

Haley House, Inc. and Affiliates

**Consolidated Financial Statements
(With Supplementary Information)
and Independent Auditor's Report**

December 31, 2022

HALEY HOUSE, INC. AND AFFILIATES

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December 31, 2022

Independent Auditor's Report

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Independent Auditor's Report

To the Board of Directors of
Haley House, Inc.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Haley House, Inc. (a nonprofit organization) and Affiliates (the "Organization") 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, based on our audit the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Organization as of December 31, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

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 the Organization's ability to continue as a going concern for one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the 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 the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

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

Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statement of financial position and consolidating statement of activities, which is the responsibility of management, are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

CohnReznick LLP

Braintree, Massachusetts
January 29, 2024

HALEY HOUSE, INC. and AFFILIATES

Consolidated Statement of Financial Position

As of December 31, 2022

Current Assets

Cash and cash equivalents	\$ 3,396,266
Accounts receivable, net	285,300
Contributions receivable, net	174,070
Prepaid expenses	109,243
Investments	<u>347,147</u>
Total current assets	<u>4,312,026</u>

Restricted Deposits and Funded Reserves

Tenant security deposits	32,756
Replacement reserve	100,331
Real estate tax and insurance escrows	18,341
Other reserves	<u>940,461</u>
Total restricted deposits and funded reserves	<u>1,091,889</u>

Fixed Assets

Land	656,937
Buildings	22,385,341
Building improvements	2,252,196
Furnishings and equipment	<u>416,334</u>
Total fixed assets	25,710,808
Less: accumulated depreciation	<u>(11,426,484)</u>
Total net fixed assets	<u>14,284,324</u>

Other Assets

Deposits	<u>11,500</u>
Total other assets	<u>11,500</u>
Total Assets	<u><u>\$ 19,699,739</u></u>

Current Liabilities

Accounts payable	\$ 140,005
Accrued interest	10,870
Accrued expenses	78,353
Long-term debt, current	90,369
Deferred revenue	<u>307,862</u>
Total current liabilities	627,459

Long-Term Liabilities

Deferred revenue, long-term	117,879
Long-term debt, net of current and debt issuance costs	<u>16,080,646</u>
Total liabilities	<u>16,825,984</u>

Net Assets

Net assets without donor restrictions	
Designated by board for single room occupancy program	1,529,924
Undesignated	<u>736,580</u>
Total net assets without donor restrictions	2,266,504
Net assets with donor restrictions	<u>607,251</u>
Total net assets	<u>2,873,755</u>
Total Liabilities and Net Assets	<u><u>\$ 19,699,739</u></u>

HALEY HOUSE, INC. and AFFILIATES

Consolidated Statement of Activities

For the Year Ended December 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
Sale of commercial products	\$ 35,867	\$ -	\$ 35,867
Less: costs of goods sold	(41,789)	-	(41,789)
Total sale of commercial products, net	(5,922)	-	(5,922)
Contributions and grants	681,235	653,163	1,334,398
Donated materials and services	390,223	-	390,223
Rental	3,178,505	-	3,178,505
Investment, net	(60,260)	-	(60,260)
Miscellaneous	96,759	-	96,759
Net assets released from restrictions	411,579	(411,579)	-
Total revenue and support	4,692,119	241,584	4,933,703
Expenses			
Program	3,884,551	-	3,884,551
Administration	470,058	-	470,058
Fundraising	245,412	-	245,412
Total expenses	4,600,021	-	4,600,021
Total Change in Net Assets	92,098	241,584	333,682
Net Assets at Beginning of Year	2,174,406	365,667	2,540,073
Net Assets at End of Year	\$ 2,266,504	\$ 607,251	\$ 2,873,755

HALEY HOUSE, INC. and AFFILIATES

Consolidated Statement of Functional Expenses

For the Year Ended December 31, 2022

	Social Enterprise, Bakery Café	Housing Program	Foods, Meals and Farming	Total Program	Administration	Fundraising	Total
Salaries	\$ 46,788	\$ 344,191	\$ 175,197	\$ 566,176	\$ 154,247	\$ 171,777	\$ 892,200
Payroll taxes and fringe benefits	12,860	88,069	33,285	134,214	23,197	24,113	181,524
Cost of goods sold	1,232	-	38,096	39,328	2,453	8	41,789
Management fees	-	-	-	-	69,011	-	69,011
Professional fees	2,042	58,522	20,336	80,900	178,422	8,490	267,812
Office supplies and program expenses	9,959	66,201	316,447	392,607	14,642	17,743	424,992
Occupancy	50,793	785,324	92,266	928,383	8,840	7,748	944,971
Insurance	29,417	87,789	31,658	148,864	6,884	4,328	160,076
Bad debt	2,915	320,401	-	323,316	-	-	323,316
Depreciation	30,685	628,554	45,512	704,751	5,602	5,602	715,955
Miscellaneous	733	16,413	709	17,855	1,509	720	20,084
Interest	-	557,308	30,177	587,485	7,704	4,891	600,080
Total expenses by function	187,424	2,952,772	783,683	3,923,879	472,511	245,420	4,641,810
Less expenses included with revenues on the statement of activities							
Cost of goods sold	<u>(1,232)</u>	<u>-</u>	<u>(38,096)</u>	<u>(39,328)</u>	<u>(2,453)</u>	<u>(8)</u>	<u>(41,789)</u>
Total expenses included in the expense section on the statement of activities	\$ <u>186,192</u>	\$ <u>2,952,772</u>	\$ <u>745,587</u>	\$ <u>3,884,551</u>	\$ <u>470,058</u>	\$ <u>245,412</u>	\$ <u>4,600,021</u>

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Consolidated Statement of Cash Flows

For the Year Ended December 31, 2022

Cash Flows from Operating Activities

Change in net assets	\$	333,682
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation		715,955
Bad debt		276,684
Net unrealized and realized gains on investments		64,789
Amortization of debt issuance costs, included in interest		22,284
Decrease (increase) in assets		
Accounts receivable		13,322
Contributions receivable		25,930
Prepaid expenses		(54,819)
Other assets		4,570
Increase (decrease) in liabilities		
Accounts payable		(143,858)
Due to affiliates		(83,002)
Accrued expenses		3,602
Deferred revenue		99,509
Accrued interest		4,766
		<u>1,283,414</u>
Cash Flows from Investing Activities		
Purchase of fixed assets		(398,634)
Net change in restricted deposits and funded reserves		(17,768)
Proceeds from the sale of investments		67,367
Purchase of investments		(81,014)
		<u>(430,049)</u>
Cash Flows from Financing Activities		
Repayments of long-term debt		(83,968)
		<u>(83,968)</u>
Net Increase in Cash, Cash Equivalents and Restricted Cash		769,397
Cash, Cash Equivalents and Restricted Cash - Beginning		<u>3,600,086</u>
Cash, Cash Equivalents and Restricted Cash - Ending		<u>\$ 4,369,483</u>
Cash and cash equivalents	\$	3,396,266
Restricted cash		<u>973,217</u>
Cash, Cash Equivalents and Restricted Cash - Ending		<u>\$ 4,369,483</u>
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest	\$	<u>571,537</u>
Supplemental Schedule of Noncash Investing and Finance Activities		
Increase in notes receivable from deferred grant revenue	\$	<u>300,000</u>

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Notes to the Consolidated Financial Statements

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Note 1 - Summary of Significant Accounting Policies

Nature of Organization

The following is the nature of operations and summary of significant accounting policies followed by Haley House, Inc. and Affiliates (the "Organization") in the preparation of these consolidated financial statements.

Nature of Operations

Through food, personal relationships, and the power of community, the Organization breaks down barriers between people, empowers individuals, and strengthens neighborhoods. We believe in radical solutions: solving problems at their root by challenging the attitudes and structures that perpetuate suffering while building innovative models as creative alternatives. Begun as a soup kitchen in 1966, Haley House, Inc. has grown into a multifaceted organization deeply rooted in two Boston neighborhoods: the South End and Roxbury. In the Organization's 50+ year history, the Organization has expanded creatively in direct response to the needs of those who come to our doors. The following program divisions are listed in order of relative importance based upon total program expenditures:

Social Enterprise Bakery Café - Located in Roxbury since 2005, the Bakery Café has been characterized as a community center disguised as a café. In addition to delicious, healthy, and affordable food, the social enterprise restaurant offers dignified work and job skills training for people transitioning out of incarceration and is home to extensive arts and cultural programming. The Social Enterprise Baker Cafe division accounted for 7% of total program expenditures for the Period.

Housing Program - The Housing Program provides secure homes to low-income families and formerly homeless people with more than 110 units of permanent, affordable housing scattered throughout the South End and Roxbury. The Housing Program division accounted for 74% of total program expenditures for the Period.

Food, Meals and Farming - Each year, Soup Kitchen volunteers serve more than 36,000 made-from-scratch meals 9 times a week and distribute over 10,000 bags of food through the weekly Food Pantry. These programs are coordinated by a Live-In Community of long-term volunteers who donate their time in exchange for room and board. Haley House, Inc. is responsible for two plots of reclaimed urban land in Roxbury and the South End, which provide seasonal produce for the Soup Kitchen, Bakery Café, and other programs. Other programs include Take Back the Kitchen, a hands-on cooking program taught by professional chefs reaching over 400 young people and their families each year and the Transitional Employment Program (TEP) offering job and life-skills training for people returning from incarceration. The Food, Meals and Farming division accounted for 19% of total program expenditures for 2022.

Basis of Presentation

The consolidated statement of activities reports all changes in net assets, including changes in net assets without donor restrictions from operating activities. Operating revenues consist of those monies received and other contributions attributable to the Organization's ongoing efforts. Investment income, realized and unrealized gains and

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losses on investments, net of related management fees are reported as operating revenue.

The consolidated financial statements include the accounts of Haley House, Inc, and its wholly-owned subsidiaries that are controlled by Haley House through common board members. All financial data has been maintained within the books and records of Haley House, Inc. All material intercompany transactions and accounts have been eliminated in consolidation.

Haley House, Inc. is a Massachusetts not-for-profit corporation formed to provide basic needs of food and shelter to poor and homeless individuals.

Haley House Bakery Café Operating LLC is wholly owned by Haley House, Inc. to own and operate the non-profit bakery and café operations.

Haley House Bakery Café 12 Dade LLC is wholly owned by Haley House, Inc. to own and manage certain real property located in Roxbury, Massachusetts.

HH Interfaith LLC is wholly owned by Haley House, Inc. to act as a managing member in certain real estate ventures of Haley House, Inc.

HH Interfaith Owner LLC is wholly owned by Haley House, Inc. to acquire, rehabilitate, own, maintain and operate 69 residential units of low-income housing and two commercial spaces located in Boston, Massachusetts.

Standards of Accounting and Reporting

The consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The Organization's net assets (excess of its assets over liabilities) and its revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions.

The consolidated statement of financial position presents two classes of net assets (net assets without donor restrictions and net assets with donor restrictions) and the consolidated statement of activities displays the change in each class of net assets. The classes of net assets applicable to the Organization are presented as follows:

Net Assets Without Donor Restrictions - Net assets that are not subject to donor-imposed restrictions. Net assets without donor restrictions consist of assets and contributions available for the support of operations. These net assets may be designated for specific purposes by management or the Board of Directors. Gains and losses on investments are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or law.

Net Assets with Donor Restrictions - Net assets that are subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or passage of time. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions.

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Cash, Cash Equivalents and Restricted Cash

The Organization considers all highly-liquid investments purchased with an original maturity of three months or less, which are neither held for nor restricted by donors for long-term purpose, to be cash equivalents.

The Organization maintains its cash and investment balances at several financial institutions. The investments are 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.

The cash balances are insured by the Federal Deposit Insurance Corporation. At times these balances may exceed the federal insurance limits; however, the Organization has not experienced any losses with respect to its bank balances in excess of government provided insurance. Management believes that no significant concentration of credit risk exists with respect to these cash balances as of December 31, 2022.

Restricted cash consists of accounts required by regulatory and loan agreements. See Note 2 for the detail of restricted cash.

Investments

The Organization records investment purchases at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the consolidated statement of financial position. Interest and dividends are recorded when earned. Gains and losses are recognized as incurred or based on fair value changes during 2022. Net investment return/(loss) is reported in the consolidated statement of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct investment expenses. Investments are exposed to risks such as interest rate, credit and overall market volatility.

Revenue Recognition

The Organization earns revenue as follows:

Contributions and Grants - In accordance with Accounting Standards Codification ("ASC") Sub Topic 958-605, *Revenue Recognition*, the Organization must determine whether a contribution or grant (or a promise) is conditional or unconditional for transactions deemed to be a contribution. A contribution or grant is considered to be a conditional contribution or grant if an agreement includes a barrier that must be overcome and either a right of return of assets or a right of release of a promise to transfer assets exists. Indicators of a barrier include a measurable performance-related barrier or other measurable barrier, a stipulation that limits discretion by the recipient on the conduct of an activity and stipulations that are related to the purpose of the agreement. Topic 958 prescribes that the Organization should not consider probability of compliance with the barrier when determining if such awards are conditional and should be reported as conditional grant advance liabilities until such conditions are met.

Contributions and grants without donor restrictions are recognized as revenue when received or unconditionally pledged. Contributions and grants with donor restrictions are recorded as revenues and net assets with donor restrictions when received or

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unconditionally pledged. Transfers are made to net assets without donor restrictions as services are performed and costs are incurred pro-rata over the period covered by the grant or contribution as time restrictions lapse. Contributions and grants with donor restrictions received and satisfied in the same period are included in grants and contributions without donor restrictions.

Donated Materials - Donations of materials are recorded as contributions at fair value at the date of donation. Such donations are reported as increases in net assets without donor restrictions 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 contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

Donated Services - Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by individuals with those skills, and would otherwise be purchased by the Organization. Volunteers also provided fundraising and client services throughout the year that are not recognized as contributions in the consolidated financial statements since the recognition criteria were not met.

Commercial Products and Services - Commercial products and services are recognized as services are rendered and when units or services are provided.

Rental - Rental revenue is recognized as rentals become due and are accounted for under *Leases* (Topic 842). Rental revenue is derived from tenant and subsidy leases. All leases between the Organization and its tenants are operating leases. Rental revenue is recognized as occupancy is provided on a straight-line basis over the rented lease terms. Rental payments received in advance are deferred.

Deferred revenue represents rental income received in advance and the sale of commercial products received prior to year-end. These amounts are deferred and recognized over the periods to which the fees relate.

Accounts and Notes Receivable

Accounts and notes receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts and notes. Balances that are outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts and notes receivable.

The Organization does not have a policy to accrue interest on accounts receivable. The Organization has no policies requiring collateral or other security to secure the accounts receivable. The Organization has a policy to collect security deposits of up to one month's rent from tenants. The security deposits can be used to pay for damages

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caused by the tenant or used against unpaid receivables. As of December 31, 2022, 92% of the Organization's accounts receivable is due from a governmental agency.

Amortization

Debt issuance costs relating to the permanent loan are amortized over the term of the loan using the effective yield method, as required by U.S. GAAP. Unamortized debt issuance costs are presented as a deduction from the carrying value of the mortgage note payable. Amortization expense on debt issuance costs has been included in interest expense on the accompanying consolidated statement of operations.

Contributions Receivable

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in more than one year are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. In the absence of donor stipulations to the contrary, promises with payments due in future periods are restricted to use after the due date.

Unconditional promises to give are periodically reviewed to estimate an allowance for doubtful accounts. Management estimates the allowance by review of historical experience and a specific review of collections trends that differ from scheduled collections on individual promises. As of December 31, 2022, management has determined any allowance would be immaterial.

Conditional promises to give are not recognized in the consolidated financial statements until the conditions are substantially met. As of December 31, 2022, there were no conditional promises to give expected to be received in future years.

Fixed Assets

Fixed assets are recorded at cost or if donated, fair value on the date of receipt. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives. Improvements, including planned major maintenance activities are capitalized, while expenditures for routine maintenance and repairs are charged to expense as incurred. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. The resulting gains and losses are reflected in the consolidated statement of activities.

The Organization computes depreciation using the straight-line method over the following estimated lives:

Buildings	40 years
Building improvements	20-40 years
Furnishings and equipment	5-10 years

Fixed assets are reviewed for impairment if the use of the asset significantly changes or another indicator or possible impairment is noted. If the carrying amount for the asset is not

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recoverable, the value is written down to the asset's fair value. There was no impairment loss recognized during 2022.

Designation of Net Assets Without Donor Restrictions

It is the policy of the Board of Directors of the Organization to review its plans for future property improvements and acquisitions from time to time and to designate appropriate sums of net assets without donor restrictions to assure adequate financing of such improvements and acquisitions, see Note 5.

Fair Value Measurements

U.S. GAAP defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Additionally, the inputs used to measure fair value are prioritized based on a three-level hierarchy. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels used to measure fair value are as follows:

Level 1: Quoted prices for identical instruments in active markets.

Level 2: Observable inputs other than quoted prices included in Level 1. Assets and liabilities included in this level are valued using quoted prices for similar assets and liabilities in active markets or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant inputs to the valuation model are unobservable.

Recurring Fair Value Measurements

In accordance with U.S. GAAP, certain assets and liabilities are required to be recorded at fair value on a recurring basis. The Organization's assets that are adjusted to fair value on a recurring basis are described below. The Organization currently has no liabilities that are adjusted to fair value on a recurring basis.

The following section describes the valuation methodologies used to measure assets financial assets and liabilities at fair value on a recurring basis:

Investments in Mutual Funds: The fair values of investments using quoted market prices from daily exchange traded markets were based on the closing price as of the financial position date and were classified as Level 1, see Note 3.

The following table summarizes assets measured at fair value on a recurring basis as of December 31, 2022:

	Level 1	Level 2	Level 3	Total
Investments	\$ <u>347,147</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>347,147</u>

Fundraising

Fundraising relates to the activities of raising general and specific contributions to the Organization and promoting special events. Fundraising expenses as a percentage of

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total contributions and was 14% for 2022. The ratio of expenses to amounts raised is computed using actual expenses and related revenue on an accrual basis.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the consolidated statement of activities and in the consolidated statement of functional expenses. Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are allocated to programs and supporting services. Administration expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Payroll and associated costs are allocated to functions based upon actual time charges. Occupancy costs are allocated based upon square footage.

Use of Estimates

In preparing the Organization's consolidated financial statements in conformity with U.S. GAAP, management is required to make estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

The Organization qualifies as an organization formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code ("IRC") and is generally not subject to income tax. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Organization is not a private foundation under Section 509(a)(1) of the IRC.

Management has analyzed the tax positions taken by the Organization and has concluded that, as of December 31, 2022, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the consolidated financial statements.

Generally, tax years from December 31, 2019 through the current year remain open to examination by the Internal Revenue Service. The Organization does not believe that the results from any examination of these open years would have a material adverse effect on the Organization.

Haley House Bakery Café Operating LLC, Haley House Bakery Café 12 Dade LLC and Haley House Interfaith Owner LLC are limited liability companies with Haley House, Inc. as its sole member and, consequently, are disregarded entities having no tax status. These entities are consolidated and filed with Haley House, Inc.'s nonprofit tax return.

Below Market Loan

The Organization has programs which create low-income housing. Governmental entities, having a similar agenda to foster low-income housing, have lent money to the Organization at advantageous terms. The Organization has not discounted these below

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market loans as they were made at arm's length and to foster the creation of low-income housing.

New Accounting Pronouncement

The Organization adopted Accounting Standards Update 2016-02 (as amended), *Leases* ("Topic 842") on January 1, 2022 ("Adoption Date"). Additionally, the Organization elected and applied the following practical expedients on the Adoption Date:

- The package of practical expedients permitting the Organization 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.

The Organization accounted for its existing operating leases with residential tenants of the property as operating leases. Adopting Topic 842 in accounting for residential tenant leases did not result in adjustments to the financial statements.

Note 2 - Restricted Deposits and Funded Reserves

The Organization's restricted deposits and funded reserves balance consists of funds restricted for tenant security deposits and funds held in escrow. These amounts support either a corresponding liability or restricted net asset position.

Tenant Security Deposits

The Organization has a policy to collect security deposits of up to one month's rent from tenants. The security deposits can be used to pay for damages caused by the tenant or used against unpaid receivables.

Replacement Reserve

In accordance with the Regulatory Agreement, the Organization maintains an account established for repairs and capital improvements. The Organization shall make required monthly deposits of \$758 which is subject to an automatic annual adjustment factor published by the United States Department of Housing and Urban Development and reserves can only be drawn upon with permission from MassHousing. Deposits and disbursements were made in accordance with the Regulatory Agreement during 2022.

HALEY HOUSE, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements

December 31, 2022

Real Estate Tax and Insurance Escrows

The Organization established a reserve and makes deposits monthly of \$1,700 as required by MassHousing note agreements to fund disbursements for real estate taxes, assessments, liens and insurance premiums. The escrow funds are held by MassHousing and can only be drawn upon with permission of MassHousing. Deposits and disbursements were made in accordance with the note agreements during 2022.

Other Reserves

Other reserves consist of funds received during the HH Interfaith Owner LLC acquisition that will be used for a future refinancing/syndication in 2024.

Note 3 - Investments

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. These mutual funds have been classified as available for sale in the consolidated financial statements. The market value of the investments as of December 31, 2022 was \$347,147.

Note 4 - Long-Term Debt

MassHousing

The Organization has first and second mortgage notes payable. The first mortgage is provided by MassHousing with a loan dated September 1, 2009. The loans bear interest at a rate of 6.25% per annum. The property has been pledged as collateral for the mortgages. The loans are being amortized over a 30-year term and require monthly principal and interest payments totaling \$5,062 through maturity in May 2029. The loans also require 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. During 2022, interest expense and mortgage service fee payments amounted to \$21,788 and 4,071, respectively. As of December 31, 2022, the principal balance and accrued interest were \$312,956 and \$1,751, respectively.

HALEY HOUSE, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements

December 31, 2022

Boston Community Loan Fund

On April 6, 2015, Haley House Inc., and Haley House Bakery Café 12 Dade Street LLC executed with Boston Community Loan Fund a non-revolving line of credit not to exceed \$750,000. The line of credit accrues interest at a rate of 6% per annum. On April 6, 2018, the borrower began making monthly payments of principal and interest based upon a 20-year amortization schedule. On April 6, 2025, the maturity date, the unpaid principal balance plus any accrued and unpaid interest are required to be paid. This loan is subordinated to the Eastern Bank loan of \$1,680,000. This loan agreement is collateralized by the property located at 12 Dade Street, 2139 Washington Street and 16, 20, 22 and 24 Dade Street, Boston and the second collateral assignment of leases and rents of these properties. During 2022, interest expense amounted to \$19,272. As of December 31, 2022, the outstanding principal and accrued interest was \$341,554 and zero, respectively.

Eastern Bank

On February 27, 2015, Haley House, Inc. borrowed from Eastern Bank a sum of \$1,680,000. The loans bear interest at a rate of 5.43% per annum. Haley House, Inc. is required to make monthly installments of principal and interest based upon a 10-year amortization schedule. On February 27, 2025, the maturity date, the remaining principal balance plus any accrued and unpaid interest are due. This loan was used to finance the purchase of the property at 12 Dade Street, Boston. The Eastern Bank loan is collateralized by a mortgage on certain real property owned by Haley House, Inc. and a collateral assignment of leases and rents at this property. During 2022, interest expense amounted to \$85,668. The principal balance as of December 31, 2022 was \$1,538,086. The Loan contains a debt service coverage ratio covenant that requires the Organization to maintain a debt service coverage ratio (DSCR) of 1.10:1. As of December 31, 2022, the Organization did maintain the required coverage.

HH Interfaith Owner LLC has a first mortgage payable to Eastern Bank in the original amount of \$13,370,000. The note bears compounding interest at 3.25% and matures in July 2024. Interest-only payments are due on the 15th of each month through maturity. During 2022, interest expense amounted to \$440,560. As of December 31, 2022, the outstanding principal was \$13,370,000. As of December 31, 2022, the outstanding principal balance of the mortgage note payable less unamortized debt issuance costs is \$13,312,435. As of December 31, 2022, unamortized deferred debt issuance costs of \$35,281 consist of debt issuance costs of \$66,850 less accumulated amortization of \$31,569. During 2022, amortization expense incurred was \$22,284 and was included in interest on the accompanying consolidated statement of functional expenses.

Massachusetts Housing Partnership (“MHP”)

HH Interfaith Owner LLC has a shared second mortgage note payable to MHP, borrowed under the Capital Improvement and Preservation Fund (“CIPF”) from the Department of Housing and Community Development in the original amount of \$1,287,400. The note bears simple interest at 1% annually. No payments of principal or interest are due under the note before the maturity date of April 3, 2033. During 2022, interest expense amounted to \$6,437. As of December 31, 2022, the outstanding principal balance was \$643,700 and the accrued interest balance was \$9,119.

HALEY HOUSE, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements

December 31, 2022

Future minimum payments are as follows:

2023	\$	90,369
2024		95,485
2025		15,161,409
2026		49,407
2027		42,495
Thereafter		<u>757,133</u>
Total	\$	<u>16,206,296</u>

Interest expense on all debt amounted to \$600,080 for the year ended December 31, 2022.

Note 5 - Net Assets

Net Assets With Donor Restrictions

Net assets with donor restrictions consist of resources available to meet future obligations, but only in compliance with the restrictions specified by donors. As of December 31, 2022, net assets with donor restrictions are restricted for the following purposes:

Subject to expenditure for a specified purpose:		
Dartmouth Street Capital Grants	\$	10,000
Soup Kitchen		292,000
Food Pantry		5,000
Take Back the Kitchen		52,980
Urban Farm and Garden		166,071
Fundraising		16,200
Mural for Bakery		<u>15,000</u>
		557,251
Time restricted – for use in 2023		<u>50,000</u>
Total net assets with donor restrictions	\$	<u>607,251</u>

Net assets released from restrictions during 2022 were \$411,579, of which, \$311,579 were from program restrictions and \$100,000 were from time restrictions.

HALEY HOUSE, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements

December 31, 2022

Net Assets Without Donor Restrictions

The Organization's net assets without donor restrictions are comprised of the following purposes as of December 31, 2022:

Undesignated	\$	736,580
Designated for single room occupancy program		<u>1,529,924</u>
Total	\$	<u><u>2,266,504</u></u>

In accordance with the Regulatory Agreement, all net assets associated with the single room occupancy housing program must remain associated with the Project and cannot be used for any other purpose involving Haley House, Inc. This development is financed by the MassHousing. 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.

Note 6 - Contributed Nonfinancial Assets

For 2022, contributed nonfinancial assets recognized within the statement of activities included:

	Revenue Recognized	Utilization in Programs/Activities	Donor Restrictions	Valuation Techniques and Inputs
Human resource services	\$ 25,029	Administration	None	Fair market value of the asset at the date of donation
Donated food, pantry and soup kitchen goods	280,444	Program services	None	Fair market value of the asset at the date of donation
Donated fixed assets	<u>84,750</u>	Program services	None	Estimated wholesale prices (principal market) of identical or similar products using pricing data under a "like-kind" methodology considering the goods' condition and utility for use at the time of the contribution
Total	<u>\$ 390,223</u>			

HALEY HOUSE, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements

December 31, 2022

Note 7 - Ground Lease

Haley House Interfaith Owner LLC assumed a ground lease during the acquisition. In accordance with the ground lease, the land is subject to a 99-year lease dated April 3, 2004 with the Boston Housing Authority. Base rents shall be in the amount of \$1 per year. Haley House Interfaith Owner LLC is also responsible for all operating expenses related to the Project.

Note 8 - 2147 LIHTC Owner LLC Development

2147 LIHTC Owner LLC ("2147") is a moderate scale redevelopment effort by an unrelated for profit developer located on several contiguous parcels with multiple owners that surround 12 Dade Street, the mortgaged premises of Haley House Bakery Cafe and residential units owned by Haley House, Inc. As part of this development, the Organization has allowed a land swap of a portion of their mortgaged premises, off street access and some parking, in exchange for the new construction of a brand new 2,000 square foot cafe to be owned by the Organization, upon completion in late 2024.

As part of the development of 2147, the Organization served as sponsor for a \$300,000 Accessibility Affordable Housing Grant from the Community Economic Development Assistance Corporation ("AAHG Grant") and a \$1,200,000 Neighborhood Housing Trust Grant from the City of Boston ("AHT Grant"). The grants were passed through the Organization to 2147 in the form of promissory notes.

The AAHG Grant was made under certain conditions that allow CEDAC to recapture the grant for a period of up to five years. As a result, the AAHG Grant has been recorded as deferred grant revenue and will be recognized as revenue once the five year recapture has ended. Management does not expect that the related promissory note will be recoverable and as a result have recorded bad debt expense for entire balance.

The AHT Grant has no recapture provisions related to the Organization and subsequent to the pass through of the grant, the associated promissory note was assigned to the City of Boston. The grant revenue related to this transaction was netted with the loan assignment for no financial effect to the Organization.

Haley House Bakery Café 12 Dade LLC entered into a ground lease with 2147, an unrelated entity. The ground lease required an initial payment of \$120,000 and no additional payments over the 99-year term of the lease. The Organization will recognize the initial payment into revenue over the term of the lease. During 2022, the Organization recognized \$909 in ground lease revenue that was included in rental revenue on the consolidated statement of financial position. As of December 31, 2022, the deferred revenue from the ground lease totaled \$119,091, of which \$1,212 is included with current liabilities deferred revenue and \$117,879 is included with long-term deferred revenue on the consolidated statement of financial position.

In connection to the ground lease, the Organization incurred \$55,460 in costs. These costs were capitalized as prepaid expenses on the consolidated statement of financial position and will be amortized over the life of the ground lease. As of December 31, 2022, unamortized prepaid ground lease costs totaled \$55,040.

HALEY HOUSE, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements

December 31, 2022

Note 9 - Employee retention tax credit

The Organization qualified for the Employee Retention Tax Credit ("ERTC"), a refundable tax credit against certain employment taxes equal to 50% or 70% of the qualified wages an eligible employer pays during a specified period. As described in Note 1, the Organization is accounting for the ERTC in accordance with ASC Sub Topic 958-605. The Organization believes that all conditions of the contribution have been met as of December 31, 2021 and therefore had recorded the revenue in the amount of \$243,357. As of December 31, 2022, \$243,357 remains in accounts receivable on the consolidated balance sheet, but subsequent to December 31, 2022, \$154,711 had been received by the IRS.

Note 10 - Statement of cash flows

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the consolidated statement of financial position that sum to the total of the same such amounts in the accompanying consolidated statement of cash flows:

Cash and cash equivalents	\$ 3,396,266
Other reserves	940,461
Tenant security deposits	<u>32,756</u>
Total cash and restricted cash shown in the consolidated statement of cash flows	\$ <u>4,369,483</u>

Note 11 - Liquidity and Availability of Resources

The following reflects the Organization's financial assets as of December 31, 2022, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year from the consolidated statement of financial position date:

Financial assets at December 31, 2022:	
Cash and cash equivalents	\$ 3,396,266
Accounts and contributions receivable, net	285,299
Investments	347,147
Total	<u>4,028,712</u>
Less amounts unavailable for general expenditures within one year, due to:	
Restricted by donors for specific purposes	607,251
Designated by board for single room occupancy	1,529,924
Total	<u>2,137,175</u>
Financial assets available to meet cash needs for general expenditures within one year	\$ <u>1,891,537</u>

HALEY HOUSE, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements

December 31, 2022

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Organization invests cash in excess of daily requirements in short-term investments.

Note 12 - Subsequent Events

The Organization has performed an evaluation of subsequent events through January 29, 2024, which is the date the Organization's consolidated financial statements were available to be issued. No material subsequent events have occurred, other than the item noted below, since December 31, 2022 that required recognition or disclosure in these consolidated financial statements.

Subsequent to December 31, 2022, the Organization began renovating the Soup Kitchen at 23 Dartmouth Street. The total cost of the renovations was approximately \$576,000 and was completed in August 2023. As of December 31, 2022, no contract had been entered into.

Supplementary Information

HALEY HOUSE, INC. & AFFILIATES

Consolidating Statement of Financial Position

As of December 31, 2022

	Bakery Division	HH Division	SRO Division	HH Interfaith Division	Eliminations	Total
Current Assets						
Cash and cash equivalents	\$ 301,639	\$ 1,593,597	\$ 90,340	\$ 1,410,690	\$ -	\$ 3,396,266
Accounts receivable, net	-	342,710	5,702	19,890	(83,002)	285,300
Contributions receivable, net	-	174,070	-	-	-	174,070
Due from affiliates	-	2,714,750	-	-	(2,714,750)	-
Prepaid expenses	-	86,212	-	23,031	-	109,243
Inventory	-	-	-	-	-	-
Investments	-	-	347,147	-	-	347,147
Total current assets	301,639	4,911,339	443,189	1,453,611	(2,797,752)	4,312,026
Fixed Assets						
Land	-	537,705	119,232	-	-	656,937
Buildings	534,860	1,902,996	2,263,568	17,758,917	(75,000)	22,385,341
Building improvements	-	2,120,552	90,220	41,424	-	2,252,196
Furnishings and equipment	69,006	281,770	35,031	30,527	-	416,334
Total fixed assets	603,866	4,843,023	2,508,051	17,830,868	(75,000)	25,710,808
Less: accumulated depreciation	(374,282)	(1,560,448)	(1,152,596)	(8,392,596)	53,438	(11,426,484)
Total net fixed assets	229,584	3,282,575	1,355,455	9,438,272	(21,562)	14,284,324
Other Assets						
Deposits	-	11,500	-	-	-	11,500
Restricted deposits and funded reserves	-	-	127,360.00	964,529	-	1,091,889
Total other assets	-	11,500	127,360	964,529	-	1,103,389
Total Assets	\$ 531,223	\$ 8,205,414	\$ 1,926,004	\$ 11,856,412	\$ (2,819,314)	\$ 19,699,739
Current Liabilities						
Accounts payable	\$ 3,551	\$ 111,157	\$ 5,866	\$ 19,431	\$ -	\$ 140,005
Due to affiliates	2,646,027	-	68,723	83,002	(2,797,752)	-
Accrued interest	-	-	1,751	9,119	-	10,870
Accrued expenses	-	-	5,931	72,422	-	78,353
Long term debt, current	-	49,178	41,191	-	-	90,369
Deferred revenue	-	302,830	853	4,179	-	307,862
Total current liabilities	2,649,578	463,165	124,315	188,153	(2,797,752)	627,459
Long-Term Liabilities						
Deferred revenue, long-term	-	117,879	-	-	-	117,879
Long-term debt, net of current and debt issuance costs	-	1,830,462	271,765	13,978,419	-	16,080,646
Total liabilities	2,649,578	2,411,506	396,080	14,166,572	(2,797,752)	16,825,984
Net Assets (Deficit)						
Net assets without donor restrictions						
Designated by board for single room occupancy program	-	-	1,529,924	-	-	1,529,924
Undesignated	(2,133,355)	5,201,657	-	(2,310,160)	(21,562)	736,580
Total net assets without donor restrictions	(2,133,355)	5,201,657	1,529,924	(2,310,160)	(21,562)	2,266,504
Net assets (deficit) with donor restrictions	15,000	592,251	-	-	-	607,251
Total net assets	(2,118,355)	5,793,908	1,529,924	(2,310,160)	(21,562)	2,873,755
Total Liabilities and Net Assets (Deficit)	\$ 531,223	\$ 8,205,414	\$ 1,926,004	\$ 11,856,412	\$ (2,819,314)	\$ 19,699,739

HALEY HOUSE, INC. & AFFILIATES

Consolidating Statement of Activities

Year Ended December 31, 2022

	Bakery Division			HH Division			SRO Division			HH Interfaith Division		Eliminations	Total
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	Total		
Revenue and Support													
Sale of commercial products	\$ 10,049	\$ -	\$ 10,049	\$ 25,818	\$ -	\$ 25,818	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 35,867
Less: costs of goods sold	(1,233)	-	(1,233)	(40,556)	-	(40,556)	-	-	-	-	-	-	(41,789)
Total sale of commercial products, net	8,816	-	8,816	(14,738)	-	(14,738)	-	-	-	-	-	-	(5,922)
Contributions and grants	-	-	-	596,485	578,163	1,174,648	84,750	75,000	159,750	-	-	-	1,334,398
Donated materials and services	-	-	-	390,223	-	390,223	-	-	-	-	-	-	390,223
Rental	15,027	-	15,027	204,308	-	204,308	322,345	-	322,345	2,636,825	-	-	3,178,505
Management and partnership fees	-	-	-	12,906	-	12,906	-	-	-	-	(12,906)	-	-
Investment, net	-	-	-	(502)	-	(502)	(59,758)	-	(59,758)	-	-	-	(60,260)
Miscellaneous	7,557	-	7,557	86,510	-	86,510	1,459	-	1,459	1,233	-	-	96,759
Net assets released from restrictions	-	-	-	336,579	(336,579)	-	75,000	(75,000)	-	-	-	-	-
Total revenue and support	31,400	-	31,400	1,611,771	241,584	1,853,355	423,796	-	423,796	2,638,058	(12,906)	-	4,933,703
Expenses													
Program services	186,192	-	186,192	1,306,850	-	1,306,850	337,994	-	337,994	2,053,515	-	-	3,884,551
Administration	-	-	-	383,189	-	383,189	32,639	-	32,639	69,011	(14,781)	-	470,058
Fundraising	-	-	-	245,412	-	245,412	-	-	-	-	-	-	245,412
Total expenses	186,192	-	186,192	1,935,451	-	1,935,451	370,633	-	370,633	2,122,526	(14,781)	-	4,600,021
Change in Net Assets	(154,792)	-	(154,792)	(323,680)	241,584	(82,096)	53,163	-	53,163	515,532	1,875	-	333,682
Net Assets (Deficit) at Beginning of Year	(1,978,563)	15,000	(1,963,563)	5,525,337	350,667	5,876,004	1,476,761	-	1,476,761	(2,825,692)	(23,437)	-	2,540,073
Net Assets (Deficit) at End of Year	\$ (2,133,355)	\$ 15,000	\$ (2,118,355)	\$ 5,201,657	\$ 592,251	\$ 5,793,908	\$ 1,529,924	\$ -	\$ 1,529,924	\$ (2,310,160)	\$ (21,562)	-	\$ 2,873,755



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