

HALEY HOUSE, INC.

Boston, Massachusetts

FINANCIAL STATEMENTS

June 30, 2014

HURLEY, O'NEILL & COMPANY, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

TABLE OF CONTENTS

| | Page |
|---------------------------------------------------------------------------------------------|------|
| Independent Auditors' Report | |
| Basic Financial Statements | |
| Statement of Financial Position June 30, 2014..... | 1 |
| Statement of Activities and Changes in Net Assets For the Year Ended June 30, 2014 | 2 |
| Statement of Cash Flows For the Year Ended June 30, 2014 | 3 |
| Statement of Functional Expenses For the Year Ended June 30, 2014 | 4 |
| Notes to Financial Statements | |
| Note 1 – Summary of Significant Accounting Policies..... | 5 |
| Note 2 – Property and Equipment | 8 |
| Note 3 – Cash and Investments | 8 |
| Note 4 – Donated Materials and Services..... | 8 |
| Note 5 – Board Restricted Assets | 8 |
| Note 6 – Long-Term Debt..... | 9 |
| Note 7 – Replacement Reserves and Tax Escrows | 9 |
| Note 8 – Low-Income Housing Tax Credit Development..... | 10 |
| Note 9 – Accounting for Income Taxes | 10 |
| Note 10 – Asset Retirement Obligations..... | 10 |
| Note 11 – Subsequent Events | 10 |

Hurley, O'Neill & Company, P.C.
Certified Public Accountants

J. Thomas Hurley, C.P.A.

Gene O'Neill, C.P.A.

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Haley House, Inc.
Boston, MA

Report on the Financial Statements

We have audited the accompanying financial statements of Haley House, Inc. (a not-for-profit organization), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Haley House, Inc., as of June 30, 2014, and the results of its operations and changes in net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Hoady & Co., PC

Quincy, Massachusetts
February 2, 2015

HALEY HOUSE, INC.

STATEMENT OF FINANCIAL POSITION
June 30, 2014

ASSETS

Current Assets:

| | | |
|----------------------------------------------|----|---------------|
| Cash | \$ | 1,492,387 |
| Security deposit funds | | 6,277 |
| Accounts receivable | | 76,375 |
| Investments - Note 3 | | 298,938 |
| Replacement reserve and tax escrows - Note 7 | | <u>20,268</u> |

Total current assets 1,894,245

Property and equipment, net of accumulated depreciation – Note 2 1,821,772

Total Assets \$ 3,716,017

LIABILITIES AND NET ASSETS

Current Liabilities:

| | | |
|--------------------------------------------|----|--------------|
| Accrued interest | \$ | 26,217 |
| Current portion of long-term debt - Note 6 | | 24,596 |
| Accounts payable and accrued expenses | | 3,477 |
| Tenant security deposits | | <u>5,101</u> |

Total current liabilities 59,391

Long-Term Debt:

| | | |
|-------------------------------------------------|--|------------------|
| Long term debt, net of current portion - Note 6 | | <u>1,115,898</u> |
|-------------------------------------------------|--|------------------|

Total Liabilities 1,175,289

Net Assets:

| | | |
|------------------------|--|----------------|
| Unrestricted | | 1,988,105 |
| Temporarily restricted | | <u>552,623</u> |

Total Net Assets 2,540,728

Total Liabilities and Net Assets \$ 3,716,017

HALEY HOUSE, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For The Year Ended June 30, 2014

| | |
|------------------------------------------------------|---------------------|
| Support, Revenues and Reclassification | |
| Sale of commercial products (Bakery) | \$ 1,119,674 |
| Grants and donations | 496,416 |
| Rent subsidies | 203,131 |
| Rental income | 188,945 |
| Management fees | 143,554 |
| Investment gains (losses) | 33,032 |
| Miscellaneous income | 29,923 |
| Gain on sale of assets | 1,217 |
| Interest, dividends and other income | <u>698</u> |
| Total Support, Revenue & Reclassification | <u>2,216,590</u> |
| Expenses: | |
| Program expenses: | |
| Bakery Program | 1,280,289 |
| Housing Program | 364,980 |
| Food Program | 214,493 |
| Community Outreach | <u>122,941</u> |
| | 1,982,703 |
| Fundraising expenses | <u>60,058</u> |
| Total Expenses | <u>2,042,761</u> |
| Change In Net Assets | 173,829 |
| Net Assets - Beginning of Year | <u>2,366,899</u> |
| Net Assets - End of Year | <u>\$ 2,540,728</u> |

See accompanying notes.

HALEY HOUSE, INC.

STATEMENT OF CASH FLOWS
For The Year Ended June 30, 2014

OPERATING ACTIVITIES

| | | |
|-------------------------------------------------------------------------------------------------|----|--------------|
| Changes in net assets | \$ | 173,829 |
| Adjustments to reconcile changes in net assets to net cash provided by operating activities: | | |
| Depreciation | | 108,126 |
| Investment gains | | (25,598) |
| Decrease in prepaid expenses | | 5,913 |
| Increase in accounts receivable | | (24,670) |
| Increase in accounts payable | | 3,477 |
| Increase in accrued expenses | | <u>2,841</u> |

Net cash provided by operating activities 243,918

INVESTING ACTIVITIES

| | | |
|------------------------------------|--|------------------|
| Withdrawal from escrow, net | | 198,162 |
| Purchase of property and equipment | | <u>(286,570)</u> |

Net cash used in investing activities (88,408)

FINANCING ACTIVITIES

| | | |
|-----------------------------|--|-----------------|
| Repayment of long-term debt | | <u>(23,150)</u> |
|-----------------------------|--|-----------------|

Net cash used in financing activities (23,150)

Net Increase in cash and cash equivalents 132,360

Cash and cash equivalents at beginning of year 1,360,027

Cash and cash equivalents at end of year \$ 1,492,387

Supplemental Information:

| | | |
|-----------------------------------|-----------|---------------|
| Cash used for payment of interest | <u>\$</u> | <u>43,101</u> |
|-----------------------------------|-----------|---------------|

HALEY HOUSE, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2014

| | HOUSING PROGRAM | COMMUNITY OUTREACH | BAKERY CAFÉ | FOOD PROGRAM | ADMIN | FUND RAISING | TOTAL |
|-------------------|--------------------|-----------------------|----------------|-----------------|----------|-----------------|--------------|
| Payroll / donated | | | | | | | |
| Services | \$ 80,285 | \$ 110,323 | \$ 537,951 | \$ 25,925 | \$ - | \$ 54,499 | \$ 808,983 |
| Payroll taxes | 6,031 | 8,685 | 50,935 | 1,015 | - | 3,860 | 70,526 |
| Ingredients | - | - | 426,313 | - | - | - | 426,313 |
| Advertising | - | 902 | 6,099 | - | - | - | 7,001 |
| Food | - | - | - | 66,661 | - | - | 66,661 |
| Clothing | - | - | - | 10,800 | - | - | 10,800 |
| Office Expense | 12,066 | 16,289 | 15,686 | 12,066 | 4,223 | - | 60,330 |
| Repairs & maint. | 31,761 | 2,488 | 49,167 | 19,653 | 2,686 | - | 105,755 |
| Professional fees | 2,178 | 2,942 | 2,832 | 2,178 | 762 | - | 10,892 |
| Utilities | 48,051 | 10,142 | 33,192 | 12,677 | 2,535 | - | 106,597 |
| Insurance | 21,636 | 10,866 | 22,783 | 13,583 | 2,717 | - | 71,585 |
| Interest payments | 43,101 | - | - | - | - | - | 43,101 |
| Transportation | - | - | 22,224 | - | - | - | 22,224 |
| Real estate tax | 18,950 | - | 781 | - | - | - | 19,731 |
| Rent | - | - | 33,240 | - | - | - | 33,240 |
| Meals tax | - | - | 25,499 | - | - | - | 25,499 |
| Depreciation | 84,834 | - | 23,292 | - | - | - | 108,126 |
| Miscellaneous | 13,502 | 2,486 | 27,710 | - | - | 1,699 | 45,397 |
| Admin - indirect | 2,585 | 3,877 | 2,585 | 3,876 | (12,923) | - | - |
| Total expenses | \$ 364,980 | \$ 169,000 | \$ 1,280,289 | \$ 168,434 | \$ - | \$ 60,058 | \$ 2,042,761 |

See accompanying notes.

HALEY HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Nature of Organization

Haley House, Inc. (the Organization) is a private, non-profit corporation founded in 1966 to provide basic needs of food and shelter to poor and homeless individuals.

B. Basis of Presentation and Accounting

The Organization prepares its financial statements on the accrual method of accounting in accordance with generally accepted accounting principles; consequently, the Organization recognizes revenue as it is earned rather than received.

Expenses are recognized when the obligation is incurred. Net assets and revenues, expenses and gains are classified based on the existence or absence of donor-imposed restrictions.

Accordingly, net assets of the Organization and changes therein are classified as follows:

Unrestricted Net Assets - Net assets not subject to donor restrictions.

Temporarily Restricted Net Assets - Temporarily restricted net assets represent all net assets associated with the Columbus Avenue housing development. This development is financed by the Massachusetts Housing Finance Agency. Sale or encumbrance of the property is prohibited and use of any financial assets is restricted to operating costs associated with the property under the terms of a regulatory agreement. The regulatory agreement will remain in effect for the duration of the first mortgage loan.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, donors of these assets permit the use of all or part of the income earned from these assets for general or specific purposes. The Organization had no permanently restricted net assets at June 30, 2014.

C. Income Taxes

The Organization was incorporated under the provisions of Chapter 180 of the General Laws of the Commonwealth of Massachusetts. The Organization has been granted a tax-exempt status by the Internal Revenue Service under Code Section 501(c)(3). The Organization is not a private foundation.

D. Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the use of estimates that affect reported amounts of assets, liabilities, revenues and expenses and related disclosures. Actual amounts could differ from those estimates.

HALEY HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

E. Description of Programs

Housing Program – The Organization operates a twenty-four unit, single room occupancy development for formerly homeless individuals financed by mortgages from the Massachusetts Housing Finance Authority and the City of Boston. Rents are subsidized by Section 8 funds administered by the Boston Housing Authority. The Organization also operates a nine-unit, non-subsidized apartment building in which many of the units are occupied by the working poor with rents based on the tenant's ability to pay.

Community Outreach – Haley House has a long tradition of community outreach with local partners. This effort includes, among others, partnering with neighborhood and government groups in the revitalization of Dudley Square, sponsoring cultural events in the Bakery/Café, hosting local residents and groups in our South End facility, facilitating educational events with local food producers and promoting social enterprise education and responsible business practices.

Bakery/Cafe – Located in Roxbury's Dudley Square, the café serves healthy, affordable food in a socially responsible, community-centered environment. It offers on-the-job training and supportive skills development for entry-level employees with substantial barriers to employment. It also sponsors cooking, nutrition and healthy lifestyle educational programs as well as community events including exhibits, film screenings and a performance art series.

Food Program – A program run by all-volunteer labor which serves about 30,000 meals per year and maintains a weekly food pantry. Since 1983, Haley House has grown food to supply healthy produce to the Soup Kitchen and Food Pantry, as well as other nearby food pantries. The Organization recently sold their biodynamic farm in Winchendon Springs in order to pursue urban farming projects within Boston, beginning with a plot adjacent to the Soup Kitchen.

F. Cash and Cash Equivalents

Cash and cash equivalents consist of cash on deposit with financial institutions and other debt securities that are readily convertible into cash and purchased with original maturities of three months or less.

G. Bad Debts

Accounts receivable from tenants are carried at the original amount billed less an estimate made for doubtful accounts. Management determines the allowance for doubtful accounts by using historical experience applied to an aging of accounts receivable. Accounts receivable from tenants are written off when deemed uncollectible. Allowances for other non-tenant receivables are reviewed regularly by management.

HALEY HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

H. Property and Equipment

Donations of property and equipment are recorded as support at their estimated fair market value. Such donations are recorded as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support.

All other property and equipment is recorded at cost. The cost of maintenance and repairs is charged to expense as incurred; additions, renewals and betterments, unless of a relatively minor amount, are capitalized. Depreciation of buildings and building improvements are calculated on the straight-line method over the estimated useful lives of the assets as follows:

| | |
|------------------------------------|---------------|
| Buildings | 40 years |
| Building Improvements | 20 - 40 years |
| Furniture, Equipment and Machinery | 5 - 10 years |

I. Functional Allocation of Expenses

The Organization's policy is to allocate Administration (Management and General) to the programs based on direct salaries related to each program. Certain programs do not receive an allocation of Administration (Management and General) expenses because these expenses are not associated with these programs.

J. Concentration of Credit Risk

The Organization places its cash with high credit quality financial institutions. During the fiscal year, balances in the accounts may exceed the federally insured limit. Management monitors the creditworthiness of the institutions with which it does business and believes it is not exposed to any significant credit risk to cash.

K. Economic Concentrations

The Organization's main office is located in Boston, Massachusetts. Services are provided within the City of Boston. Future operations could be affected by changes in economic housing or the demand for such housing.

HALEY HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 2 – PROPERTY AND EQUIPMENT

Property and Equipment are stated at cost and consist of the following:

| | |
|------------------------------------|---------------------|
| Land | \$ 150,576 |
| Buildings | 2,857,647 |
| Furniture, Equipment and Machinery | 66,597 |
| Construction in Progress | <u>5,000</u> |
| | 3,079,820 |
| Less: Accumulated Depreciation | <u>(1,258,048)</u> |
| Total | <u>\$ 1,821,772</u> |

NOTE 3 – CASH AND INVESTMENTS

The Organization holds cash in money market accounts aggregating \$1,253,198. Due to their liquidity, these assets are classified as cash on the balance sheet.

The Organization holds mutual fund investments in both debt and equity securities. These investments are restricted to the Columbus Avenue Single Room Occupancy housing development and are not available for use in Haley House, Inc.'s day-to-day operations. Mutual fund investments are subject to market rate fluctuations. The Organization's governing board has a policy of selecting funds that provide growth with proven performance records so as to minimize the market risk associated with the investments. The mutual fund broker is insured by the Securities Investment Protection Corporation (SIPC). This insurance protects customer securities from creditors in the event of a business failure of the broker/dealer. The insurance does not provide protection against market fluctuations. These mutual funds have been classified as available for sale in the financial statements. Market value of the investments at June 30, 2014 aggregated \$298,938. Unrealized holding gain for the current year was \$8,313.

NOTE 4 – DONATED MATERIALS AND SERVICES

The financial statements reflect support and expenditures from the non-cash donations of materials and services. The non-cash donations are as follows:

| | |
|---------------------------|-------------------|
| Food | \$ 45,800 |
| Other consulting services | 36,000 |
| Labor and material | 14,700 |
| Clothing | <u>10,800</u> |
| Total | <u>\$ 107,300</u> |

NOTE 5 – BOARD RESTRICTED ASSETS

On December 5, 2002 the Board of Directors voted to restrict all funds on the Permanent Housing account to be used solely for the purpose of increasing Haley House's stock of affordable housing. The current value of this account is \$552,623.

HALEY HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 6 – LONG-TERM DEBT

The project has a first and second mortgage notes payable. The first mortgage is provided by the Massachusetts Housing Finance Agency (MHFA) with a loan dated September 1, 2009. The loan accrues interest at a rate of 6.25% per annum. The property has been pledged as collateral for the mortgage. The loan is being amortized over a 30 year term and requires monthly principal and interest payments totaling \$5,062. The loan also requires monthly mortgage service fee payments of \$339. The project is subject to a regulatory agreement which limits the use of the property to low income housing.

The second mortgage note, dated March 11, 1993, which is subordinate to the first mortgage note, was given to the City of Boston. The loan, in the principal amount of \$562,032, accrues interest at a rate of 1% per annum. Payment of interest is limited to \$3,000 per annum. The principal balance together with any accrued but unpaid interest becomes due in May 2021. The property has been pledged as collateral for the mortgage.

Principal payment requirements for the next five years and thereafter are as follows:

| | |
|---------------|---------------------|
| June 30, 2015 | \$ 24,596 |
| June 30, 2016 | 26,134 |
| June 30, 2017 | 27,767 |
| June 30, 2018 | 29,502 |
| June 30, 2019 | 31,346 |
| Thereafter | <u>1,001,149</u> |
| Total | <u>\$ 1,140,494</u> |

In accordance with the Regulatory Agreement, all net assets associated with the Columbus Avenue housing development must remain associated with Columbus Avenue and cannot be used for any other purpose involving Haley House, Inc. This development is financed by the Massachusetts Housing Finance Agency. Sale or encumbrance of the property is prohibited and use of any financial assets is restricted to operating costs associated with the property under the terms of a regulatory agreement. The regulatory agreement will remain in effect for the duration of the first mortgage loan. Net assets associated with the Columbus Avenue project at June 30, 2014 were \$399,777.

NOTE 7 – REPLACEMENT RESERVES AND TAX ESCROWS

Under the terms of the Regulatory Agreement between MHFA and the Columbus Avenue project, the project is required to fund an escrow for real estate taxes and insurance. The project makes a monthly payment to the real estate tax and insurance escrow of \$1,000. The balance in this account at June 30, 2014 was \$2,845.

Under the terms of the Regulatory Agreement between MHFA and the Columbus Avenue project, the project is required to fund a reserve fund for replacements. The project makes a monthly payments to the replacement reserve of \$758. The balance of this account at June 30, 2014 was \$17,423.

HALEY HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 8 – LOW-INCOME HOUSING TAX CREDIT DEVELOPMENT

The Organization is the sponsor of a low income housing tax credit development. A limited liability company has been established to take title to certain real estate to be developed as low income housing rental property. Some of the members of the LLC are also officers and directors of Haley House, Inc. In addition to being the sponsor of the development, Haley House is also a co-developer of the project.

NOTE 9 – ACCOUNTING FOR INCOME TAXES

The Organization adopted the provisions of FIN No. 48 on April 1, 2009. This provision provides that an enterprise should determine whether it is more likely than not that a tax position will be sustained upon examination and any differences between tax positions taken in a tax return and amounts recognized in financial statements based on this position will result in either a reduction in a deferred tax asset or an increase in a deferred tax liability. As a result of this implementation, the Organization determined that there is no liability that is needed to be recognized.

NOTE 10 – ASSET RETIREMENT OBLIGATIONS

Asset retirement obligations generally apply to legal obligations associated with the retirement of a tangible long-lived asset that result from the acquisition, construction or development and the normal operation of a long-lived asset. The Organization assesses asset retirement obligations on a periodic basis. If a reasonable estimate of fair value can be made, the fair value of a liability for an asset retirement obligation is recognized in the period in which it is incurred or a change in estimate occurs. As of June 30, 2014, there are no asset retirement obligations and thus, no liability has been recorded.

NOTE 11 – SUBSEQUENT EVENTS

Events that occur after the balance sheet date but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the balance sheet date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the balance sheet date require disclosure in the accompanying notes. Management evaluated the activity of the Organization through February 2, 2015 (the date the financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the financial statements.