artists for humanity

AND AFH EPICENTER, INC.

COMBINING FINANCIAL STATEMENTS
DECEMBER 31, 2017

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

Contents
December 31, 2017

AAFCPAs
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Independent Auditor's Report

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

Report on the Combining Financial Statements

We have audited the accompanying combining financial statements of Artists for Humanity, Inc. and AFH Epicenter, Inc. (Massachusetts corporations, not for profit), which comprise the combining statement of financial position as of December 31, 2017, 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.

Management's Responsibility for the Combining Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the combining financial statements referred to above present fairly, in all material respects, the financial position of Artists for Humanity, Inc. and AFH Epicenter, Inc. as of December 31, 2017, 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.

Alexander, Aronson, Finning & Co., P.C.

Westborough, Massachusetts
November 26, 2018

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

Combining Statement of Financial Position
December 31, 2017

Assets	**Artists for Humanity, Inc.**	**AFH EpiCenter, Inc.**	**Eliminations**	**Total**
Current Assets:				
Cash	$ 263,969	$ -	$ -	$ 263,969
Accounts receivable, net of allowance for doubtful accounts of approximately $3,000	200,596	-	(30,109)	170,487
Grants and contracts receivable	7,868	-	-	7,868
Operating pledges receivable	172,108	-	-	172,108
Current portion of intercompany lease receivable (payable)	(208,350)	208,350	-	-
Prepaid expenses and other	5,152	-	-	5,152
Total current assets	441,343	208,350	(30,109)	619,584
Restricted Cash	43,943	12,112,403	-	12,156,346
Capital Campaign Pledges Receivable, net of discount	351,241	-	-	351,241
Notes Receivable	10,785,140	-	-	10,785,140
Deposits	-	37,990	-	37,990
Intercompany Lease Receivable (Payable), net of current portion	(6,075,820)	6,075,820	-	-
Property and Equipment, net	6,273,186	-	-	6,273,186
Construction in Process	68,500	5,465,036	-	5,533,536
Total assets	$ 11,887,533	$ 23,899,599	$ (30,109)	$ 35,757,023
Liabilities and Net Assets				
Current Liabilities:				
Accounts payable and accrued expenses	$ 194,142	$ 1,997,821	$ (30,109)	$ 2,161,854
Deferred revenue	69,678	-	-	69,678
Total current liabilities	263,820	1,997,821	(30,109)	2,231,532
Notes Payable and Unamortized Debt Issuance Costs	-	14,696,269	-	14,696,269
Total liabilities	263,820	16,694,090	(30,109)	16,927,801
Net Assets:				
Unrestricted:				
Operating	161,940	-	-	161,940
Property, equipment and construction in process	10,842,656	7,205,509	-	18,048,165
Total unrestricted	11,004,596	7,205,509	-	18,210,105
Temporarily restricted	619,117	-	-	619,117
Total net assets	11,623,713	7,205,509	-	18,829,222
Total liabilities and net assets	$ 11,887,533	$ 23,899,599	$ (30,109)	$ 35,757,023

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

Combining Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2017

	Artists for Humanity, Inc.			AFH EpiCenter, Inc.	
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Total
Operating Support and Revenue:					
Grants and contracts	$ 443,849	$ 904,414	$ 1,348,263	$ -	$ 1,348,263
Program revenue	929,153	-	929,153	-	929,153
Contributions	641,237	-	641,237	-	641,237
Events and sponsorships	241,383	-	241,383	-	241,383
Donated services	72,273	-	72,273	-	72,273
Interest and other revenue	20,876	-	20,876	10,718	31,594
Intercompany interest revenue (expense) - lease	(421)	-	(421)	421	-
Net assets released from restrictions:					
Time	364,246	(364,246)	-	-	-
Purpose	642,214	(642,214)	-	-	-
Purpose - capital campaign operations support	500,000	(500,000)	-	-	-
Total operating support and revenue	3,854,810	(602,046)	3,252,764	11,139	3,263,903
Operating Expenses:					
Program	3,354,338	-	3,354,338	-	3,354,338
General and administrative	359,357	-	359,357	16,334	375,691
Fundraising	448,516	-	448,516	-	448,516
Total operating expenses	4,162,211	-	4,162,211	16,334	4,178,545
Changes in net assets from operations	(307,401)	(602,046)	(909,447)	(5,195)	(914,642)
Non-Operating Revenue (Expenses):					
Contributions - capital	-	1,069,187	1,069,187	-	1,069,187
Donated services - capital	-	-	-	65,634	65,634
In-kind capital contribution	(7,145,070)	-	(7,145,070)	7,145,070	-
Net assets released from capital restrictions	9,235,482	(9,235,482)	-	-	-
Write-off of capital costs	(62,198)	-	(62,198)	-	(62,198)
Total non-operating revenue (expenses)	2,028,214	(8,166,295)	(6,138,081)	7,210,704	1,072,623
Changes in net assets	1,720,813	(8,768,341)	(7,047,528)	7,205,509	157,981
Net Assets:					
Beginning of year	9,283,783	9,387,458	18,671,241	-	18,671,241
End of year	$ 11,004,596	$ 619,117	$ 11,623,713	$ 7,205,509	$ 18,829,222

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

Combining Statement of Cash Flows
For the Year Ended December 31, 2017

	Artists for Humanity, Inc.	AFH Epicenter, Inc.	Eliminations	Total
Cash Flows from Operating Activities:				
Changes in net assets	$ (7,047,528)	$ 7,205,509	$ -	$ 157,981
Adjustments to reconcile changes in net assets to net cash used in operating activities:				
In-kind capital contribution	7,145,070	(7,145,070)	-	-
Contributions - capital	(1,069,187)	-	-	(1,069,187)
Donated services - capital	-	(65,634)	-	(65,634)
Write-off of capital costs, net	62,198	-	-	62,198
Depreciation	159,832	-	-	159,832
Amortization of debt issuance costs charged as interest expense	-	11,076	-	11,076
Change in discount on capital campaign pledges receivable	7,887	-	-	7,887
Changes in operating assets and liabilities:				
Accounts receivable	(45,133)	-	30,109	(15,024)
Grants and contracts receivable	32,776	-	-	32,776
Operating pledges receivable	288,000	-	-	288,000
Inventory	10,604	-	-	10,604
Prepaid expenses and other	2,579	-	-	2,579
Deposits	37,990	(37,990)	-	-
Intercompany lease receivable (payable)	421	(421)	-	-
Accounts payable and accrued expenses	42,837	5,300	(30,109)	18,028
Deferred revenue	52,050	-	-	52,050
Net cash used in operating activities	(319,604)	(27,230)	-	(346,834)
Cash Flows from Investing Activities:				
Issuance of notes receivable	(10,785,140)	-	-	(10,785,140)
Intercompany reimbursement (payment) of construction in process	1,643,054	(1,643,054)	-	-
Payments for construction in progress	(579,793)	(966,859)	-	(1,546,652)
(Increase) decrease in restricted cash	6,529,399	(12,112,403)	-	(5,583,004)
Payments on intercompany lease receivable (payable)	(4,353)	4,353	-	-
Net cash used in investing activities	(3,196,833)	(14,717,963)	-	(17,914,796)
Cash Flows from Financing Activities:				
Contributions - capital	2,492,696	-	-	2,492,696
Proceeds from notes payable	1,700,000	15,682,000	-	17,382,000
Principal payments on notes payable	(1,700,000)	-	-	(1,700,000)
Payments for debt issuance costs	-	(936,807)	-	(936,807)
Net cash provided by financing activities	2,492,696	14,745,193	-	17,237,889
Net Change in Cash	(1,023,741)	-	-	(1,023,741)
Cash:				
Beginning of year	1,287,710	-	-	1,287,710
End of year	$ 263,969	$ -	$ -	$ 263,969
Supplemental Disclosure of Cash Flow Information:				
Cash paid for interest	$ 7,342	$ 5,236	$ -	$ 12,578
Supplemental Disclosure of Non-Cash Transactions:				
Donated services - capital	$ -	$ 65,634	$ -	$ 65,634
Construction in process included in accounts payable and accrued expenses	$ -	$ 1,942,521	$ -	$ 1,942,521
Debt issuance costs included in accounts payable and accrued expenses	$ -	$ 50,000	$ -	$ 50,000
Construction in progress transferred - in-kind	$ (846,968)	$ 846,968	$ -	$ -
Deferred financing fees transferred - in-kind	$ (10,000)	$ 10,000	$ -	$ -
Building and land transferred - in-kind	$ (6,288,102)	$ 6,288,102	$ -	$ -

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

Combining Statement of Functional Expenses
For the Year Ended December 31, 2017

	Artists for Humanity, Inc.				AFH Epicenter, Inc.	
	Program	General and Adminis-trative	Fundraising	Total	General and Adminis-trative	Total
Operating Expenses:						
Personnel and related:						
Salaries - other staff	$ 1,513,969	$ 201,862	$ 302,794	$ 2,018,625	$ -	$ 2,018,625
Salaries - youth artists	686,842	11,471	-	698,313	-	698,313
Payroll taxes and fringe benefits	327,796	43,706	65,559	437,061	-	437,061
Donated salaries - youth artists	72,273	-	-	72,273	-	72,273
Contracted artists and services	19,078	-	-	19,078	-	19,078
Total personnel and related	2,619,958	257,039	368,353	3,245,350	-	3,245,350
Program supplies	239,087	-	-	239,087	-	239,087
Professional services and consultants	149,093	49,697	-	198,790	-	198,790
Depreciation	119,874	15,983	23,975	159,832	-	159,832
Cleaning	41,065	5,475	8,213	54,753	-	54,753
Utilities	32,829	4,377	6,566	43,772	-	43,772
Insurance	22,406	2,988	4,481	29,875	-	29,875
Equipment rental and maintenance	20,964	2,795	4,193	27,952	-	27,952
Training and travel	20,170	2,689	4,034	26,893	-	26,893
Interest	5,507	734	1,101	7,342	16,312	23,654
Event expense	10,620	-	10,620	21,240	-	21,240
Telephone	9,085	4,542	4,543	18,170	-	18,170
Printing	12,664	2,532	1,689	16,885	-	16,885
Miscellaneous	11,780	1,570	2,356	15,706	22	15,728
Alumni commissions	14,178	-	-	14,178	-	14,178
Postage and shipping	6,879	3,440	3,440	13,759	-	13,759
Repairs and maintenance	9,746	1,300	1,949	12,995	-	12,995
Trash removal	6,788	905	1,358	9,051	-	9,051
Office supplies	1,645	3,291	1,645	6,581	-	6,581
Total operating expenses	$ 3,354,338	$ 359,357	$ 448,516	$ 4,162,211	$ 16,334	$ 4,178,545

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

1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES

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 11). 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 8). 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.

SIGNIFICANT ACCOUNTING POLICIES

The Organization prepares its 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.

Cash

For the purpose of the combining statement of cash flows, cash excludes amounts held as restricted cash (see below and Note 13).

Restricted Cash

Restricted cash (see Note 13) consists of project funds for the payment and reimbursements of project costs and restricted reserves as required by certain debt instruments, cash restricted for construction, and cash gifts restricted for capital purposes.

1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

Unrestricted grants and contributions are recorded as revenue when received or unconditionally pledged. Restricted grants and contributions are recorded as temporarily restricted revenues and net assets when received or unconditionally pledged. Transfers are made to unrestricted net assets as costs are incurred or time restrictions lapse. Contract revenue is recorded over the contract period as services are provided and costs are incurred. Program revenue, rental revenue, and all other revenue are recognized when earned. Payments received in advance of services being performed are recorded as deferred revenue.

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:

	Estimated Useful Lives
Building	40 years
Office and artistic equipment	3 - 5 years
Furniture and fixtures	5 years

Land is not depreciated.

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 as follows at December 31, 2017, and are netted with notes payable in the accompanying combining statement of financial position (see Note 9):

Debt issuance costs	$ 996,807
Accumulated amortization	11,076
Unamortized debt issuance costs (see Note 9)	$ 985,731

Interest expense - amortization of debt issuance costs was $11,076 for the year ended December 31, 2017, and is included in interest in the accompanying combining statement of functional expenses.

Pledges Receivable

Pledges receivable at December 31, 2017, consist of contributions committed to AFH for the capital campaign and operating purposes (see Note 4). Pledges are recorded at their net present value when unconditionally committed.

1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 approximately $3,000 at December 31, 2017. There was no allowance for doubtful pledges receivable deemed necessary at December 31, 2017.

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.

Donated Services and Other

AFH receives services of professional volunteers and donated services 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, 2017:

Operating:	
Salaries - youth artists	$ 72,273
Legal services - capital (see Note 3)	65,634
Total donated services	$ 137,907

In addition, AFH made an in-kind capital contribution to AFH Epicenter (see Notes 2 and 3).

Net Assets

Unrestricted Net Assets

Unrestricted net assets are those net resources that bear no external restrictions and are generally available for use by the Organization. The Organization has grouped its unrestricted net assets into the following categories:

Operating net assets represent funds available to carry on the operations of the Organization.

Property, equipment and construction in process net assets reflect and account for the activities relating to the Organization's property, equipment, building, construction in process, as well as other assets related to capital, net of related debt.

Temporarily Restricted Net Assets

Temporarily restricted net assets are donor restricted contributions which have not yet been expended for their designated purpose or are designated for a future time period. Temporarily restricted net assets are comprised of the following at December 31, 2017:

Capital restricted	$ 387,184
Purpose restricted	124,433
Time restricted	107,500
	$ 619,117

1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Combining 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 (expenses). Non-operating revenue (expenses) includes activity related to the capital campaign and other capital activity.

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.

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.

1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2017. The Organization's information returns are subject to examination by the Federal and state jurisdictions.

Subsequent Events

Subsequent events have been evaluated through November 26, 2018, which is the date the combining financial statements were available to be issued. Events that met the criteria for recognition or disclosure have been disclosed in the financial statements, see Notes 3 and 9.

2. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31, 2017:

Land	$ 2,265,716
Building	5,900,964
Office and artistic equipment	214,644
Furniture and fixtures	87,735
	8,469,059
Less - accumulated depreciation	2,195,873
	$ 6,273,186

In September 2017, AFH transferred $2,265,716 of land and $5,900,964 of an existing building, net of accumulated depreciation of $1,878,578, related to the Boston Property (see Note 1), totaling to $6,288,102, to AFH Epicenter. These costs are part of the in-kind capital contribution made from AFH to AFH Epicenter (see Note 3).

AFH and AFH Epicenter then entered into a lease to lease this property, including an addition (see Note 3), back to AFH.

Since management determined that the lease between AFH and AFH Epicenter is a capital lease, these costs are reflected on the financial statements of AFH as property held under capital lease (see Note 11), and are included in property and equipment above.

The Organization accounts for the carrying value of its long-lived assets in accordance with ASC Topic, *Property, Plant, and Equipment – Impairment or Disposal of Long-Lived Assets*. At December 31, 2017, there were no factors that would impair the Organization's long-lived assets.

3. CONSTRUCTION IN PROCESS

During 2014, AFH began the design phase of a project to expand AFH's facility, the Boston Property (see Note 1), on a new parcel of land donated in 2013. This expansion will help AFH to significantly grow its programs and expand its operations. AFH envisions creating an urban laboratory where youth and community intersect in pioneering social change. The groundbreaking for the construction project took place in 2017 and construction was completed in fall of 2018. The total project is expected to cost approximately $28 million, which is being funded through a capital campaign (see Note 4), government funds, new markets tax credit financing (see Notes 8 and 9), and other financing on the Boston Property (see Note 9).

In September 2017, AFH transferred $1,966,699 of construction in process and debt issuance costs related to the Boston Property expansion to AFH Epicenter. AFH Epicenter reimbursed AFH for these costs.

In September 2017, AFH transferred an additional $856,968 of construction in process and debt issuance costs for which it will not be reimbursed, including $236,131 of donated legal, related to the Boston Property expansion to AFH Epicenter. These costs are part of the in-kind capital contribution made from AFH to AFH Epicenter.

There were $62,198 of costs included in AFH's construction in process at December 31, 2016, which management determined had no future value to the project and wrote off in 2017. These costs are reflected as write-off of capital costs in the accompanying combining statement of activities and changes in net assets.

AFH's construction in process of $68,500 at December 31, 2017, relates to solar panels which AFH is constructing on the roof of the Boston Property. These assets will not be depreciated until they are placed in service.

As of December 31, 2017, AFH Epicenter has incurred $5,465,036 on the Boston Property expansion project, including donated legal costs of approximately $302,000, which is included in construction in process in the accompanying combining statement of financial position. Of this amount, $2,490,022 was transferred from AFH and the remaining $2,975,014 was financed by notes payable (see Note 9). These assets will not be depreciated until they are placed in service.

As part of this expansion project, AFH Epicenter determined in 2017 that they have to have certain specific environmental remediation services performed on the soil of the land where the expansion will be built. As of December 31, 2017, AFH Epicenter has estimated that the cost of these remediation services will be approximately $95,000. These costs have been capitalized as part of construction in process and are also included in accrued expenses in the accompanying combining statement of financial position.

During 2017, as part of this expansion project, AFH had to make certain deposits related to future construction to the City of Boston of $37,990. This deposit was transferred to AFH Epicenter in September 2017 and is reflected as deposits in the accompanying combining statement of financial position as of December 31, 2017.

4. PLEDGES RECEIVABLE AND CAPITAL CAMPAIGN

Capital Campaign Pledges Receivable

During 2014, AFH began a capital campaign in conjunction with the construction project to expand AFH EpiCenter's facility as described in Note 3, with a goal of raising $28 million. As of December 31, 2017, AFH has raised approximately $12.8 million towards this campaign. This includes donated land valued at $1 million, which was received in 2013.

4. PLEDGES RECEIVABLE AND CAPITAL CAMPAIGN (Continued)

Capital Campaign Pledges Receivable (Continued)

Capital campaign pledges receivable are expected to be collected as follows at December 31, 2017:

Due within one year	$ 143,128
Due in one to three years	216,000
	359,128
Less - discount	(7,887)
	$ 351,241

Capital campaign pledges receivable have been discounted to their net present value using a discount rate of 2%.

The entirety of AFH's capital campaign pledges receivable are reflected as long-term assets as they will be converted into long-term property and equipment upon collection and expenditure of the funds in accordance with the donors' restrictions.

See Note 13 regarding restricted cash for capital campaign.

Operating Pledges Receivable

Operating pledges receivable at December 31, 2017, are expected to be collected in 2018.

5. CONDITIONAL GRANT

During 2017, an organization awarded AFH a $100,000 operating gift, of which $50,000 was received through December 31, 2017. The remaining gift balance of $50,000 is conditional upon AFH meeting certain conditions and, accordingly, is not included in the accompanying December 31, 2017, combining financial statements.

6. 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 match employee contributions.

7. CONCENTRATIONS

The Organization maintains its cash balances in a Massachusetts bank and is 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 institution, along with its balances, to keep this potential risk to a minimum.

As of December 31, 2017, pledges from four donors represented 73% of the total outstanding operating pledges receivable.

As of December 31, 2017, a pledge from one donor represented 85% of the total outstanding capital pledges receivable.

As of December 31, 2017, revenue from one funder represented 12% of total revenue.

8. 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 the BCLF Bridge Loan (see Note 9) and a portion of capital campaign proceeds, as well as the reimbursement of certain predevelopment costs (see Note 3), totaling \$10,785,140 (under two separate note receivable agreements) (see Note 10), 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 9, QLICI Loans A1, B1, A2, and B2) 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 Banc 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.

9. NOTES PAYABLE

Notes payable are comprised of the following at December 31, 2017:

QLICI Loan A-1	\$ 7,462,140
QLICI Loan B-1	3,219,860
QLICI Loan A-2	3,323,000
QLICI Loan B-2	1,677,000
Total notes payable	15,682,000
Less - unamortized debt issuance costs (see page 7)	(985,731)
	\$ 14,696,269

QLICI Loan A-1

In September 2017, AFH Epicenter entered into a loan agreement for \$7,462,140 with MassDevelopment New Markets CDE #23, LLC, under the QLICI program. 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.

QLICI Loan B-1

In September 2017, AFH Epicenter entered into a loan agreement for \$3,219,860 with MassDevelopment New Markets CDE #23, LLC under the QLICI program. 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 fourth priority on a shared mortgage on the Boston Property and is guaranteed by AFH.

9. NOTES PAYABLE (Continued)

QLICI Loan A-2

In September 2017, AFH Epicenter entered into a loan agreement for $3,323,000 with Banc of America CDE V, LLC under the QLICI program. 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.

QLICI Loan B-2

In September 2017, AFH Epicenter entered into a loan agreement for $1,677,000 with Banc of America CDE V, LLC under the QLICI program. 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.

For the year ended December 31, 2017, AFH Epicenter incurred $39,971 in interest on the four QLICI loans above. This interest has been capitalized as part of construction in progress (see Note 3) in the accompanying combining statement of financial position. As of December 31, 2017, $35,618 of interest payable was included in accounts payable and accrued expenses in the accompanying combining statement of financial position.

Future Minimum Payments

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

2018	$ -
2019	$ -
2020	$ -
2021	$ -
2022	$ -
2023 – 2027	$ 1,867,886
2028 – 2032	$ 3,225,780
2033 – 2037	$ 3,372,666
2038 – 2042	$ 3,526,871
2043 – 2047	$ 3,688,797

The above QLICI notes payable 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, 2017. Under the terms of the QLICI loans, AFH Epicenter cannot make any prepayments on the notes payable during the first seven years.

9. NOTES PAYABLE (Continued)

BCLF Bridge Loan

In September 2017, AFH entered into a $1,700,000 note payable agreement with a nonprofit corporation, Boston Community Loan Fund (BCLF). 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 in September 2027. In September 2017, $1,700,000 was drawn under this agreement. This amount was repaid in November 2017. AFH interest expense on this note was $5,300 for the year ended December 31, 2017.

BCLF Direct Loan

In September 2017, AFH entered into a $3,900,000 note payable agreement with BCLF. The note bears interest at 4.5% per annum and requires payments on any draws made as follows - monthly interest-only payments through September 2019, and then monthly payments of interest and principal until maturity in September 2027. This note will be drawn once the proceeds from the QLICI loans discussed on pages 13 and 14 are fully disbursed for the expansion of the Boston Property (see Note 3). No amounts have been drawn on this note as of December 31, 2017, or through November 26, 2018. This note is secured by a security interest in AFH's assets, including a pledge and assignment of AFH's and AFH Epicenter's capital campaign pledges and receipts (see Notes 4 and 13) to BCLF, and a security interest in a restricted cash account (see Note 13). As an additional security for this loan, AFH has assigned its interest in the AFH Loan (see below) to BCLF.

Intercompany Note Payable - AFH Loan

Once AFH draws the BCLF Direct Loan (see above), AFH will use the proceeds from this loan to make a loan in the same amount to AFH Epicenter. In September 2017, AFH and AFH Epicenter entered into a $3,900,000 note payable agreement (the AFH 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. No amounts have been drawn on this note as of December 31, 2017, or through November 26, 2018. The note is secured by a first priority on a shared mortgage on the Boston Property and a security interest in a restricted cash account (see Note 13). AFH has assigned its interest in the AFH Loan to BCLF.

10. NOTES RECEIVABLE

Notes receivable are comprised of the following at December 31, 2017:

BOA AFH Investment Fund, LLC	$ 7,462,140
BOA Investment Fund V, LLC	3,323,000
Total notes receivable	$ 10,785,140

AFH provided the Investment Funds (see Note 8) each with a 0.5% interest loan totaling $10,785,140. AFH utilized the proceeds from the BCLF Bridge Loan (see Note 9) and a portion of the capital campaign proceeds (see Note 4) 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 8), to make equity investments to the Sub CDE's (see Note 8). The Sub CDE's 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 9).

10. NOTES RECEIVABLE (Continued)

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 8).

For the year ended December 31, 2017, AFH earned $15,130 in interest, which is included in interest and other revenue in the accompanying combining statement of activities and changes in net assets. As of December 31, 2017, $13,482 of interest receivable was included in accounts receivable in the accompanying combining statement of financial position.

Future minimum receipts under these notes are as follows:

2018	$ -
2019	$ -
2020	$ -
2021	$ -
2022	$ -
2023 – 2027	$ 1,337,467
2028 – 2032	$ 2,274,152
2033 – 2037	$ 2,331,685
2038 – 2042	$ 2,390,676
2043 – 2047	$ 2,451,160

11. LEASE AGREEMENT

During September 2017, AFH and AFH Epicenter entered into a lease agreement for the Boston Property (see Note 1). The lease is for thirty years with rent being due monthly as defined in the agreement. AFH is responsible for certain operating costs as defined in the agreement.

The lease has qualified as a capital lease under ASC Topic, *Leases*. Accordingly, the Boston Property's land and existing building cost, net of accumulated depreciation as of September 2017, totaling $6,288,102, was recorded as property and equipment of AFH (see Note 2). AFH and AFH Epicenter recorded a lease liability and a lease receivable, respectively, which are included in intercompany lease receivable (payable) in the accompanying combining statement of financial position. Under this agreement, interest has been imputed at 0.034%. Interest under this agreement was $421 for the year ended December 31, 2017, and is included in intercompany interest revenue (expense) - lease in the accompanying combining statement of activities and net assets. AFH paid $4,353 to AFH Epicenter related to this lease during the year ended December 31, 2017. Once construction of the addition was completed in fall 2018, AFH now has access to the full building, and the lease payable and receivable increased.

Property held under capital lease at AFH is included in property and equipment, net (see Note 2) in the accompanying combining statement of financial position and consists of the following at December 31, 2017:

Land	$ 2,265,716
Building	5,900,964
	$ 8,166,680

11. LEASE AGREEMENT (Continued)

Depreciation expense on the property held under capital lease during the lease period in 2017 was approximately $37,000 and is included in depreciation expense in the accompanying combining statement of functional expenses.

Future minimum cash payments under this lease, assuming the transfer of the value of the additions in 2019, are as follows:

2018	$ 211,472
2019	275,000
2020	583,000
2021	583,000
2022	583,000
2023 – 2027	4,259,080
2028 – 2032	4,595,100
2033 – 2037	4,595,100
2038 – 2042	4,595,100
2043 – 2047	4,049,432
	24,329,284
Less - amounts representing interest	128,542
Less - assets expected to be transferred in 2018	17,916,572
Less - current portion of intercompany capital lease receivable (payable)	208,350
Intercompany lease receivable (payable), net of current portion	$ 6,075,820

12. RELATED PARTY TRANSACTIONS

The Organization entered into the following transactions with related parties:

- AFH has guaranteed all of AFH Epicenter's notes payable (see Note 9).
- AFH has a security interest in one of AFH Epicenter's restricted cash accounts (see Note 13).
- AFH entered into a lease agreement with AFH Epicenter (see Note 11). Under this agreement, AFH paid $4,353 to AFH Epicenter in 2017.
- Pursuant to the lease agreement above, AFH transferred its land and building (see Note 2), certain construction in process costs (see Note 3), and debt issuance costs (see Note 1) to AFH Epicenter in 2017. AFH Epicenter reimbursed AFH for certain costs (see Note 3). The remaining costs are included in in-kind capital contribution in the accompanying combining statement of activities and changes in net assets (see Notes 1, 2 and 3).
- AFH Epicenter owes AFH $30,109 related to construction in process bills paid by AFH on its behalf as of December 31, 2017.

13. RESTRICTED CASH

The Organization is required to maintain certain escrow funds on deposit with a trustee pursuant to its note agreements (see Note 9) and has other restricted cash accounts. Restricted cash consists of the following at December 31, 2017:

Restricted cash - capital - AFH	$ 35,943
Capital campaign escrow - AFH	8,000
Total restricted cash - AFH	43,943
Construction debt escrow - AFH Epicenter	12,112,360
Restricted cash for AFH Loan - AFH Epicenter	43
Total restricted cash - AFH Epicenter	12,112,403
Total restricted cash	$ 12,156,346

- Restricted cash - capital - AFH: This cash is restricted contributions received and not yet spent by AFH for the capital campaign (see Note 4).
- Capital campaign escrow - AFH: This account is used for the proceeds of payments on certain AFH capital campaign pledges (see Note 4) used to secure the BCLF Bridge and Direct Loans (see Note 9). This account is controlled by BCLF.
- Construction debt escrow - AFH Epicenter: Pursuant to the QLICI note payable agreements entered into during 2017 (see Note 9), AFH Epicenter was required to set up an escrow account to fully draw the QLICI notes payable. Funds are disbursed by the bank from this account as AFH Epicenter spends them for the Boston Property expansion project (see Note 3). MassDevelopment NMTC CDE #23, LLC (see Note 8) has a security interest in this account.
- Restricted cash for AFH Loan - AFH Epicenter: This account will be used for the proceeds of the AFH Loan to AFH Epicenter (see Note 9). AFH and BCLF (see Note 9) have a security interest in this cash account.