On March 24, 2017, the Managing Member established AKFH Renovations LLC (“the LLC”) also organized as a Massachusetts Limited Liability Company pursuant to Chapter 156C of the Massachusetts General Laws. On December 28, 2017, the Managing Member admitted Massachusetts Housing Equity Fund XXIII LLC (“MHIC”) as the Investor Member. On that date, MHIC acquired a 99.99% interest in the LLC with capital contributions further detailed in Note 7. The term of the LLC shall continue until December 31, 2067 unless sooner dissolved or terminated in accordance with the provisions of the operating agreement.

NOTE 2 PROGRAM SERVICES

Overview

Since 1976, Abby’s House has been effectively responding to one of the most basic and fundamental human needs - a safe place to stay. Abby’s House provides a warm, welcoming and safe place for women who are homeless due to lack of safe, affordable housing, domestic violence, economic instability, or unemployment.

Abby’s House annually serves hundreds of women, providing them with shelter, housing and advocacy. Our immediate goal is to “to answer the door, one knock at a time” for women, with and without children, who are in need of safe or stable housing. We provide women with tangible skills, access to services, and emotional support in order to actively mitigate the issues which led to her homelessness and to prevent future homelessness. Our advocacy lays the foundation for her to make independent choices for herself and lead a self-directed life filled with dignity and hope. This model has helped more than 15,500 women to succeed over the last 45 years.

ABBY KELLEY FOSTER HOUSE, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022

(Continued)

NOTE 2 *(Continued)*

Programs

Shelter, housing and women’s services programs operate year-round, seven days per week and 24 hours per day. We have an on-call crisis response team to address any issues that may arise during non-traditional office hours.

Overnight Shelter:

Staffed by a Shelter Manager, an Assistant Manager, and more than 20 regular volunteers, Abby’s House’s overnight shelter provides women, with and without children, with safe shelter and focuses on helping her put together a plan to address her immediate needs. We assist her in finding and securing long-term, stable housing either in Abby’s House supportive housing or elsewhere, or help her to access residential programs, like inpatient substance abuse treatment programs, when further stabilization is required in transitioning towards permanent housing.

Abby’s House will renovate the shelter building located at 21-23 Crown Street, Worcester in July 2023. The renovation will improve the structural integrity of the building, make it fully accessible and expand the shelter from a congregate setting with 5 rooms and 9 beds to a non-congregate shelter with 13 rooms and 18 beds. Increased living spaces, dedicated staff office and two apartments will enhance the capacity to meet the needs of women experiencing homelessness.

Supportive Housing:

With seven two-bedroom apartments and 72 single room occupancy housing units in three buildings in Worcester, Abby’s House is Worcester’s largest provider of supportive housing specifically designed to meet the needs of women and children. We meet the needs of working women who cannot afford market-rate rent or allow those who are on SSI or SSDI to live safely and comfortably.

In 2019, Abby’s House completed the renovation of 52 High Street, a nearly century-old building and our largest property of supportive housing. The renovation added two units of housing, bringing the total count to 56; updated HVAC, electrical, plumbing, and security systems; and increased accessibility with a reconfigured entrance, an elevator, and accessible kitchens and bedrooms. The renovation preserved this critically needed housing for decades to come.

Women’s Services:

The Women’s Services team supported by frontline case managers empower women to identify realistic goals and provide the tools needed to achieve them. Individualized services allow us to work with each woman, given her own specific set of circumstances and needs. Advocates help our shelter guests and residents access wraparound services they need to survive and thrive. In order to meet the needs of the women served, we work with more than 123 other social services and government agencies and departments. Our focus is to effectively create a system of seamless service provision, support women with the sometimes-daunting task of matching needs with existing resources, and assist them with accessing those services.

ABBY KELLEY FOSTER HOUSE, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022

(Continued)

NOTE 2 *(Continued)*

Referral Services:

We receive a minimum of 20 - 25 calls, emails, or in-person visits per week from women seeking help and provide them with education that empowers them to access needed resources. We provide information and referrals to external agencies that offer a range of supports, including but not limited to: domestic violence services, nutrition and income assistance, education, employment, financial literacy, parenting supports, medical services, government-assisted permanent housing, and legal assistance. Developing and maintaining positive working relationships with local professionals and organizations in other areas of human services is vital for effective referrals. These relationships enable staff to maintain up-to-date and accurate information about available services in the community to help women reach their goals.

Annette Rafferty Women's Empowerment Center:

Current and past residents and guests are welcome to participate in the Annette Rafferty Women's Empowerment Center (Women's Center) programs offered at Abby's House. Women's Center activities include weekly nutritious meals, holiday celebrations, a food pantry, financial literacy sessions, computer access and computer training, and other educational and social activities based on women's interests and volunteer availability. The camaraderie that is built through the Women's Center provides a sense of community and stability in women's lives.

Thrift Shop:

Abby's House Thrift Shop is managed by two staff members and over 40 volunteers who ensure the needs of women in the community are met by offering gently used clothing and household items at affordable prices. Each week we receive items from dedicated supporters. Volunteers and staff sort items and provide a safe, affordable and comfortable place for our residents and shelter guests to shop. In addition to providing clothing vouchers to the women who reside at Abby's House, we are also able to offer clothing vouchers to women from over 25 agencies who work with women in need. All proceeds from the Thrift Shop support the mission of Abby's House. The Shop is currently open Monday, Tuesday, Wednesday, and Thursday from 10 am - 3 pm and Saturdays 10 am - 1 pm.

Annette Rafferty Survive to Thrive (ARST) Fund:

Through a collaborative application process involving residents or shelter guests and their advocates, the ARST Fund provides emergency funding to cover tangible expenses like medical and dental needs. This fund also helps to break the cycle of poverty by providing financial support to residents and shelter guests for education or vocational training with the goal of helping them to become financially self-sufficient. Additional grants are made to cover the escalating costs of obtaining permanent and stable housing including first, last and security payments required for moving into an apartment.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting:

The consolidated financial statements of the Abby Kelley Foster House, Inc. and Affiliates have been prepared on the accrual basis of accounting and accordingly, reflect all significant receivables, payables and other liabilities.

ABBY KELLEY FOSTER HOUSE, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022

(Continued)

NOTE 3 (Continued)

Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles (“GAAP”) 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; however, adherence to generally accepted accounting principles, has in management’s opinion, resulted in reliable and consistent financial reporting by the Organization.

Principles of Consolidation:

The accompanying consolidated financial statements incorporate the accounts of the following entities (collectively “the Organizations”):

- Abby Kelley Foster House, Inc.
- AKFH Renovations MM LLC
- AKFH Renovations LLC

As the General Partner of the LLC and the Managing Member, Abby’s House is considered to hold both a financial interest in and control over these entities and, therefore, is required to consolidate their activities within the accompanying consolidated financial statements.

The interest owned by the unaffiliated members or limited partners is referred to in the accompanying consolidated financial statements as the *Non-Controlling Interest* and represents the Investor Member’s proportionate share of equity and net results from operations. For the year presented, MHIC and Main South represent the *Non-Controlling Interest*, with all equity and capital attributed to MHIC.

Except as otherwise specified in the partnership agreements, all items of income, expense, gain, loss, tax credits and cash are allocated to the partners based upon their ownership percentage. All material inter-affiliated accounts and transactions are eliminated in the consolidated financial statements.

Fair Value of Financial Instruments:

The Organizations report their fair value measures by using a three-level hierarchy that prioritizes the inputs used to measure fair value. This hierarchy, established by generally accepted accounting principles, requires that entities maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs used to measure fair value are defined as follows:

- Level 1 - Quoted prices for identical assets or liabilities in active markets to which the Organizations have access at the measurement date.
- Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets in markets that are not active; observable inputs other than quoted prices for the asset or liability (for example, interest rate and yield curves); and inputs derived principally from, or corroborated by, observable market data by correlation or by other means.

ABBY KELLEY FOSTER HOUSE, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022

(Continued)

NOTE 3 (Continued)

Level 3 - Unobservable inputs for the asset or liability. Unobservable inputs should be used to measure the fair value to the extent that observable inputs are not available.

The primary use of fair value measures in the Organizations' consolidated financial statements is the recurring measurement of its beneficial interest in an agency endowment fund.

Financial Statement Presentation:

The Organizations report information regarding their financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. These classifications are related to the existence or absence of donor-imposed restrictions as defined below.

Net Assets Without Donor Restrictions - Net assets without donor restrictions are resources available to support operations and not subject to donor restrictions. In addition, net assets within this classification include funds which represent resources designated by the Board of Directors for specific purposes.

Net Assets With Donor Restrictions - Some restrictions are temporary in nature, such as those that are restricted by a donor for use for a particular purpose or in a particular future period. Other restrictions may be perpetual in nature, such as those that are restricted by a donor that the resources be maintained in perpetuity. As of December 31, 2022, the Organizations have no net assets that are required to be maintained in perpetuity. The Organizations' unspent contributions are reported in net assets with donor restrictions if the donor limited their use, as are promised contributions that are not yet due. Contributions of property and equipment or cash restricted to acquisition of property and equipment are reported as net assets with donor restrictions if the donor has restricted the use of the property or equipment to a particular program. These restrictions expire when the assets are placed in service.

Cash and Reserve Accounts:

Cash held for long-term purposes, including capital projects, is classified as non-current within the Consolidated Statement of Financial Position. Cash set aside or designated as reserve funds are classified in accordance with the underlying intentions, restrictions and purposes. For the year presented, such amounts consisted of the following balances:

<u>Cash Composition</u>	<u>Amount</u>
Cash and Cash Equivalents	\$3,170,579
Board Designated Operating, Building and Capital Asset Reserves	1,347,803
Operational Capacity Building Funds	613,689
Operating Reserve	351,211
Replacement Reserve	150,700
Tenant Security Deposits (Other Current Assets)	<u>10,289</u>
Total	<u>\$5,644,271</u>

ABBY KELLEY FOSTER HOUSE, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022

(Continued)

NOTE 3 *(Continued)*

Operating Reserve

In accordance with the provisions of the Operating Agreement, the LLC is required to fund an operating reserve of \$350,000. This funding may be adjusted annually per the terms of the Operating Agreement to comply with the requirement to maintain an “Operating Reserve Minimum”, as defined in the Operating Agreement. The reserve may be used from time to time by the Managing Member to eliminate operating deficits, if any, occurring in the operating of the 52 High Street property.

Replacement Reserve

The LLC is required by its Operating Agreement to establish and maintain a replacement reserve, which is to be used to fund capital improvements and repairs to the property at 52 High Street. The current financial forecast requires the LLC to make minimum annual deposits of \$22,400 to the fund, which is subject to adjustment by the Lenders.

Receivables:

Accounts and Other Receivables primarily represents amounts due from tenants for rent along with other reimbursements due.

Gifts, Grants and Pledges Receivable reflects the balance due on unconditional promises to give. Receivables are classified as current if they are scheduled for payment within one year, and non-current when the expected payment date exceeds one year. Promises to give with expected payment dates that extend beyond one year are discounted to their present value when such amounts are considered material. As of December 31, 2022, all non-current grants receivable were due within three years.

Management periodically reviews receivables to determine if any balances are uncollectible. The allowance for uncollectible receivables is determined based on historical collection experience and a review of the current status of tenant accounts receivable. As of December 31, 2022, Management believes that all receivables are fully collectible; accordingly, these financial statements do not contain a provision for uncollectible accounts. For the year presented, the Organizations did not report any losses on unpaid commitments.

Property and Equipment:

Property, equipment, furnishing and improvement purchases in excess of \$5,000 are capitalized at cost, if purchased, or if donated, at fair value at the date of receipt. Expenditures for maintenance, repairs and renewals are charged to expense as incurred, whereas major betterments are capitalized as additions to property and equipment. Depreciation of property and equipment is computed using the straight-line method and is charged against support and revenues over the following estimated useful lives of the assets, as expressed in terms of year.

<u>Description</u>	<u>Est. Life</u>
Buildings	39 - 40
Building Improvements	5 - 40
Leasehold Improvements	10
Furnishings	5 - 7
Equipment	7

ABBY KELLEY FOSTER HOUSE, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022

(Continued)

NOTE 3 *(Continued)*

The Organizations review their investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted cash flow expected to be generated by the rental property and any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the real estate exceeds the fair value of the property. There were no impairment losses recognized in the year presented.

Beneficial Interest in Assets Held By Others:

The Organizations' beneficial interest in an agency endowment fund held by the Greater Worcester Community Foundation ("GWCF") is recognized as an asset in the accompanying Consolidated Statement of Financial Position. For the year presented, the beneficial interest in the fund is classified as a Level 3 financial instrument within the fair value hierarchy and has been measured at fair value on a recurring basis. The fair value of the Organizations' beneficial interest in the agency endowment is based on a percentage interest in the endowment fund's fair value as represented by the fund's management. Changes in the fair value of the beneficial interest in the agency endowment fund are recognized in the Organizations' Consolidated Statement of Activities. Distributions received from the fund are recorded as decreases in the beneficial interest (*See Note 5*).

Leases:

The Organizations determine if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use ("ROU") assets, other current liabilities, and operating lease liabilities in the Consolidated 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. Operating lease ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term.

The operating lease ROU asset includes any lease payments made and excludes lease incentives. The lease terms may include options to extend or terminate the lease when it is reasonably certain that the Organizations will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. Abby's House has applied the standards to its lease with the LLC, which has been eliminated, along with the rental income and expense, in the accompanying consolidated financial statements.

Abby's House has elected the short-term lease exemption for all leases with a term of 12 months or less for both existing and ongoing operating leases to not recognize the asset and liability for these leases. Lease payments for short-term leases are recognized on straight-line basis. For the year presented, the Organizations did not have any short-term leases.

Additionally, the LLC elected and applied the following practical expedients on the adoption date:

- The package of practical expedients permitting the LLC to not reassess (i) the lease classification of existing leases; (ii) whether existing and expired contracts are or contain leases; and (iii) initial direct costs for existing leases.

ABBY KELLEY FOSTER HOUSE, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022

(Continued)

NOTE 3 (Continued)

The LLC accounted for its existing operating leases with residential tenants of the property as operating leases. Adopting ASU 2016-02 in accounting for residential tenant leases did not result in adjustments to the consolidated financial statements.

Pre-Development Costs:

As further discussed in Note 4, Abby's House is currently raising funds and arranging for financing to renovate the Organization's shelter facility in Worcester. The Organization is currently in the Pre-Development Phase of this project. During this phase of the project, the costs are carried as *Pre-Development Costs* in the Consolidated Statement of Financial Position. Once the assets are placed in service, the costs will be reclassified to their proper asset category and depreciated over their appropriate useful life. As of December 31, 2022, *Pre-Development Costs* consisted of Real Estate Development Consultants, Architectural, Legal and Engineering Fees, and related costs.

Deferred Costs:

Deferred costs are represented by tax credit fees in the original amount of \$33,783, which are amortized on a straight-line basis over the 15-year compliance period. These deferred costs are presented net of accumulated amortization of \$7,890 as of December 31, 2022. For the year ended December 31, 2022, amortization expense was \$2,256. The future amortization expense is expected to be \$2,252 per year through December 31, 2027.

Debt Issuance Costs:

Debt issuance costs are presented as a reduction of the carrying amount of the debt rather than as an asset. Accordingly, costs incurred in connection with debt issuance are deferred and amortized over the life of the respective debt. Amortization of debt issuance costs is reported as a component of *Interest Expense* and is computed using an imputed interest rate on the related loan.

Gifts, Grants and Contributions:

The Organization is the beneficiary of contributions in the form of grants from other organizations, governmental agencies, donations of cash and financial assets from individuals and contributions of nonfinancial assets. Contributions, including promises to give, without donor conditions are recognized as revenue at their estimated fair value at the date of donation and classified as either with or without donor restrictions depending on the donor's stipulations or lack thereof. Unconditional, multi-year commitments are recognized in the year during which the initial commitment is made at the amount that the Organization reasonably expects to collect. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risk involved when such amounts are considered material. Amounts receivable from donors are evaluated yearly for collectability and an allowance for uncollectible pledges is recorded as necessary.

ABBY KELLEY FOSTER HOUSE, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022

(Continued)

NOTE 3 (Continued)

Conditional donations are those that have a measurable performance or other barrier and include a right of return of the assets or right of release of the donor from further obligation if the conditions are not met. Conditional donations are not recognized until the associated barriers are met. Any cash received before the conditions or barriers are met is reported as a refundable grant advance. When the conditions are met the revenue is reported as contributions without donor restrictions unless there are further restrictions over and above those associated with the donor conditions. Support that is restricted by the donor is reported as an increase in net assets with donor restrictions until the restrictions are met, at which time the net assets are reclassified to net assets without donor restrictions.

Special events revenue and sponsorships received in advance of the event is reported as deferred revenue and advances, a liability, until the event takes place.

Revenue Recognition:

The Organizations' primary program revenue sources are rental income and income from its thrift shop sales. *Rental Income* consists of funds received from tenants and external subsidies and is recognized when earned based upon occupancy dates. Rent payments received in advance are classified as deferred revenue, a contract liability, until earned. The Organizations' rental rates are considered below-market rental rates. The difference between the market rates that could be charged for the square-footage and the actual rates charged is recognized as a subsidy and reported within *Direct Client Assistance - Rental and Thrift Shop Subsidies* in the accompanying Consolidated Statement of Functional Expenses. *Thrift Shop Donations* results from the sale of donated clothing and goods. The revenue recognized is considered to represent the fair value of the donated goods and is considered to be contributed revenue.

Donations of Nonfinancial Assets:

Contributed nonfinancial assets include donated professional services, equipment, gift cards, clothing and other in-kind contributions which are recorded at the respective fair values of the goods or services received. Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. Abby's House relies heavily upon volunteer involvement in direct service, thrift shop operations and administrative capacities. Abby's House also relies upon donations from the general public of program supplies, materials, clothing, food and personal items for program participants.

Functional Expenses:

The Organizations allocate their expenses on a functional basis among its various programs and support services. Expenses that are common to several functions are allocated according to time and space usage. In the accompanying Consolidated Statement of Functional Expenses, *Salaries and Wages, Payroll Taxes* and *Employee Benefits* have been allocated based upon management's estimates of time usage by functional category, while the costs associated with facilities (*Repairs and Maintenance, Utilities, Insurance, Depreciation and Amortization Expense, and Real Estate Taxes*) are allocated based upon square footage formulas as derived from the usage of the underlying assets. Supporting services are those related to operating and managing Abby Kelley Foster House, Inc. and Affiliates and its programs on a day-to-day basis.

ABBY KELLEY FOSTER HOUSE, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022

(Continued)

NOTE 3 *(Continued)*

Supporting services have been sub-classified as follows:

Administrative - includes all activities related to Abby Kelley Foster House, Inc. and Affiliates' internal management and accounting for program services.

Fund Raising - includes all activities related to maintaining contributor information, writing grant proposals, distribution of materials and other similar projects related to the procurement of funds for Abby Kelley Foster House, Inc. and Affiliates' programs. Fund raising expenses also includes the costs of special fund raising events.

Tax Position:

The Organizations currently evaluate all tax positions and make a determination regarding the likelihood of those positions being upheld under review. The primary tax positions made by Abby's House are the lack of Unrelated Business Income Tax and its tax-exempt status under IRC Section 501(c)(3) and the fact that changes may result from the closing of the statute of limitations on tax returns, new legislation, and clarification of existing legislation through government pronouncements, the courts, and through the examination process.

AKFH Renovations LLC is taxed as a partnership and files a U.S. Return of Partnership Income, which indicates the share of items to be reported on each members' income tax return. AKFH Renovations MM LLC is taxed as a corporation and files a U.S. Corporation Income Tax Return. For the year presented, there was no taxable income reported. As a result, no provision for income taxes is required in the accompanying consolidated financial statements.

For the year presented, the Organizations have not recognized any tax benefits or loss contingencies for uncertain tax positions based on these evaluations.

Recent Accounting Guidance:

Recently Implemented Standards

On September 17, 2020, the FASB issued Accounting Standards Update ("ASU") 2020-07 *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This ASU is intended to increase transparency in reporting gifts-in-kind in the Organizations' consolidated financial statements. This standard was adopted by Abby's House effective January 1, 2022. The presentation and disclosures of revenue have been enhanced in accordance with the standard.

In February 2016, the FASB issued ASC Update No. 2016-02, (Topic 842) *Leases* which establishes a comprehensive new lease accounting model. The new standard clarifies the definition of a lease and causes lessees to recognize leases on the balance sheet as a lease liability with a corresponding right-of-use asset for leases with a lease term of more than one year. This standard was adopted by the Organization and the LLC effective January 1, 2022.

ABBY KELLEY FOSTER HOUSE, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022

(Continued)

NOTE 4 PROPERTY AND EQUIPMENT

Property and Equipment consists of land and land improvements, buildings and associated improvements, furnishings, fixtures, appliances, and equipment. The following is a summary of property and equipment as of December 31, 2022:

<u>Asset Category</u>	<u>Amount</u>
Land	\$ 569,681
Land Improvements	147,843
Buildings and Improvements	15,301,379
Leasehold Improvements	28,690
Furnishings, Fixtures, and Equipment	<u>409,586</u>
Subtotal	16,457,179
Less Accumulated Depreciation	<u>(2,706,344)</u>
Property and Equipment, Net	<u>\$13,750,835</u>

Depreciation Expense for the year ended December 31, 2022 is \$427,881.

Planned Shelter Renovations:

Abby Kelley Foster House, Inc. has owned the building that currently serves as a shelter for over 40 years and has maintained it over the years through operating funds. The structure is a historic brick building that is experiencing structural challenges that need an infusion of capital funds to repair properly. The COVID-19 pandemic has also highlighted the challenges of the congregate shelter model. The planned renovations will allow Abby's House to move to a non-congregate shelter model. The repairs will also upgrade the shelter in the following ways:

- Create an accessible path into the shelter for residents and guests by adding a ramp
- Reorganize common spaces for enhanced service delivery
- Add a small 6-foot addition to the rear of the building to address structural concerns located within the building
- Repair and repoint failing brick work on the building façade
- Bring fresh air into the building through a new HVAC system which will provide a more efficient heating and cooling system for the building
- Reorganize the parking at the shelter for a more efficient use of space
- Expand the number of shelter bedrooms from 5 to 13 and tailor bedrooms to meet the specific needs of families and individuals

ABBY KELLEY FOSTER HOUSE, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022

(Continued)

NOTE 4 *(Continued)*

The shelter project began in 2021 with a feasibility study, led by development consultant Stone Soup Collaborative, LLC and Davis Square Architects. The project applied for financing through the Massachusetts Department of Housing and Community Development in January 2022 and was awarded funding commitments in July 2022. The total development budget is estimated to be \$5.2 million. Sources of funding include the City of Worcester (\$700,000), Affordable Housing Trust Fund (\$1,795,000), Housing Innovations Fund (\$2,000,000), and Abby's House (\$700,000).

Construction is expected to begin in July 2023, with all of the renovations being complete in 9-12 months. Allegrone Companies has been selected as the general contractor.

NOTE 5 BENEFICIAL INTEREST

The estimated value of funds held by GWCF on behalf of Abby's House was \$1,621,558 as of December 31, 2022. Abby's House contributes to this fund which may be used for future programs or capital needs. In addition, it is the hope of Abby's House that other individuals will contribute to the fund. The nature of the agency endowment fund agreement grants variance power, or control, to GWCF, which gives GWCF the ultimate authority over the fund and the income derived therefrom. Abby's House retains a beneficial interest in the endowment fund held by the GWCF, the assets of which are not in the possession of Abby's House; however, Abby's House has legally enforceable rights and claims to the earnings on such assets. Upon request by Abby's House, and subject to the approval of the GWCF, income from the fund is distributed to Abby's House. Abby's House may also request distributions of the principal, subject to an application and approval process. Based upon the agreement with GWCF, the funds are reported as net assets with donor restrictions in the accompanying consolidated financial statements.

The following schedule summarizes the changes in Abby's House's beneficial interest, valued using Level 3 inputs, for the year presented:

	<u>Amount</u>
Beneficial Interest - Beginning of Year	\$2,001,291
Contributions to the Fund	7,500
Distribution from the Fund	(85,000)
Investment Income (Loss)	(279,086)
Investment Management Fees	<u>(23,147)</u>
Beneficial Interest - End of Year	<u>\$1,621,558</u>

ABBY KELLEY FOSTER HOUSE, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022

(Continued)

NOTE 6 DEBT

77 Chatham Street, Worcester:

Community Economic Development Assistance Corporation (“CEDAC”):

On January 25, 1996, the Organization received a mortgage in the amount of \$147,300 under the Housing Innovations Fund II program, as funded by the Massachusetts Department of Housing and Community Development and administered by CEDAC. The original terms of the note provided that simple interest would accrue at the annual rate of 5% for a 20-year period, while the note has a 30-year term, and is due on January 25, 2026. The note was amended to a 0% interest rate, retroactive to the initial loan date. The note is secured by the above property. CEDAC has the option to extend the note for additional 10-year terms, provided that the project remains in compliance with the affordable housing regulations. If at any time before the loan maturity date the project’s annual cash flow exceeds 1.05 of the annual cash expenses, including debt coverage requirements, the excess cash flow would be due and payable to CEDAC within 45 days of the end of each calendar year.

City and State HOME Funds:

On November 14, 1995, the City of Worcester, through its Office of Planning and Community Development, loaned \$70,000 for the acquisition and renovation of the property located at 77 Chatham Street. The Commonwealth of Massachusetts, through its Executive Office of Communities and Development, provided matching funds with an additional loan of \$70,000 to the project. The total loan amount of \$140,000 is funded by the U.S. Department of Housing and Urban Development (“HUD”) under the HOME Program which requires a deed restriction for the affordable housing regulations. The debt is structured as an interest-free loan with no payments due for 40 years, maturing on November 14, 2035, at which time the balance is due in full. The note would also become payable in full upon the sale or complete refinancing of the property. The note is secured by a mortgage and security agreement on the property and is subordinate to the mortgage held by CEDAC.

52 High Street, Worcester:

In 2019, Abby’s House completed a major renovation project on a residential and program/office facility. The total renovation costs were \$16.8 million and was funded by long-term deferred debt, bond proceeds and proceeds from federal and state tax credits. The construction phase was funded by the bond proceeds, capital campaign contributions and additional permanent long-term deferred financing through the Commonwealth of Massachusetts and the City of Worcester. AKFH Renovations LLC received \$11,422,992 in the aggregate in capital contributions from the equity investment in federal low-income housing tax credits and federal historic tax credits and as subordinate loans from the sale of state low-income housing tax credits and state historic tax credits, which sources were used to repay the bond and construction bridge loans. The following significant debt and related agreements have been executed in connection with this project.

MassDocs:

MassDocs is an agency that coordinates the funding programs of four state agencies. AKFH Renovations LLC has entered into the following loan agreements which are administered by the Massachusetts Department of Housing and Community Development (“DHCD”) for itself and as agent for CEDAC and the City of Worcester. The following table summarizes the balances due as of December 31, 2022.

ABBY KELLEY FOSTER HOUSE, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022

(Continued)

NOTE 6 *(Continued)*

<u>Funding Source</u>	<u>Amount</u>
CEDAC - Housing Innovations Fund	\$1,890,136
CEDAC - Facilities Consolidation Fund	472,534
City of Worcester - HOME Program	550,000
DHCD - Housing Trust Fund	<u>500,000</u>
Total	<u>\$3,412,670</u>

The promissory notes are non-interest bearing and have maturity dates of February 28, 2049 and 2059. Each of the above loans are secured by a shared second priority mortgage lien on the property. All outstanding balances are due on the maturity date.

Neighborhood of Affordable Housing, Inc. ("NOAH"):

AKFH Renovations LLC received a binding commitment from the Massachusetts Department of Housing and Community Development ("DHCD") for an allotment of its 2019 Massachusetts Low-Income Housing Tax Credits. In addition, the Massachusetts Historical Commission awarded Massachusetts Historic Rehabilitation tax credits. Management initially estimated that the sale of the State Low-Income Housing Tax Credits and the State Historic Tax Credits would generate aggregate net sale proceeds of approximately \$4 million. In accordance with the provisions of the Amended and Restated Operating Agreement of AKFH Renovations LLC, AKFH Renovations LLC allocated 100% of the State Low-Income Housing Tax Credits and the State Historic Tax Credits to its managing member, AKFH Renovations MM LLC (the "Managing Member" or "Donor"). On December 28, 2017, the Managing Member, as the Donor, and Neighborhood of Affordable Housing, Inc., as Donee (the "Donee") entered into the Charitable Donation and Transfer Agreements pursuant to which agreements, the Managing Member agreed to donate, and the Donee agreed to accept the donation of, the State Low-Income Housing Tax Credits and the State Historic Tax Credits. Pursuant to these arrangements, the Donee sold the State Low-Income Housing Tax Credits and the State Historic Tax Credits to private buyers identified in the Purchase and Transfer Agreements entered into as of December 28, 2017.

In 2019, AKFH Renovations LLC received two loans from NOAH, an unrelated charitable organization, in the aggregate amount of \$4,460,625 which were sourced from the proceeds of the sale of the state low-income housing tax credits and the state historic tax credits. The loans are secured by a shared fourth priority mortgage lien, accrue interest at the applicable federal rate (2.64%), payable to the extent of available cash flow, and mature on December 31, 2057. In the year presented, interest expense in the amount of \$117,761 was accrued on these loans with accumulated accrued interest totaling \$373,267 as of December 31, 2022.

Each of the above obligations is secured by a mortgage on the property which stipulates that the property must comply with affordable housing regulations.

ABBY KELLEY FOSTER HOUSE, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022

(Continued)

NOTE 6 (Continued)

As of December 31, 2022, *Mortgage Notes Payable* (including accrued interest) consists of the following obligations:

<u>Debt Obligation</u>	<u>Amount</u>
CEDAC Permanent Loans	\$3,412,670
NOAH	<u>4,833,892</u>
Total	<u>\$8,246,562</u>

NOTE 7 RESTRICTED AND DESIGNATED NET ASSETS

Net Assets With Donor Restrictions:

Net assets with donor restrictions consists of unexpended donor designated grants and contributions with the following restrictions as of December 31, 2022:

<u>Nature of Restriction</u>	<u>Amount</u>
Beneficial Interest in Agency Fund	\$1,621,557
Capital Campaign	514,615
ARST Fund	12,236
Time Restricted	71,000
Housing, Shelter Program and Other	16,221
Shelter Renovation	<u>30,000</u>
Total	<u>\$2,265,629</u>

Net assets released from donor restrictions by incurring expenses which satisfied the restricted purposes or by occurrence of events specified by the donors were as follows:

<u>Nature of Restriction</u>	<u>Amount</u>
Capital Campaign	\$188,822
Housing and Shelter Program	103,727
Distribution from Agency Fund	85,000
Shelter Renovation	59,938
ARST Fund	12,695
Lapse of Time Restrictions	<u>12,000</u>
Total	<u>\$462,182</u>

ABBY KELLEY FOSTER HOUSE, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022

(Continued)

NOTE 7 *(Continued)*

Board Designated Net Assets:

The Board of Directors of Abby’s House established an *Operating Reserve Fund* and a *Building and Capital Asset Reserves Fund*. The *Operating Reserve Fund*, having a target minimum of to cover 6 - 9 months of operating expenses, is intended to provide an internal source of funds for special and unique situations such as unanticipated costs, loss of funding or uninsured loss. The *Building and Capital Asset Reserves Fund* is intended to provide a ready source of funds for repair or acquisition of buildings, leaseholds, furniture, fixtures and equipment necessary for the effective operation of Abby’s House and its programs. The target amount of the *Building and Capital Asset Reserves Fund* will be, at a minimum, one year of the average annual provision for depreciation.

Equity Transactions:

Federal Historic and Low-Income Tax Credits

As discussed in Note 1, pursuant to the First Amended and Restated Operating Agreement of AKFH Renovations LLC, AKFH Renovations MM LLC as the Managing Member, admitted Massachusetts Housing Equity Fund XXIII LLC (“MHIC”) as the Investor Member for purposes of allocating the federal tax credits in exchange for capital contributions. Together, these tax credits generated an equity investment from MHIC in the aggregate amount of \$7,176,731 before syndication costs and other transactional fees.

NOTE 8 RENTAL INCOME

Abby’s House operates 77 units of affordable housing serving low income women and children. The following table summarizes the components of rental income for the year ended December 31, 2022:

Rental Income	\$ 636,333
Less: Rental Subsidies	<u>(114,654)</u>
Actual Rent Received	<u>\$ 521,679</u>

NOTE 9 SPECIAL FUND RAISING EVENTS

Abby’s House sponsors special fund raising events to generate contributions as well as gain public awareness for its programs and charitable mission. In the year presented, these events included *Abby’s House 5K* and *Springtacular*. These events were held virtually in 2022. The results of the fund raising events are summarized below:

	<u>Amount</u>
Contributions and Sponsorships	\$200,280
Auction Proceeds	<u>27,561</u>
Total Event Proceeds	227,841
Less: Event Costs	<u>(9,193)</u>
Net Special Event Proceeds	<u>\$218,648</u>

ABBY KELLEY FOSTER HOUSE, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022

(Continued)

NOTE 10 DONATED GOODS AND SERVICES

For the year presented, the Organization recognized the following donated goods and services in the accompanying consolidated financial statements:

<u>Description</u>	<u>Amount</u>
Gift Cards	\$18,447
Professional Services	<u>3,225</u>
Total	<u>\$21,672</u>

Gift cards are provided by individuals to be used by program participants. Gift cards are recognized at the face value of the card.

Contributed professional services are provided by a consulting firm who provide the Organization's employees with diversity and inclusion education and training. Contributions of professional services are recognized at fair value based on current rates for similar services.

Abby's House accepts contributions of personal items and clothing which are sold in the Thrift Shop. The proceeds from the sale of these items are recognized as revenue in the year sold and recorded as *Thrift Shop Donations* in the accompanying Consolidated Statement of Activities.

All gifts in-kind received during the year ended December 31, 2022 were unrestricted.

Volunteers are an integral component of Abby's House program services. Volunteers provide staffing services at the Shelter and Thrift Shop which would otherwise be paid positions. For the year ended December 31, 2022, it is estimated that 4,753 volunteer hours valued at \$97,399 were received by Abby's House. Although extensive, these donations do not meet the recognition criteria, and therefore, the related contribution is not reflected in the accompanying consolidated financial statements.

NOTE 11 RETIREMENT PLAN

Abby Kelley Foster House, Inc. maintains a 403(b) retirement savings plan covering all eligible employees. The plan allows eligible employees of the Organization to defer a percentage of their earnings from current taxation by investing in mutual funds. The Organization may vote to make discretionary contributions to the participating employee accounts. The Organization did not make any employer contributions to the plan for the year presented.

NOTE 12 CONCENTRATIONS

Cash Balances:

The Organizations are subject to concentrations in credit risk relating primarily to cash balances. Cash deposits are insured by the Federal Deposit Insurance Corporation ("FDIC") under the applicable limits. The Organizations had \$4,004,840 in excess of federally insured and other limits as of December 31, 2022, however, Management has not experienced any losses with respect to its bank balances in excess of FDIC insurance limits.

ABBY KELLEY FOSTER HOUSE, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022

(Continued)

NOTE 13 CONTINGENCIES

Deed Restrictions:

Each of the mortgage obligations disclosed in Note 6 imposes a deed restriction on the use of the residential facilities located in Worcester, Massachusetts. The purpose of the deed restrictions are to assure the government that the premises will be retained as affordable housing for occupancy by low and very low-income families. The deed restrictions apply to all owners of the property without regard to early repayment of debt. Noncompliance with the affordable housing provisions of the various debt instruments may result in default.

Regulatory Compliance:

The property located at 52 High Street, owned by the LLC, has qualified for and been allocated low-income housing credits pursuant to IRC Section 42, which regulates the use of the property as to occupant eligibility and unit gross rent, among other requirements. The property must meet the provisions of these regulations during each of the 15 consecutive years following completion in order to remain qualified to receive the tax credits. In addition, the LLC will execute an Extended Use Agreement which extends the compliance period to 30 years. The LLC's failure to maintain compliance with these regulations could result in a recapture of previously taken tax credits plus interest and reduced capital investment by the Investor Member of the LLC. In addition, as disclosed in Note 7, this property qualified for and received federal and state historic tax credits in 2019, which are subject to recapture during the five-year period following the completion of the rehabilitation.

Guaranty:

Abby's House has unconditionally guaranteed to MHIC responsibility for operating deficits, and other funding shortfalls as further detailed in a Sponsors' Guaranty and Agreement dated December 28, 2017.

NOTE 14 LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Organizations' working capital and cash flows have seasonal variations during the year attributable to the annual cash receipts of contributions and a concentration of contributions received near calendar year end. To manage liquidity, the Organizations maintain various sources of liquidity at its disposal, including cash and cash equivalents, cash reserves and escrow accounts. As part of the Organizations' liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Organizations are funded primarily through donations and rents received throughout the year.

The following table reflects the Organizations' financial assets as of December 31, 2022, reduced by amounts not available for general expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year, such as beneficial interests, or because the governing board has set aside the funds for a specific contingency reserve or other long-term purposes. Additionally, Abby's House has Board-Designated reserve funds that, while management does not intend to spend these funds within the next year, these amounts could be made available for current operations, if necessary (*See Note 7*).

ABBY KELLEY FOSTER HOUSE, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022

(Continued)

NOTE 14 *(Continued)*

	<u>Amount</u>
Financial Assets:	
Cash and Cash Equivalents	\$ 5,644,271
Beneficial Interest in Agency Fund	1,621,558
Accounts and Other Receivables	17,133
Gifts, Grants and Pledges Receivable	<u>153,500</u>
Total Financial Assets as of December 31	7,436,462
Less Amounts Not Available to be Used Within One Year:	
Board Designated Reserve Funds	(1,347,803)
Beneficial Interest in Agency Fund	(1,621,558)
Operational Capacity Building Funds	(613,689)
Reserve Funds Held In Escrow	(501,911)
Grants Receivable After One Year	(24,000)
Tenant Security Deposits	<u>(10,289)</u>
Financial Assets Available to Meet General Expenditures Within One Year	<u>\$ 3,317,212</u>

NOTE 15 SUBSEQUENT EVENTS

Management is required to consider events subsequent to the financial statement date for potential adjustment to or disclosure in the consolidated financial statements. Therefore, Management has evaluated subsequent events through May 10, 2023, the date which the consolidated financial statements were available for issue, and noted no events which met the criteria for recognition or disclosure.

ABBY KELLEY FOSTER HOUSE, INC. AND AFFILIATES

CONSOLIDATING STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2022

	<u>ABBY'S</u> <u>HOUSE</u>	<u>AKFH</u> <u>LLC</u>	<u>AKFH</u> <u>MM LLC</u>	<u>ELIMIN-</u> <u>ATIONS</u>	<u>CONSOLIDATED</u> <u>TOTAL</u>
<u>ASSETS</u>					
<u>CURRENT ASSETS:</u>					
Cash and Cash Equivalents	\$ 2,878,986	\$ 291,593	\$ -	\$ -	\$ 3,170,579
Accounts and Other Receivables	7,876	52,355	100	(43,198)	17,133
Due From Affiliates	20,954	5,195	-	(26,149)	-
Gifts, Grants and Pledges Receivable	129,500	-	-	-	129,500
Prepaid Expenses and Other Current Assets	19,600	24,199	-	-	43,799
Total Current Assets	<u>3,056,916</u>	<u>373,342</u>	<u>100</u>	<u>(69,347)</u>	<u>3,361,011</u>
<u>PROPERTY AND EQUIPMENT, NET</u>	<u>465,169</u>	<u>14,239,796</u>	<u>-</u>	<u>(954,130)</u>	<u>13,750,835</u>
<u>NON-CURRENT ASSETS:</u>					
Board Designated Reserves	1,347,803	-	-	-	1,347,803
Beneficial Interest in Agency Fund	1,621,558	-	-	-	1,621,558
Operational Capacity Building Funds	613,689	-	-	-	613,689
Reserve Funds Held in Escrow	-	501,911	-	-	501,911
Notes Receivable from Affiliate	2,102,635	-	-	(2,102,635)	-
Gifts, Grants and Pledges Receivable	24,000	-	-	-	24,000
Pre-Development Costs	112,243	-	-	-	112,243
Operating Right-of-Use Asset	584,197	-	-	(584,197)	-
Deferred Costs, Net	-	25,893	-	-	25,893
Investment in Subsidiary	-	-	100	(100)	-
Total Non-Current Assets	<u>6,406,125</u>	<u>527,804</u>	<u>100</u>	<u>(2,686,932)</u>	<u>4,247,097</u>
<u>TOTAL ASSETS</u>	<u>\$ 9,928,210</u>	<u>\$15,140,942</u>	<u>\$ 200</u>	<u>\$ (3,710,409)</u>	<u>\$21,358,943</u>
<u>LIABILITIES AND NET ASSETS</u>					
<u>CURRENT LIABILITIES:</u>					
Accounts Payable and Accrued Expenses	\$ 77,873	\$ 8,868	\$ -	\$ (100)	\$ 86,641
Accrued Payroll and Related Costs	73,007	-	-	-	73,007
Tenant Security Deposits	-	10,956	-	-	10,956
Deferred Revenue	2,467	3,768	-	-	6,235
Due to Affiliates	43,098	20,954	5,195	(69,247)	-
Total Current Liabilities	<u>196,445</u>	<u>44,546</u>	<u>5,195</u>	<u>(69,347)</u>	<u>176,839</u>
<u>LONG-TERM LIABILITIES:</u>					
Mortgage Notes Payable	-	10,349,197	-	(2,102,635)	8,246,562
Operating Lease Liability	593,138	-	-	(593,138)	-
Deferred Forgivable Debt	287,300	-	-	-	287,300
Total Long-Term Liabilities	<u>880,438</u>	<u>10,349,197</u>	<u>-</u>	<u>(2,695,773)</u>	<u>8,533,862</u>
<u>TOTAL LIABILITIES</u>	<u>1,076,883</u>	<u>10,393,743</u>	<u>5,195</u>	<u>(2,765,120)</u>	<u>8,710,701</u>
<u>NET ASSETS:</u>					
Net Assets Without Donor Restrictions	6,585,698	-	(4,995)	(1,205,553)	5,375,150
Net Assets With Donor Restrictions	2,265,629	-	-	-	2,265,629
Total Net Assets - Abby's House	8,851,327	-	(4,995)	(1,205,553)	7,640,779
Non-Controlling Interest (MHIC)	-	4,747,199	-	260,264	5,007,463
Total Net Assets	<u>8,851,327</u>	<u>4,747,199</u>	<u>(4,995)</u>	<u>(945,289)</u>	<u>12,648,242</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$ 9,928,210</u>	<u>\$15,140,942</u>	<u>\$ 200</u>	<u>\$ (3,710,409)</u>	<u>\$21,358,943</u>

ABBY KELLEY FOSTER HOUSE, INC. AND AFFILIATES

CONSOLIDATING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2022

	<u>ABBY'S</u> <u>HOUSE</u>	<u>AKFH</u> <u>LLC</u>	<u>AKFH</u> <u>MM LLC</u>	<u>ELIMINATIONS</u>	<u>CONSOLIDATED</u> <u>TOTAL</u>
<u>SUPPORT AND REVENUES:</u>					
Gifts, Grants and Contributions	\$ 1,738,565	\$ -	\$ -	\$ -	\$ 1,738,565
Rental Income	242,338	486,040	-	(92,045)	636,333
Thrift Shop Donations	251,990	-	-	-	251,990
Donated Goods and Services	21,672	-	-	-	21,672
Special Fund Raising Event Proceeds	227,841	-	-	-	227,841
Change in Beneficial Interest in Agency Fund	(302,233)	-	-	-	(302,233)
Interest Income	59,873	286	-	(49,603)	10,556
Other Income	59,340	40,315	-	(59,340)	40,315
<u>TOTAL SUPPORT AND REVENUES</u>	<u>2,299,386</u>	<u>526,641</u>	<u>-</u>	<u>(200,988)</u>	<u>2,625,039</u>
<u>FUNCTIONAL EXPENSES:</u>					
Program Services	1,801,042	987,793	-	(213,862)	2,574,973
Administrative	191,939	74,621	456	(21,715)	245,301
Fund Raising	189,983	-	-	-	189,983
<u>TOTAL FUNCTIONAL EXPENSES</u>	<u>2,182,964</u>	<u>1,062,414</u>	<u>456</u>	<u>(235,577)</u>	<u>3,010,257</u>
<u>CHANGE IN NET ASSETS</u>	<u>116,422</u>	<u>(535,773)</u>	<u>(456)</u>	<u>34,589</u>	<u>(385,218)</u>
<u>NET ASSETS - BEGINNING OF YEAR</u>	<u>8,734,905</u>	<u>5,282,972</u>	<u>(4,539)</u>	<u>(979,878)</u>	<u>13,033,460</u>
<u>NET ASSETS - END OF YEAR</u>	<u>\$ 8,851,327</u>	<u>\$ 4,747,199</u>	<u>\$ (4,995)</u>	<u>\$ (945,289)</u>	<u>\$ 12,648,242</u>

ABBY KELLEY FOSTER HOUSE, INC. AND AFFILIATES

CONSOLIDATING STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2022

	<u>ABBY KELLEY FOSTER HOUSE</u>				<u>AKFH LLC & AKFH MM LLC</u>			<u>CONSOLIDATED</u>	
	<u>PROGRAM</u>	<u>ADMINI-</u>	<u>FUND</u>		<u>PROGRAM</u>	<u>ADMINI-</u>		<u>ELIMIN-</u>	<u>FUNCTIONAL</u>
	<u>SERVICES</u>	<u>STRATIVE</u>	<u>RAISING</u>	<u>TOTAL</u>	<u>SERVICES</u>	<u>STRATIVE</u>	<u>TOTAL</u>	<u>ATIONS</u>	<u>EXPENSES</u>
Salaries and Wages	\$ 923,848	\$ 56,780	\$ 88,420	\$ 1,069,048	\$ 111,686	\$ -	\$ 111,686	\$ -	\$ 1,180,734
Payroll Taxes	78,992	4,855	7,560	91,407	12,121	-	12,121	-	103,528
Employee Benefits	81,688	5,021	7,818	94,527	-	-	-	-	94,527
Direct Client Assistance	129,066	-	-	129,066	-	-	-	-	129,066
Program Supplies and Expenses	49,765	-	-	49,765	37,625	-	37,625	(37,625)	49,765
Costs of Fund Raising Events	-	-	9,193	9,193	-	-	-	-	9,193
Repairs and Maintenance	79,359	-	-	79,359	79,757	-	79,757	-	159,116
Utilities	168,231	-	-	168,231	100,933	-	100,933	(100,986)	168,178
Real Estate Taxes	-	-	-	-	31,540	-	31,540	-	31,540
Insurance	33,756	2,474	756	36,986	36,367	-	36,367	-	73,353
Accounting and Legal Expense	470	31,980	-	32,450	-	29,174	29,174	-	61,624
Other Professional Fees and Consultants	133,608	68,424	63,700	265,732	-	37,698	37,698	(21,715)	281,715
Office Supplies and Expenses	13,477	828	1,290	15,595	-	5,867	5,867	-	21,462
Printing and Postage	17,355	1,067	9,697	28,119	-	-	-	-	28,119
Bank and Payroll Fees	-	18,114	-	18,114	-	-	-	-	18,114
Staff Training and Workshops	771	1,634	362	2,767	-	-	-	-	2,767
Staff Travel and Related Expenses	12,405	762	1,187	14,354	-	125	125	-	14,479
Dues, Fees and Subscriptions	25,243	-	-	25,243	-	2,213	2,213	-	27,456
Depreciation and Amortization Expense	45,385	-	-	45,385	410,400	-	410,400	(25,648)	430,137
Interest Expense	-	-	-	-	167,364	-	167,364	(49,603)	117,761
Real Estate Project Costs	7,623	-	-	7,623	-	-	-	-	7,623
Total Functional Expenses	\$ 1,801,042	\$ 191,939	\$ 189,983	\$ 2,182,964	\$ 987,793	\$ 75,077	\$ 1,062,870	\$ (235,577)	\$ 3,010,257

ABBY KELLEY FOSTER HOUSE, INC. AND AFFILIATES

CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2022

	<u>ABBY'S</u> <u>HOUSE</u>	<u>AKFH</u> <u>LLC</u>	<u>AKFH</u> <u>MM LLC</u>	<u>ELIMIN-</u> <u>ATIONS</u>	<u>CONSOLIDATED</u> <u>TOTAL</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>					
Change in Net Assets	\$ 116,422	\$ (535,773)	\$ (456)	\$ 34,589	\$ (385,218)
<i>Adjustments to Reconcile the Above to Net Cash Provided (Used) by Operating Activities:</i>					
Forgiveness of Advances from Affiliates	6,573	-	-	-	6,573
Depreciation and Amortization Expense	45,385	410,400	-	(25,648)	430,137
Accrued Interest	(49,603)	167,364	-	-	117,761
Change in Fair Value of Beneficial Interest	302,233	-	-	-	302,233
Distribution from Beneficial Interest	85,000	-	-	-	85,000
Noncash Lease Adjustments	8,941	-	-	(8,941)	-
<i>(Increase) Decrease in Current Assets:</i>					
Accounts and Other Receivables	(3,316)	(5,125)	-	-	(8,441)
Gifts, Grants and Pledges Receivable	(77,500)	-	-	-	(77,500)
Prepaid Expenses and Other Current Assets	12,674	10,767	-	-	23,441
<i>Increase (Decrease) in Current Liabilities:</i>					
Accounts Payable and Accrued Expenses	33,459	(3,973)	-	-	29,486
Accrued Payroll and Related Costs	8,529	-	-	-	8,529
Tenant Security Deposits	-	139	-	-	139
Deferred Revenue	2,467	3,768	-	-	6,235
<i>(Increase) Decrease in Non-Current Assets:</i>					
Gifts, Grants and Pledges Receivable	12,000	-	-	-	12,000
Net Adjustment	386,842	583,340	-	(34,589)	935,593
<u>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</u>	<u>503,264</u>	<u>47,567</u>	<u>(456)</u>	<u>-</u>	<u>550,375</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>					
Contribution to Beneficial Interest in Agency Fund	(7,500)	-	-	-	(7,500)
Cash Outlay for Pre-Development Costs	(83,187)	-	-	-	(83,187)
Acquisition of Property and Equipment	(28,690)	-	-	-	(28,690)
Net Cash Flows Used by Investing Activities	<u>(119,377)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(119,377)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES:</u>					
Due to/from Affiliates	(2,105)	1,649	456	-	-
Net Cash Flows from Financing Activities	<u>(2,105)</u>	<u>1,649</u>	<u>456</u>	<u>-</u>	<u>-</u>
<u>NET INCREASE IN CASH BALANCES</u>	<u>381,782</u>	<u>49,216</u>	<u>-</u>	<u>-</u>	<u>430,998</u>
<u>CASH BALANCES - BEGINNING OF YEAR</u>	<u>4,458,696</u>	<u>754,577</u>	<u>-</u>	<u>-</u>	<u>5,213,273</u>
<u>CASH BALANCES - END OF YEAR</u>	<u>\$ 4,840,478</u>	<u>\$ 803,793</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,644,271</u>
<i>Cash Balances :</i>					
Cash and Cash Equivalents	\$ 2,878,986	\$ 291,593	\$ -	\$ -	\$ 3,170,579
Board Designated Reserves	1,347,803	-	-	-	1,347,803
Cash Held for Capital Projects	613,689	-	-	-	613,689
Reserve Funds Held in Escrow	-	501,911	-	-	501,911
Tenant Security Deposits	-	10,289	-	-	10,289
Total	<u>\$ 4,840,478</u>	<u>\$ 803,793</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,644,271</u>