

artists for humanity

FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

ARTISTS FOR HUMANITY, INC.

Contents
December 31, 2016 and 2015

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Independent Auditor's Report

To the Board of Directors of
Artists for Humanity, Inc.:

Report on the Financial Statements

We have audited the accompanying financial statements of Artists for Humanity, Inc. (a Massachusetts corporation, not for profit), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities and changes in net assets, cash flows and functional expenses for the years 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

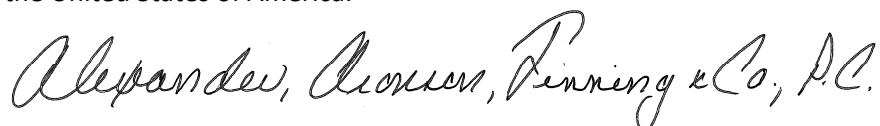
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about 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 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 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 Artists for Humanity, Inc. as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Westborough, Massachusetts
April 5, 2017

ARTISTS FOR HUMANITY, INC.Statements of Financial Position
December 31, 2016 and 2015

Assets	2016	2015
Current Assets:		
Cash and cash equivalents	\$ 1,287,710	\$ 349,023
Accounts receivable, net of allowance for doubtful accounts of approximately \$3,000 as of December 31, 2016 and 2015	155,463	114,993
Grants and contracts receivable	40,644	133,638
Current portion of operating pledges receivable	460,108	542,928
Inventory	10,604	11,734
Prepaid expenses and other	7,731	14,456
Total current assets	1,962,260	1,166,772
Restricted Cash for Capital Campaign	6,573,342	3,567,573
Operating Pledges Receivable, net of current portion and discount	-	340,918
Capital Campaign Pledges, net of discount	1,782,637	2,068,848
Deposits	37,990	-
Property and Equipment, net	6,433,018	6,587,310
Construction in Process	2,195,537	934,910
Debt Financing Costs	295,655	-
Total assets	<u>\$ 19,280,439</u>	<u>\$ 14,666,331</u>
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 591,570	\$ 137,426
Deferred revenue	17,628	30,982
Total current liabilities	<u>609,198</u>	<u>168,408</u>
Net Assets:		
Unrestricted:		
Operating	359,573	212,619
Property, equipment, construction in process, and debt financing costs	8,924,210	7,522,220
Total unrestricted	9,283,783	7,734,839
Temporarily restricted	9,387,458	6,763,084
Total net assets	<u>18,671,241</u>	<u>14,497,923</u>
Total liabilities and net assets	<u>\$ 19,280,439</u>	<u>\$ 14,666,331</u>

The accompanying notes are an integral part of these statements.

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ARTISTS FOR HUMANITY, INC.

 Statements of Activities and Changes in Net Assets
 For the Years Ended December 31, 2016 and 2015

	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Operating Support and Revenue:						
Grants and contracts	\$ 645,393	\$ 956,181	\$ 1,601,574	\$ 210,151	\$ 1,903,765	\$ 2,113,916
Program revenue	1,383,992	-	1,383,992	1,461,622	-	1,461,622
Events and sponsorships	554,469	-	554,469	319,756	-	319,756
Contributions	488,086	-	488,086	565,661	-	565,661
Donated goods and services	112,004	-	112,004	84,979	-	84,979
Net assets released from restrictions:						
Time	476,299	(476,299)	-	705,956	(705,956)	-
Purpose	575,066	(575,066)	-	520,145	(520,145)	-
Purpose - capital campaign	83,334	(83,334)	-	166,668	(166,668)	-
Total operating support and revenue	<u>4,318,643</u>	<u>(178,518)</u>	<u>4,140,125</u>	<u>4,034,938</u>	<u>510,996</u>	<u>4,545,934</u>
Operating Expenses:						
Program	3,284,963	-	3,284,963	2,906,915	-	2,906,915
General and administrative	473,194	-	473,194	459,563	-	459,563
Fundraising	567,824	-	567,824	532,761	-	532,761
Total operating expenses	<u>4,325,981</u>	<u>-</u>	<u>4,325,981</u>	<u>3,899,239</u>	<u>-</u>	<u>3,899,239</u>
Changes in net assets from operations	<u>(7,338)</u>	<u>(178,518)</u>	<u>(185,856)</u>	<u>135,699</u>	<u>510,996</u>	<u>646,695</u>
Non-Operating Revenue (Expenses):						
Capital contributions	-	4,275,904	4,275,904	-	2,982,880	2,982,880
Donated services - capital	114,948	-	114,948	54,788	-	54,788
Realized loss on sale of donated stock	-	-	-	(14,650)	-	(14,650)
Net assets released from capital restrictions	1,473,012	(1,473,012)	-	608,999	(608,999)	-
Write-off of capital and financing costs	(31,678)	-	(31,678)	-	-	-
Total non-operating revenue (expenses)	<u>1,556,282</u>	<u>2,802,892</u>	<u>4,359,174</u>	<u>649,137</u>	<u>2,373,881</u>	<u>3,023,018</u>
Changes in net assets	1,548,944	2,624,374	4,173,318	784,836	2,884,877	3,669,713
Net Assets:						
Beginning of year	<u>7,734,839</u>	<u>6,763,084</u>	<u>14,497,923</u>	<u>6,950,003</u>	<u>3,878,207</u>	<u>10,828,210</u>
End of year	<u>\$ 9,283,783</u>	<u>\$ 9,387,458</u>	<u>\$ 18,671,241</u>	<u>\$ 7,734,839</u>	<u>\$ 6,763,084</u>	<u>\$ 14,497,923</u>

The accompanying notes are an integral part of these statements.

ARTISTS FOR HUMANITY, INC.

 Statements of Cash Flows
 For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities:		
Changes in net assets	\$ 4,173,318	\$ 3,669,713
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Capital contributions	(4,275,904)	(2,982,880)
Donated services - capital	(114,948)	(54,788)
Depreciation	154,292	155,849
Bad debts	-	1,154
Realized loss on sale of donated stock	-	14,650
Change in discount on operating pledges receivable	(7,415)	7,415
Changes in operating assets and liabilities:		
Accounts receivable	(40,470)	6,233
Grants and contracts receivable	92,994	(133,638)
Operating pledges receivable	431,153	(581,896)
Inventory	1,130	2,621
Prepaid expenses and other	6,725	4,947
Deposits	(37,990)	-
Accounts payable and accrued expenses	24,429	(14,458)
Deferred revenue	(13,354)	(62,495)
Net cash provided by operating activities	<u>393,960</u>	<u>32,427</u>
Cash Flows from Investing Activities:		
Acquisition of property and equipment	-	(9,992)
Payments for construction in progress	(930,497)	(606,593)
Increase in restricted cash for capital campaign	<u>(3,005,769)</u>	<u>(2,236,267)</u>
Net cash used in investing activities	<u>(3,936,266)</u>	<u>(2,852,852)</u>
Cash Flows from Financing Activities:		
Capital contributions	4,562,115	2,997,284
Payment of debt financing costs	<u>(81,122)</u>	<u>-</u>
Net cash provided by financing activities	<u>4,480,993</u>	<u>2,997,284</u>
Net Change in Cash and Cash Equivalents	938,687	176,859
Cash and Cash Equivalents:		
Beginning of year	<u>349,023</u>	<u>172,164</u>
End of year	<u>\$ 1,287,710</u>	<u>\$ 349,023</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	<u>\$ 27</u>	<u>\$ 126</u>
Supplemental Disclosure of Non-Cash Transactions:		
Donated services - capital	<u>\$ 114,948</u>	<u>\$ 54,788</u>
Construction in process included in accounts payable and accrued expenses	<u>\$ 225,732</u>	<u>\$ 10,550</u>
Debt financing costs included in accounts payable and accrued expenses	<u>\$ 214,533</u>	<u>\$ -</u>

ARTISTS FOR HUMANITY, INC.

Statement of Functional Expenses

For the Year Ended December 31, 2016

(With Summarized Comparative Totals for the Year Ended December 31, 2015)

	2016			2015	
	Program	General and Administrative	Fundraising	Total	Total
Operating Expenses:					
Personnel and related:					
Salaries - other staff	\$ 1,386,842	\$ 325,166	\$ 393,977	\$ 2,105,985	\$ 1,972,453
Salaries - youth artists	649,795	-	-	649,795	548,625
Payroll taxes and fringe benefits	299,924	47,885	58,019	405,828	380,984
Donated salaries - youth artists	66,587	-	-	66,587	51,890
Contracted artists and services	20,193	5,095	-	25,288	31,507
Total personnel and related	2,423,341	378,146	451,996	3,253,483	2,985,459
Professional services and consultants	231,016	23,768	8,961	263,745	117,122
Program supplies	260,575	-	-	260,575	281,786
Depreciation	114,028	18,206	22,058	154,292	155,849
Event expense	37,429	-	37,429	74,858	48,358
Cleaning	46,210	7,378	8,939	62,527	61,054
Training and travel	37,285	4,971	7,457	49,713	36,219
Equipment rental and maintenance	36,120	6,320	6,987	49,427	43,881
Utilities	27,504	4,391	5,321	37,216	39,083
Miscellaneous	11,400	11,912	1,511	24,823	20,502
Insurance	14,509	2,316	2,807	19,632	21,222
Telephone	9,205	4,602	4,602	18,409	18,558
Printing	11,220	1,791	2,170	15,181	20,966
Postage and shipping	6,497	3,248	3,248	12,993	11,065
Trash removal	6,842	1,092	1,324	9,258	8,729
Office supplies	2,186	4,370	2,186	8,742	13,351
Repairs and maintenance	4,259	680	824	5,763	10,001
Alumni commissions	5,317	-	-	5,317	4,754
Interest	20	3	4	27	126
Bad debts	-	-	-	-	1,154
Total operating expenses	<u>\$ 3,284,963</u>	<u>\$ 473,194</u>	<u>\$ 567,824</u>	<u>\$ 4,325,981</u>	<u>\$ 3,899,239</u>

ARTISTS FOR HUMANITY, INC.Statement of Functional Expenses
For the Year Ended December 31, 2015

	<u>Program</u>	<u>General and Adminis- trative</u>	<u>Fundraising</u>	<u>Total</u>
Operating Expenses:				
Personnel and related:				
Salaries - other staff	\$ 1,295,373	\$ 303,228	\$ 373,852	\$ 1,972,453
Salaries - youth artists	548,625	-	-	548,625
Payroll taxes and fringe benefits	280,912	44,817	55,255	380,984
Donated salaries - youth artists	51,890	-	-	51,890
Contracted artists and services	22,787	8,720	-	31,507
Total personnel and related	2,199,587	356,765	429,107	2,985,459
Professional services and consultants	77,676	31,757	7,689	117,122
Program supplies	281,786	-	-	281,786
Depreciation	114,913	18,333	22,603	155,849
Event expense	24,179	-	24,179	48,358
Cleaning	45,017	7,182	8,855	61,054
Training and travel	27,065	2,658	6,496	36,219
Equipment rental and maintenance	31,730	5,910	6,241	43,881
Utilities	28,817	4,598	5,668	39,083
Miscellaneous	9,953	9,374	1,175	20,502
Insurance	15,648	2,496	3,078	21,222
Telephone	9,278	4,639	4,641	18,558
Printing	12,580	4,193	4,193	20,966
Postage and shipping	5,533	2,766	2,766	11,065
Trash removal	6,436	1,027	1,266	8,729
Office supplies	3,338	6,675	3,338	13,351
Repairs and maintenance	7,374	1,177	1,450	10,001
Alumni commissions	4,754	-	-	4,754
Interest	97	13	16	126
Bad debts	1,154	-	-	1,154
Total operating expenses	<u>\$ 2,906,915</u>	<u>\$ 459,563</u>	<u>\$ 532,761</u>	<u>\$ 3,899,239</u>

ARTISTS FOR HUMANITY, INC.

Notes to Financial Statements
December 31, 2016 and 2015

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 is exempt from Federal income taxes as an organization (not a private foundation) formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code (IRC). AFH is also exempt from state income taxes. Donors may deduct contributions made to AFH within the IRC regulations.

SIGNIFICANT ACCOUNTING POLICIES

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

Accounting Principle Adoption

During 2016, AFH adopted the FASB's Accounting Standards Update (ASU) 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, which requires that debt financing costs (see page 8) be reported in the statement of financial position as a direct reduction from the face amount of the related notes payable. This presentation will be reflected once AFH enters into the note payable agreements for the project to expand AFH's EpiCenter facility, which is expected to happen in 2017 (see Note 3). The adoption of this ASU did not impact AFH's net assets, changes in net assets, or cash flows for the years ended December 31, 2016 and 2015.

Cash and Cash Equivalents

For the purpose of the statements of cash flows, cash and cash equivalents consist of cash and money market accounts, excluding those held as restricted cash for capital campaign (see Note 4).

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 and all other revenue are recognized when earned. Payments received in advance of services being performed are recorded as deferred revenue.

ARTISTS FOR HUMANITY, INC.

Notes to Financial Statements
December 31, 2016 and 2015

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment and Depreciation

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

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

Debt Financing Costs

During 2016, AFH incurred \$295,655 of debt financing costs. These costs relate to costs to obtain certain debt agreements for the project to expand AFH's EpiCenter facility, which AFH expects to enter into in 2017 (see Note 3). Once AFH enters into these note payable agreements, the debt financing costs will be amortized over the term of the notes payable. There was no interest expense – amortization of debt financing costs for the year ended December 31, 2016.

There were \$15,178 of debt financing costs which management determined had no future value to the project and wrote off in 2016. These costs are reflected as write-off of capital and financing costs in the accompanying 2016 statement of activities and changes in net assets.

Pledges Receivable

Pledges receivable at December 31, 2016 and 2015, 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.

Allowance for Doubtful Accounts, Grants, Contracts and Pledges Receivable

Allowances for potentially uncollectible accounts, grants, contracts 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, 2016 and 2015. There was no allowance for doubtful grants, contracts, and pledges receivable deemed necessary at December 31, 2016 and 2015.

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.

ARTISTS FOR HUMANITY, INC.Notes to Financial Statements
December 31, 2016 and 2015

1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**SIGNIFICANT ACCOUNTING POLICIES (Continued)****Donated Goods and Services**

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

	<u>2016</u>	<u>2015</u>
Operating:		
Salaries - youth artists	\$ 66,587	\$ 51,890
Event expenses	36,324	30,589
Travel	9,093	-
Public relations	-	2,500
	<u>112,004</u>	<u>84,979</u>
Total operating donated goods and services		
Legal services - capital (see Note 3)	<u>114,948</u>	<u>54,788</u>
Total donated goods and services	<u>\$ 226,952</u>	<u>\$ 139,767</u>

Net Assets***Unrestricted Net Assets***

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

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

Property, equipment, construction in process, and debt financing costs net assets reflect and account for the activities relating to AFH's property, equipment, building, construction in process, and debt financing costs.

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:

	<u>2016</u>	<u>2015</u>
Capital restricted	\$ 8,355,979	\$ 5,636,421
Purpose restricted	707,500	720,497
Time restricted	<u>323,979</u>	<u>406,166</u>
	<u>\$ 9,387,458</u>	<u>\$ 6,763,084</u>

ARTISTS FOR HUMANITY, INC.

Notes to Financial Statements
December 31, 2016 and 2015

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Statements 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 statements of activities and changes in net assets. Peripheral or incidental transactions are reported as non-operating revenue. Non-operating revenue (expenses), consistent with industry practice, includes activity related to the capital campaign and losses on the sale of stock.

Estimates

The preparation of 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value Measurements

AFH 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 AFH would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants.

AFH 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 AFH. 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.

ARTISTS FOR HUMANITY, INC.

Notes to Financial Statements
December 31, 2016 and 2015

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events

Subsequent events have been evaluated through April 5, 2017, which is the date the financial statements were available to be issued.

Income Taxes

AFH 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 financial statements regarding a tax position taken or expected to be taken in a tax return. AFH has determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the financial statements at December 31, 2016, AFH's information returns are subject to examination by the Federal and state jurisdictions.

Inventory

Inventory is stated at the lower of cost determined on a first-in, first-out (FIFO) method or market and consists of shirts.

2. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

	<u>2016</u>	<u>2015</u>
Land	\$ 2,265,716	\$ 2,265,716
Building	5,900,964	5,900,964
Office and artistic equipment	214,644	214,644
Furniture and fixtures	<u>87,735</u>	<u>87,735</u>
	8,469,059	8,469,059
Less - accumulated depreciation	<u>2,036,041</u>	<u>1,881,749</u>
	<u>\$ 6,433,018</u>	<u>\$ 6,587,310</u>

3. CONSTRUCTION IN PROCESS

During 2014, AFH began the design phase of a project to expand AFH's EpiCenter facility 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 is expected to take place in the summer of 2017 and construction is anticipated to be completed in 2018. The total project is expected to cost \$28 million, which will be funded through a capital campaign (see Note 4), government funds, new markets tax credit financing, and other financing on the property. AFH anticipates that it will enter into note payable and new markets tax credit financing agreements totaling to approximately \$10.4 million related to this project in 2017.

During 2016 and 2015, AFH incurred \$1,260,627 and \$663,787 on the project, including donated legal costs of approximately \$115,000 and \$55,000, respectively, which is included in construction in process in the accompanying statements of financial position. These assets will not be depreciated until they are placed in service.

ARTISTS FOR HUMANITY, INC.

Notes to Financial Statements
December 31, 2016 and 2015

3. CONSTRUCTION IN PROCESS (Continued)

As part of this expansion project, AFH determined in 2016 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, 2016, AFH has estimated that the cost of these remediation services will be approximately \$91,700. These costs have been capitalized as part of construction in process and are also included in accrued expenses in the accompanying 2016 statement of financial position.

There were \$16,500 of costs included in construction in process at December 31, 2015, which management determined had no future value to the project and wrote off in 2016. These costs are reflected in write-off of capital and financing costs in the accompanying 2016 statement of activities and changes in net assets.

As part of this construction project, during 2016, AFH had to make certain deposits related to future construction to the City of Boston of \$37,990, which is reflected as deposits in the accompanying statement of net position as of December 31, 2016.

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 the EpiCenter facility as described in Note 3, with a goal of raising \$30 million. As of December 31, 2016, AFH has raised approximately \$12.1 million towards this campaign. This includes donated land valued at \$1 million, which was received in 2013.

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

	<u>2016</u>	<u>2015</u>
Due within one year	\$ 1,456,524	\$ 1,873,000
Due in one to five years	<u>334,000</u>	<u>200,000</u>
	1,790,524	2,073,000
Less - discount	<u>7,887</u>	<u>4,152</u>
	<u>\$ 1,782,637</u>	<u>\$ 2,068,848</u>

Capital campaign pledges receivable have been discounted to their net present value using discount rates between 2% and 2.5%.

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.

Restricted Cash for Capital Campaign

The cash received and not spent for the capital campaign is reflected as restricted cash for capital campaign, and is also shown as a long-term asset based on the intent to use these proceeds for the capital project.

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4. PLEDGES RECEIVABLE AND CAPITAL CAMPAIGN (Continued)**Operating Pledges Receivable**

Operating pledges receivable are expected to be collected as follows at December 31:

	<u>2016</u>	<u>2015</u>
Due within one year	\$ 460,108	\$ 542,928
Due in one to five years	-	348,333
	<u>460,108</u>	<u>891,261</u>
Less - discount	-	7,415
	<u>460,108</u>	<u>883,846</u>
Less - current portion	<u>460,108</u>	<u>542,928</u>
	<u>\$ -</u>	<u>\$ 340,918</u>

5. NOTE PAYABLE TO A BANK

AFH has available a \$150,000 line of credit agreement with a bank. Borrowings under the agreement are due on demand and interest is payable monthly at a rate equal to the *Wall Street Journal's* prime rate (3.75% and 3.5% at December 31, 2016 and 2015, respectively), plus 1%. The line of credit is secured by substantially all assets of AFH. There was no outstanding balance on the line of credit as of December 31, 2016 and 2015. The line of credit renews annually in March.

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

AFH 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. AFH has not experienced any losses in such accounts. AFH 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, 2016, pledges from two donors represented 83% of the total outstanding operating pledges receivable. As of December 31, 2015, pledges from one donor represented 75% of the total outstanding operating pledges receivable.

As of December 31, 2016, pledges from two donors represented 78% of the total outstanding capital pledges receivable. As of December 31, 2015, pledges from three donors represented 73% of the total outstanding capital pledges receivable.

As of December 31, 2016, revenue from two funders represented 29% of total revenue. As of December 31, 2015, revenue from another funder represented 13% of total revenue.

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8. CONDITIONAL GRANT

During 2015, two organizations awarded AFH operating gifts totaling to \$550,000, of which \$275,000 was received through December 31, 2015. The remaining gift balances of \$275,000 were conditional gifts as of December 31, 2015. In 2016, AFH met the conditions and the remaining \$275,000 was received.

During fiscal year 2015, another organization awarded AFH a \$1,000,000 capital gift, of which \$325,000 was received as of December 31, 2015. The balance of \$675,000 was a conditional gift as of December 31, 2015. In 2016, AFH met the conditions and the remaining \$675,000 was received.

9. RECLASSIFICATIONS

Certain amounts in the 2015 financial statements have been reclassified to conform with the 2016 presentation.