

HAP, Inc. and Subsidiaries

Consolidating Financial Statements
and
Auditors' Reports

June 30, 2016

HAP, Inc. and Subsidiaries

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Daniel Dennis & Company LLP

Certified Public Accountants

Independent Auditors' Report

The Board of Directors

HAP, Inc.

Report on the Financial Statements

We have audited the accompanying consolidating financial statements of HAP, Inc., (a nonprofit organization) and subsidiaries (collectively, the Organization) which comprise the consolidating statement of financial position as of June 30, 2016, and the related consolidating statements of activities, changes in net assets/(deficit), functional expenses, and cash flows for the year then ended, and the related notes to the consolidating financial statements.

Management's Responsibility for the Consolidating Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidating financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidating financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidating financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the consolidating financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the consolidating 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 Organization'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 consolidating 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 consolidating financial statements referred to above present fairly, in all material respects, the financial position of HAP, Inc. and subsidiaries as of June 30, 2016, 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.

Other Matters

Other Information

Our audit was conducted the purpose of forming an opinion on the consolidating financial statements as a whole. The accompanying supplementary information shown on pages 47 to 49 is presented for the purpose of additional analysis and is not a required part of the consolidating financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), is also presented for the purpose of additional analysis and is not a required part of the consolidating financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidating financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidating financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare consolidating financial statements or to the consolidating financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidating financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated December 15, 2016, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Audit Standards* in considering the Organization's internal control over financial reporting and compliance.

Daniel Dennis & Company LLP

December 15, 2016

HAP, Inc. and Subsidiaries
Consolidating Statement of Financial Position
June 30, 2016

Assets

	Operations	Assistance Payments	Rental Properties HAP	Partnership Interests	Eliminations	Consolidated
<i>Current Assets</i>						
Cash and cash equivalents	\$ 2,824,476	\$ -	\$ 349,189	\$ 672,487	\$ -	\$ 3,846,152
Restricted cash	2,422,897	4,026,004	-	-	-	6,448,901
Accounts receivable, net	2,746,483	115,008	59,530	113,652	(27,385)	3,007,288
Related party receivables/(payables)	1,302,616	61,539	(634,201)	(729,954)	-	-
Investments	-	-	-	192,308	-	192,308
Prepaid expenses and other assets	244,953	-	102,593	104,142	-	451,688
Total current assets	<u>9,541,425</u>	<u>4,202,551</u>	<u>(122,889)</u>	<u>352,635</u>	<u>(27,385)</u>	<u>13,946,337</u>
<i>Property and Equipment</i>						
Land	711,889	-	1,409,472	3,289,705	(53,053)	5,358,013
Buildings and improvements	963,560	-	27,908,068	60,506,222	(4,933,805)	84,444,045
Furniture and equipment	1,401,406	-	119,459	321,949	82,177	1,924,991
Software	149,121	-	-	-	-	149,121
Less: accumulated depreciation	<u>(1,418,304)</u>	<u>-</u>	<u>(6,414,696)</u>	<u>(10,104,615)</u>	<u>(577,507)</u>	<u>(18,515,122)</u>
Total property and equipment	<u>1,807,672</u>	<u>-</u>	<u>23,022,303</u>	<u>54,013,261</u>	<u>(5,482,188)</u>	<u>73,361,048</u>
<i>Other Assets</i>						
Investments	574,699	-	-	-	(523,189)	51,510
Restricted cash	-	210,705	1,802,913	2,235,528	-	4,249,146
Restricted investments	50,210	-	68,716	151,678	-	270,604
Work in progress	957,378	-	1,147,697	204,286	(168,048)	2,141,313
Loans receivable, net	6,819,206	-	-	-	(834,412)	5,984,794
Financing fees and other intangible assets, net	<u>191,652</u>	<u>-</u>	<u>218,877</u>	<u>458,932</u>	<u>-</u>	<u>869,461</u>
Total other assets	<u>8,593,145</u>	<u>210,705</u>	<u>3,238,203</u>	<u>3,050,424</u>	<u>(1,525,649)</u>	<u>13,566,828</u>
Total assets	<u>\$ 19,942,242</u>	<u>\$ 4,413,256</u>	<u>\$ 26,137,617</u>	<u>\$ 57,416,320</u>	<u>\$ (7,035,222)</u>	<u>\$ 100,874,213</u>

See accompanying notes to consolidating financial statements.

HAP, Inc. and Subsidiaries
Consolidating Statement of Financial Position – *Continued*
June 30, 2016

Liabilities and Net Assets

	Operations	Assistance Payments	Rental Properties HAP	Partnership Interests	Eliminations	Consolidated
<i>Current Liabilities</i>						
Accounts payable	\$ 434,089	\$ 272,542	\$ 198,239	\$ 272,749	\$ -	\$ 1,177,619
Accrued expenses	2,190,516	72,576	28,423	19,247	(27,385)	2,283,377
Contract advances	-	3,857,433	-	-	-	3,857,433
Mortgages and notes payable	348,753	-	91,045	1,362,243	-	1,802,041
Non-amortizing notes payable	299,779	-	-	-	-	299,779
Deferred revenue	76,311	-	511,674	145,214	-	733,199
Total current liabilities	<u>3,349,448</u>	<u>4,202,551</u>	<u>829,381</u>	<u>1,799,453</u>	<u>(27,385)</u>	<u>10,153,448</u>
<i>Noncurrent liabilities</i>						
Amortizing notes payable	2,353,161	-	4,358,889	4,501,629	-	11,213,679
Non-amortizing notes payable	500,508	-	5,197,287	18,425,234	(5,475,090)	18,647,939
Escrow liabilities	16,869	210,705	116,558	225,577	-	569,709
Contract advances	6,764,199	-	-	-	-	6,764,199
Deferred revenue	-	-	3,917,742	1,210,114	-	5,127,856
Accrued interest	-	-	7,042	4,566,266	(1,016,813)	3,556,495
Total noncurrent liabilities	<u>9,634,737</u>	<u>210,705</u>	<u>13,597,518</u>	<u>28,928,820</u>	<u>(6,491,903)</u>	<u>45,879,877</u>
Total liabilities	<u>12,984,185</u>	<u>4,413,256</u>	<u>14,426,899</u>	<u>30,728,273</u>	<u>(6,519,288)</u>	<u>56,033,325</u>
<i>Net Assets</i>						
Non-controlling interest	-	-	-	26,414,084	-	26,414,084
Unrestricted						
Board designated for affordable housing program	2,669,457	-	(104,577)	273,963	(515,934)	2,322,909
Undesignated	2,770,721	-	-	-	-	2,770,721
Temporarily restricted	365,634	-	11,815,295	-	-	12,180,929
Permanently restricted	1,152,245	-	-	-	-	1,152,245
Total net assets	<u>6,958,057</u>	<u>-</u>	<u>11,710,718</u>	<u>26,688,047</u>	<u>(515,934)</u>	<u>44,840,888</u>
Total liabilities and net assets	<u>\$ 19,942,242</u>	<u>\$ 4,413,256</u>	<u>\$ 26,137,617</u>	<u>\$ 57,416,320</u>	<u>\$ (7,035,222)</u>	<u>\$ 100,874,213</u>

See accompanying notes to consolidating financial statements.

HAP, Inc. and Subsidiaries
Consolidating Statement of Activities
For the Year Ended June 30, 2016

	Unrestricted		Rental Properties		Temporarily	Permanently		
	Operations	Assistance Payments	HAP	Partnership Interests	Restricted	Restricted	Eliminations	Consolidated
Revenue and Support								
Contributions	\$ 1,404,574	\$ -	\$ 10,000	\$ -	\$ 102,857	\$ -	\$ (10,000)	\$ 1,507,431
Grant assistance payments	-	44,977,405	-	-	-	-	-	44,977,405
Grants - Neighbor Works America	202,000	-	-	-	119,500	100,000	-	421,500
Fee for service, grant administration fees	16,218,527	-	707,884	175,214	-	-	-	17,101,625
Program fees	1,046,126	-	68,719	61,682	-	-	(26,928)	1,149,599
Property and asset management fees	557,913	-	-	-	-	-	(491,418)	66,495
Developer fees	723,505	-	-	-	-	-	(716,468)	7,037
Proceeds from sale of single family homes	117,381	-	-	-	-	-	-	117,381
Investment income	70,868	-	3,269	3,701	-	-	(59,126)	18,712
Rental income	68,287	-	2,589,646	3,126,425	-	-	(117,824)	5,666,534
Gain on transfer of interest in property	-	-	127,849	-	-	-	6,944	134,793
Gain on sale of Massachusetts tax credits	1,496,611	-	-	-	-	-	-	1,496,611
Release from restriction	544,899	-	134,582	-	(419,481)	(260,000)	-	-
Total revenue and support	<u>22,450,691</u>	<u>44,977,405</u>	<u>3,641,949</u>	<u>3,367,022</u>	<u>(197,124)</u>	<u>(160,000)</u>	<u>(1,414,820)</u>	<u>72,665,123</u>
Expenses								
Rental assistance	3,650,436	39,077,967	-	-	-	-	(117,824)	42,610,579
Client services	9,511,382	5,813,959	-	-	-	-	-	15,325,341
Home ownership services	613,155	85,479	-	-	-	-	-	698,634
Real estate development & property management	5,185,288	-	-	-	-	-	(1,497,661)	3,687,627
Rental properties	-	-	3,875,804	5,594,851	-	-	(913,016)	8,557,639
Fundraising	334,086	-	-	-	-	-	-	334,086
General and administrative (Includes \$842,201 loss on impairment)	3,282,804	-	-	-	-	-	(25,000)	3,257,804
Total expenses	<u>22,577,151</u>	<u>44,977,405</u>	<u>3,875,804</u>	<u>5,594,851</u>	<u>-</u>	<u>-</u>	<u>(2,553,501)</u>	<u>74,471,710</u>
Change in net assets	(126,460)	-	(233,855)	(2,227,829)	(197,124)	(160,000)	1,138,681	(1,806,587)
Less amounts attributed to noncontrolling interest	-	-	-	2,227,586	-	-	-	2,227,586
Change in net assets, controlling interest	<u>\$ (126,460)</u>	<u>\$ -</u>	<u>\$ (233,855)</u>	<u>\$ (243)</u>	<u>\$ (197,124)</u>	<u>\$ (160,000)</u>	<u>\$ 1,138,681</u>	<u>\$ 420,999</u>

See accompanying notes to consolidating financial statements.

HAP, Inc. and Subsidiaries
Consolidating Statement of Changes in Net Assets/(Deficit)
For the Year Ended June 30, 2016

	Unrestricted		Rental Properties		Temporarily	Permanently		
	Operations	Assistance Payments	HAP	Partnership Interests	Restricted	Restricted	Eliminations	Consolidated
Net assets at beginning of year	\$ 5,066,638	\$ -	\$ 42,498	\$ 19,649,763	\$ 12,378,053	\$ 1,312,245	\$ (1,154,615)	\$ 37,294,582
Capital contribution	500,000	-	-	9,531,615	-	-	(500,000)	9,531,615
Syndication costs	-	-	-	(178,722)	-	-	-	(178,722)
Transfer of rental properties	-	-	86,780	(86,780)	-	-	-	-
Change in net assets	<u>(126,460)</u>	<u>-</u>	<u>(233,855)</u>	<u>(2,227,829)</u>	<u>(197,124)</u>	<u>(160,000)</u>	<u>1,138,681</u>	<u>(1,806,587)</u>
Net assets at end of year	<u>\$ 5,440,178</u>	<u>\$ -</u>	<u>\$ (104,577)</u>	<u>\$ 26,688,047</u>	<u>\$ 12,180,929</u>	<u>\$ 1,152,245</u>	<u>\$ (515,934)</u>	<u>\$ 44,840,888</u>

See accompanying notes to consolidating financial statements.

HAP, Inc. and Subsidiaries
Consolidating Statement of Functional Expenses
For the Year Ended June 30, 2016

	<div style="text-align: center; border-bottom: 1px solid black;">Rental Properties</div>									
	<i>Rental Assistance</i>	<i>Client Services</i>	<i>Home Ownership</i>	<i>Real Estate Development & Property Mgmt.</i>	<i>HAP</i>	<i>Partnership Interests</i>	<i>Administration</i>	<i>Fundraising</i>	<i>Eliminations</i>	<i>Total</i>
Expenses:										
Salaries	\$ 2,272,736	\$ 3,806,508	\$ 332,381	\$ 1,343,571	\$ 439,277	\$ 471,525	\$ 1,574,811	\$ 167,835	\$ -	\$ 10,408,644
Payroll tax and fringe benefits	584,151	1,035,103	81,205	251,528	122,368	133,739	295,578	39,849	-	2,543,521
Employee training	14,143	24,713	21,224	23,854	5,196	8,216	50,719	24,276	-	172,341
Professional services	18,764	56,042	26,558	137,140	48,578	17,627	245,085	15,537	-	565,331
Contract services	120,802	805,410	46,544	45,914	17,447	-	32,560	-	-	1,068,677
Communications	14,750	52,887	1,805	11,831	28,775	30,028	80,156	-	-	220,232
Postage	64,691	13,051	3,933	6,498	1,663	2,964	4,126	1,166	-	98,092
Materials production	29,452	30,526	11,029	17,378	2,875	6,057	27,117	4,934	-	129,368
Management fees	-	-	-	-	205,754	296,772	-	-	(491,418)	11,108
Program expense	5,696	2,922,736	6,599	26,389	2,543	72	34,177	15,926	-	3,014,138
Office supplies	37,875	47,126	4,826	22,646	14,368	11,549	6,761	3,315	-	148,466
Licenses, dues and fees	14,327	7,039	8,860	9,774	15,098	10,787	71,532	3,625	-	141,042
Travel	46,907	89,356	12,875	34,130	21,937	15,898	22,518	17,191	-	260,812
Audit expense	29,882	39,655	2,294	26,514	41,000	65,194	-	1,155	-	205,694
Legal expense	-	-	-	5,466	55,985	42,533	2,995	-	-	106,979
Insurance	-	43,078	-	2,340	138,607	186,676	51,643	-	-	422,344
Bad debt expense	-	-	-	2,847,847	35,680	22,313	-	-	(1,497,661)	1,408,179
Repairs and maintenance	510	5,748	-	7,814	493,909	553,390	69,285	-	-	1,130,656
Utilities	-	10,737	-	3,015	313,811	426,425	3,593	-	-	757,581
Recruitment	85	1,187	3,563	4,121	125	1,234	9,703	10,238	-	30,256
Other taxes	-	2,826	-	4,851	155,059	204,488	11,959	-	-	379,183
Interest	4,105	49,376	-	14,013	550,438	1,037,100	31,099	-	(278,392)	1,407,739
Provider reimbursement	52,555	-	-	-	-	-	-	-	-	52,555
Other expenses	5,632	12,360	7,643	22,359	35,537	49,969	129,023	2,174	(25,000)	239,697
Depreciation and amortization	-	874	-	2,707	1,114,038	1,984,505	313,460	-	(143,206)	3,272,378
Cost of single family homes sold	-	-	-	117,380	-	-	-	-	-	117,380
Grants and assistance disbursed	39,077,967	5,813,959	85,479	-	-	-	-	-	(117,824)	44,859,581
Computer operations	113,958	202,990	15,425	86,622	-	-	(288,296)	11,160	-	141,859
Occupancy	219,415	239,869	26,391	103,543	1,000	-	(373,424)	15,599	-	232,393
Loss on impairment	-	-	-	-	-	-	842,201	-	-	842,201
Other administrative expenses	-	12,185	-	6,043	14,736	15,790	34,423	106	-	83,283
Total expenses	\$ 42,728,403	\$ 15,325,341	\$ 698,634	\$ 5,185,288	\$ 3,875,804	\$ 5,594,851	\$ 3,282,804	\$ 334,086	\$ (2,553,501)	\$ 74,471,710

See accompanying notes to consolidating financial statements.

HAP, Inc. and Subsidiaries
Consolidating Statement of Cash Flows
For the Year Ended June 30, 2016

Cash Flows From Operating Activities:

Change in net assets	\$ (1,806,587)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	3,272,378
Non-cash contributions	(1,374,207)
Gain on sale of interest in property	(134,793)
Gain on sale of Massachusetts tax credits	(1,496,611)
Proceeds from permanently restricted contributions	(100,000)
Bad debt expense	1,408,179
Loss on impairment	842,201
Recognition of imputed interest	142,695
(Increase) in operating assets:	
Accounts receivable	(243,989)
Loans receivable	(704,953)
Prepaid expenses and other assets	(113,540)
Increase/(decrease) in operating liabilities:	
Accounts payable	111,102
Accrued expenses	454,195
Contract advances	1,251,513
Deferred revenue	(663,670)
Other liabilities	121,370
Net cash provided by operating activities	<u>965,283</u>

Cash Flows From Investing Activities:

Proceeds from sale of investments	114,321
Purchase of investments	(250,607)
Payment on work in progress costs	(8,397,450)
Purchase of fixed assets	(1,858,148)
Proceeds from sale of rental properties	117,380
Proceeds from sale of Massachusetts tax credits	2,846,797
Proceeds from acquisition of subsidiary	362,057
Payment on transfer in interest in property	(49,888)
Proceed disbursed on loans receivable	(1,350,186)
Payments received for loans receivable	4,593
Net cash used by investing activities	<u>(8,461,131)</u>

See accompanying notes to consolidating financial statements.

HAP, Inc. and Subsidiaries
Consolidating Statement of Cash Flows – *Continued*
For the Year Ended June 30, 2016

Cash Flows From Financing Activities:

Proceeds from capital contributions	\$ 7,909,626
Proceeds from permanently restricted contributions	100,000
Proceeds from mortgages and notes payable	11,759,695
Payments on mortgages and notes payable	(10,512,480)
Payments on financing fees and other intangible assets	<u>(491,241)</u>
Net cash provided by financing activities	<u>8,765,600</u>
Net increase in cash	<u>1,269,752</u>
Cash at beginning of year	<u>13,274,447</u>
Cash at end of year	<u><u>\$ 14,544,199</u></u>

Supplementary Disclosure of Cash Flow Information

Cash paid for interest (net of \$81,565 of capitalized interest)	<u>\$ 795,016</u>
Cash paid for income taxes	<u><u>\$ 4,104</u></u>

Noncash Investing and Financing Activities

Acquisition of investment by note payable	\$ 250,000
Sale of property in exchange for loan receivable	30,000
Capital contribution received through conversion of note payable	<u>1,621,989</u>
Total noncash investing and financing activities	<u><u>\$ 1,901,989</u></u>

See accompanying notes to consolidating financial statements.

HAP, Inc. and Subsidiaries
Notes to Consolidating Financial Statements
June 30, 2016

1. *The Organization*

HAP, Inc. (HAP) was incorporated in November 1972, under the provisions of Chapter 180 of the General Laws of the Commonwealth of Massachusetts for the purpose of assisting the social welfare of low and moderate income persons. HAP's initial activity was the administration of an experimental, federally funded housing allowance project in the metropolitan Springfield area, in cooperation with the Commonwealth of Massachusetts. Since 1981, HAP's Articles of Organization requires that HAP's activities be exclusively charitable and educational within the meaning of section 501(c)(3) of the Internal Revenue Code of 1954, as amended. HAP's activities are conducted through both the charitable organization and subsidiaries which are described below.

HAP was chartered as a NeighborWorks® organization in October 2008. The affiliation with NeighborWorks® requires ongoing reporting and regular management reviews. It also provides opportunities for grants, capital funding and technical assistance, along with training slots for NeighborWorks® training institutes.

HAP, its subsidiaries and controlled entities (the Organization) provide assistance to the community under the following programs:

Rental Assistance

Rental assistance programs provide rent supplements to qualified low-income households under programs subsidized by federal and state funds. A variety of supportive services are provided to rental assistance participants.

Client Services

Client services include temporary shelter and supportive services for the homeless and transitional housing and supportive services for victims of domestic violence and other formerly homeless families. HAP provides a wide variety of information and referral services, housing counseling and education services for tenants as well as access to financial assistance to help families and individuals avoid homelessness. The services are funded through federal and state programs and private grants and donations.

Home Ownership Services

Home ownership services include education and counseling for first-time homebuyers, post-purchase and foreclosure prevention counseling, and educational services for rental property owners. HAP also provides access to financial resources for down payment and closing costs, to address lead-paint hazards in the home, and for home modification loans for the disabled.

HAP, Inc. and Subsidiaries
Notes to Consolidating Financial Statements – *Continued*
June 30, 2016

1. *The Organization – Continued*

Real Estate Development & Property Management

Real estate development services include both new construction and purchase and rehabilitation to provide affordable individual, single family and multi-family rental housing and affordable owner occupied housing. These activities are financed by accessing federal and state programs and private lenders. Property management services are provided to various affordable housing projects. HAP and its subsidiaries own a direct or indirect interest in most of the projects developed by HAP. These efforts are aimed at ensuring that the properties meet the needs of their low to moderate income residents as well as maintaining the financial viability of these properties in the future.

Rental Properties

Rental properties provide affordable housing to eligible tenants under short-term operating leases. Rental properties include properties wholly owned by HAP and its subsidiaries as well as partnerships that are controlled by HAP and its subsidiaries through general partner interests.

Principles of Consolidation

The Organization includes the following:

HAP Community Housing Services, Inc. (HAP-CHS) is a wholly-owned subsidiary of HAP. HAP-CHS is a for-profit corporation, formed in August 1982 for the purpose of developing and operating affordable housing. HAP-CHS owns and operates Mountain View Apartments and is a general partner in Dwight Clinton Joint Venture, which owns and operates Dwight Clinton Apartments. HAP-CHS's stock has no par value with 1,000 shares authorized and 700 shares issued and outstanding.

HAP Revitalization LLC is a wholly-owned subsidiary of HAP. HAP Revitalization LLC was formed as a single member LLC in March 2009 for the purpose of acquiring real estate for neighborhood revitalization programs.

Neighborhood Collaborative LLC (the Collaborative) was originally formed as a single member LLC in April 2005 owned by HAP. In 2006, additional members were admitted. HAP remains the managing member and 51% owner. The Collaborative acquires real property in target areas to be developed by members of the Collaborative.

HAP, Inc. and Subsidiaries
Notes to Consolidating Financial Statements – *Continued*
June 30, 2016

1. *The Organization – Continued*

MBL Housing and Development LLC (MBL) is a wholly owned subsidiary of HAP. MBL was acquired on July 1, 2015 and converted from an S Corporation to a single member LLC in August 2015. MBL provides consulting services to developers of affordable housing projects.

Greenville Park LLC was originally formed as a single member LLC in April 2007, owned by HAP. An additional member was admitted in June 2009. HAP remains the managing member and 79% owner. Greenville Park LLC is the general partner of Church Street School Limited Partnership with a 0.01% interest.

Kendall Housing, Inc. is a 79% owned subsidiary of HAP-CHS. Kendall Housing, Inc. is a for-profit corporation formed in May 1993 for the purpose of developing and operating affordable housing through its role as general partner in a limited partnership. Kendall Housing, Inc. is the general partner of Kendall Housing Limited Partnership with a 0.01% interest. Kendall Housing, Inc.'s stock has no par value with 15,000 shares authorized and 220 shares issued and outstanding. HAP transferred its stock ownership in Kendall Housing, Inc. to Valley Opportunity Council on February 22, 2016.

Chicopee Kendall LLC is a wholly-owned subsidiary of HAP. Chicopee Kendall LLC was formed as a sole member LLC in December 2008 for the purpose of acquiring the limited partnership interests in Kendall Housing Limited Partnership (KHLP), Kenwyn Park Limited Partnership (KPLP) and Quadrangle Court Limited Partnership (QCLP). Chicopee Kendall LLC transferred its limited partner interests in KPLP and QCLP to KenQuad Limited Partnership on June 25, 2015. Chicopee Kendall LLC transferred its limited partner interest in KHLP to Valley Opportunity Council on February 22, 2016. Chicopee Kendall LLC currently owns and operates Northampton Lodging.

Butternut Housing, Inc. is a wholly owned subsidiary of HAP-CHS. Butternut Housing, Inc. is a for-profit corporation formed in February 2003 for the purpose of developing and operating affordable housing through its role as general partner in a limited partnership. Butternut Housing, Inc. is the general partner of Butternut Properties Limited Partnership with a 0.1% interest. Butternut Housing, Inc.'s stock has no par value with 15,000 shares authorized and 79 shares issued and outstanding.

Kibbe Court, Inc. is a wholly owned subsidiary of HAP-CHS. Kibbe Court, Inc. is a for-profit corporation formed in July 2002 for the purpose of developing and operating affordable housing through its role as managing member in a limited liability company. Kibbe Court, Inc. is the managing member of NewCourt Terrace LLC with a 0.01% interest. Kibbe Court, Inc.'s stock has no par value with 15,000 shares authorized and 79 shares issued and outstanding.

HAP, Inc. and Subsidiaries
Notes to Consolidating Financial Statements – *Continued*
June 30, 2016

1. *The Organization – Continued*

Verano, Inc. is a wholly owned subsidiary of HAP-CHS. Verano, Inc. is a for-profit corporation formed in September 2004 for the purpose of developing and operating affordable housing through its role as general partner in a limited partnership. Verano, Inc. is the general partner of Verano Apartments Limited Partnership with a 0.01% interest. Verano, Inc.'s stock has no par value with 1,000 shares authorized and 79 shares issued and outstanding.

CBA Charlton Housing, Inc. is a wholly owned subsidiary of HAP. CBA Charlton Housing, Inc. is a for-profit corporation formed in November 2008 for the purpose of developing and operating affordable housing through its role as general partner in a limited partnership. CBA Charlton Housing, Inc. is the general partner of CBA Housing Limited Partnership with a 0.01% interest. CBA Charlton Housing, Inc.'s stock has no par value with 1,000 shares authorized and 79 shares issued and outstanding.

Olympia Drive 85 LLC is a 79% owned subsidiary of HAP, Inc. Olympia Drive 85 LLC was formed in May 2013 for the purpose of developing and operating affordable housing through its role as general partner in a limited partnership. Olympia Drive 85 LLC is the general partner of Olympia Amherst Limited Partnership with a 0.01% interest.

Parsons Village LLC is a 51% owned subsidiary of HAP, Inc. Parsons Village LLC was formed in January 2014 for the purpose of developing and operating affordable housing through its role as general partner in a limited partnership. Parsons Village LLC is the general partner of Parsons Limited Partnership with a 0.01% interest.

Belmont Byers LLC is a 79% owned subsidiary of HAP, Inc. Belmont Byers LLC was formed in November 2014 for the purpose of developing and operating affordable housing through its role as general partner in a limited partnership. Belmont Byers LLC is the general partner of KenQuad Limited Partnership with a 0.01% interest.

Fuller Future LLC is a wholly-owned subsidiary of HAP. Fuller Future LLC was formed as a single member LLC in October 2015 for the purpose of acquiring and development the property located at 188 Fuller Street, Ludlow, Massachusetts.

Whitcombs Walnut LLC is a wholly-owned subsidiary of HAP. Whitcombs Walnut LLC was formed as a single member LLC in January 2010 for the purpose of acquiring the limited partnership interest in Butternut Properties Limited Partnership.

Southampton Housing for the Elderly, Inc. was organized in 1983 as a non-profit corporation, to provide elderly and disabled persons of low to very low income with housing facilities and services specifically designed to meet their needs in Southampton, Massachusetts. Southampton Housing for the Elderly, Inc.'s Board of Directors is made up of HAP employees.

HAP, Inc. and Subsidiaries
Notes to Consolidating Financial Statements – *Continued*
June 30, 2016

1. *The Organization – Continued*

Stevens Senior Housing of Ludlow, Inc. was organized in 2010 as a non-profit corporation, to provide elderly persons of low income with housing facilities in Ludlow, Massachusetts. The majority of Stevens Senior Housing of Ludlow, Inc.'s Board of Directors is made up of members of HAP's Board of Directors and HAP employees.

Dwight Clinton Joint Venture was formed in July 1987 as a joint venture to acquire, rehabilitate and operate a transitional and low income family apartment building in Holyoke, Massachusetts. HAP-CHS is a general partner of Dwight Clinton Joint Venture with a 50% interest. The other 50% interest was acquired by HAP, Inc. on March 31, 2014. Dwight Clinton is now a wholly owned subsidiary.

KHLP was formed for the purpose of acquiring, rehabilitating and operating affordable properties in Western Massachusetts. KHLP was wholly owned by HAP and its subsidiaries through their general and limited partner interests until February 22, 2016.

The following entities were formed for the purpose of acquiring, rehabilitating and operating affordable properties in Western Massachusetts and are controlled by HAP through its subsidiary interests in general partner/managing member interests. The limited partner/member interests are reflected as non-controlling interests in the net assets section of the consolidating financial statements.

- CBA Housing Limited Partnership
- Church Street School Limited Partnership
- KenQuad Limited Partnership
- NewCourt Terrace LLC
- Olympia Amherst Limited Partnership
- Parsons Limited Partnership
- Verano Apartments Limited Partnership

For financial reporting purposes, the financial position and activities of HAP and the entities listed above have been consolidated and all significant intercompany accounts and transactions have been eliminated.

HAP, Inc. and Subsidiaries
Notes to Consolidating Financial Statements – *Continued*
June 30, 2016

1. *The Organization – Continued*

The entities included in the consolidating financial statements are summarized as follows:

HAP, Inc.

- Greenville Park LLC (a 79% owned subsidiary of HAP)
- Neighborhood Collaborative LLC (a 51% owned subsidiary of HAP)
- CBA Charlton Housing, Inc. (a 79% owned subsidiary of HAP)
- Olympia Drive 85 LLC (a 79% owned subsidiary of HAP)
- Parsons Village LLC (a 51% owned subsidiary of HAP)
- Belmont Byers LLC (a 79% owned subsidiary of HAP)
- Chicopee Kendall LLC (a single member LLC)
- Fuller Future LLC (a single member LLC)
- Whitcombs Walnut LLC (a single member LLC)
- HAP Revitalization LLC (a single member LLC)
- MBL Housing and Development LLC (a single member LLC)
- Paradise Pond LLC (a single member LLC)
- Butternut Properties Limited Partnership (majority owned by Whitcombs Walnut LLC)
- Kendall Housing Limited Partnership (majority owned by Chicopee Kendall LLC)

HAP Community Housing Services, Inc. (a subsidiary of HAP)

- Kendall Housing, Inc. (a 79% owned subsidiary of HAP-CHS)
- Butternut Housing, Inc. (a subsidiary of HAP-CHS)
- Kibbe Court, Inc. (a subsidiary of HAP-CHS)
- Verano Apartments, Inc. (a subsidiary of HAP-CHS)

Other HAP Controlled Entities

- Dwight Clinton Joint Venture
- Southampton Housing for the Elderly, Inc.
- Stevens Senior Housing of Ludlow, Inc.
- CBA Housing Limited Partnership
- Church Street School Limited Partnership
- KenQuad Limited Partnership
- NewCourt Terrace LLC
- Olympia Amherst Limited Partnership
- Parsons Limited Partnership
- Verano Apartments Limited Partnership

HAP, Inc. and Subsidiaries
Notes to Consolidating Financial Statements – *Continued*
June 30, 2016

2. *Summary of Significant Accounting Policies*

Revenue and Expenses

The consolidating financial statements are prepared using the accrual basis of accounting. Revenue is recognized from fixed price or unit based contracts when services have been rendered. Revenue is recognized from cost reimbursement agreements when expenses are incurred up to the contract award. Contract proceeds in advance of being earned are recorded as contract advances or deferred income. Amounts earned in excess of contract proceeds are recorded as accounts receivable. Expenses are recognized when services or goods are incurred or received, respectively.

HAP also manages the day-to-day operations of various federal and state subsidy programs on behalf of local landlords and tenants. HAP bills each federal and state agency monthly and, in turn, distributes these funds to the landlords. Funds which are received in advance of the month to which they apply are recorded as contract advances in the accompanying consolidating financial statements.

HAP recognizes revenue earned from construction or rehabilitation and sales of single and multi-family housing units when units are sold and any rescission period, if applicable, has expired.

Rental income, principally from short-term leases on apartment units, is recognized on a monthly basis as the rents become due. Rental payments received in advance are deferred until earned. All leases between HAP, its subsidiaries, and controlled entities and its tenants are operating leases.

Net Asset Classification

Net assets of HAP, its subsidiaries, and controlled entities are classified into three categories based on the existence or absence of donor-imposed restrictions as follows:

Unrestricted Net Assets

Unrestricted net assets represent net assets that are not subject to donor-imposed stipulations. The Board of Directors has discretionary control over all of these net assets and may elect to designate such resources for specific purposes. This designation may be removed at the Board's direction.

Temporarily Restricted Net Assets

Temporarily restricted net assets represent net assets subject to donor-imposed or grant stipulations for specific operating or capital purposes. These assets will become unrestricted when the requirements of the donor or grantor have been satisfied either by expenditure for the specified purpose or program or through the passage of time.

HAP, Inc. and Subsidiaries
Notes to Consolidating Financial Statements – *Continued*
June 30, 2016

2. *Summary of Significant Accounting Policies – Continued*

Permanently Restricted Net Assets

Permanently restricted net assets represent net assets subject to donor-imposed stipulations required to be maintained permanently by HAP. Investment income may be either an unrestricted or temporarily restricted resource when earned, determined in accordance with the gift instruments.

Contributions, Gifts and Grants

HAP distinguishes between contributions received for each net asset category in accordance with donor imposed restrictions. Contributions may include gifts of cash, collection items, or promises to give. Such contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. However, if a restriction is fulfilled in the same time period in which the contribution is received, HAP reports the support as unrestricted.

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 future years are recorded at the present value of their estimated future cash flows. Conditional promises to give are not included as support until the conditions are substantially met.

Grant income from interest-free and below market rate loans is recorded as temporarily restricted and recognized at the amount by which the principal loan exceeds the net present value of the amount due at maturity. The related temporarily restricted net asset is amortized to interest expense over the life of the loan using the effective interest rate method.

Cash and Cash Equivalents

Cash and cash equivalents consist of funds in the Organization's cash accounts and all highly liquid investments with an original maturity of three months or less.

Restricted cash and cash equivalents consists of cash received under contracts with contract imposed restrictions, capital project funds, client funds held in trust, and mortgagor restricted escrows and funded reserves. All restricted cash is required to be held in separate accounts.

HAP, Inc. and Subsidiaries
Notes to Consolidating Financial Statements – *Continued*
June 30, 2016

2. *Summary of Significant Accounting Policies – Continued*

Accounts Receivable

Accounts receivable are presented net of the allowance for doubtful accounts. Management's periodic evaluation of the adequacy of the allowance is based on its past experience and accounts receivable are charged off when deemed uncollectible.

Loans Receivable

Loans receivable are carried at unpaid principal balances, less an allowance for loan losses. The allowance for loan losses is increased by charges to bad debt expense and decreased by charge-offs, net of recoveries. Management's periodic evaluation of the adequacy of the allowance is based on the Organization's past loan loss experience, specific impaired loans, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and current economic conditions. Past due status is determined based on loan terms. Loans are considered impaired if full principal or interest payments are not anticipated in accordance with the loan terms. The Organization's practice is to charge off any loan or portion of a loan when the loan is determined by management to be uncollectible due to the borrower's failure to meet repayment terms, the borrower's deteriorating or deteriorated financial condition, the depreciation of the underlying collateral, or for other reasons.

Loans are placed on non-accrual status when management believes, after considering economic conditions, business conditions, and collection efforts, that the loans are impaired or collection of interest is doubtful. Uncollected interest previously accrued is charged off or an allowance is established by a charge to interest income. Interest income on non-accrual loans is recognized only to the extent cash payments are received.

Fair Value Measurements

Accounting principles generally accepted in the United States of America establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

- Level 1- Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

HAP, Inc. and Subsidiaries
Notes to Consolidating Financial Statements – *Continued*
June 30, 2016

2. *Summary of Significant Accounting Policies – Continued*

- Level 2 - Inputs to the valuation methodology include:
 - Quoted prices for similar assets or liabilities in active markets;
 - Quoted prices for identical or similar assets or liabilities in inactive markets;
 - Inputs other than quoted prices that are observable for the asset or liability;
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Fixed Assets

Fixed assets are carried at cost less accumulated depreciation. The Organization capitalizes all expenditures for furniture, equipment, and leasehold improvements with a useful life of more than one year and a cost of over \$1,000. Depreciation expense totaled \$3,054,604 for the year ended June 30, 2016. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets.

Estimated useful lives are as follows:

Building	20 – 40 years
Improvements	5 – 40 years
Furniture & equipment	3 – 10 years
Software	3 years

Long lived assets, such as buildings are reviewed on an ongoing basis for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the asset to the future net undiscounted cash flow expected to be generated by the asset including any estimated proceeds from the eventual disposition of the asset. If the asset is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the asset exceeds its fair value.

Management uses the direct expense method to account for planned major maintenance activities, under which actual costs incurred are expensed directly when maintenance is performed.

HAP, Inc. and Subsidiaries
Notes to Consolidating Financial Statements – *Continued*
June 30, 2016

2. *Summary of Significant Accounting Policies – Continued*

Work in Progress

In connection with its real-estate development activities, HAP capitalizes all pre-acquisition, acquisition, development and construction costs as work in progress.

The Organization follows the policy of capitalizing interest on notes financing the construction of projects to be sold as a component of work in progress. If a project is abandoned, the costs are charged to expense in the year of abandonment. Work in progress of \$2,510,313 is reflected at cost, which approximates net realizable value. Work in progress is pledged as collateral for the related loans (Note 9).

Financing Fees and Other Intangible Assets

Financing costs totaling \$753,946 are recorded at cost and amortized over the lives of the related loans or tax credit compliance periods. Other intangible assets totaling \$603,563 are recorded at cost and amortized over their estimated useful live. Accumulated amortization totaled \$488,048 at June 30, 2016. Amortization expense totaled \$217,774 for the year ended June 30, 2016. Estimated amortization expense for the next five years is:

<i>Fiscal Year</i>	<i>Amount</i>
2017	\$109,091
2018	\$101,733
2019	\$74,794
2020	\$35,544
2021	\$35,544

Below Market Loans

Section 42 of the Internal Revenue Code governs the administration of the Low Income Housing Tax Credit (LIHTC), a tax incentive created to foster a legislated public policy directive of the United States of America to create affordable low income housing. Some of HAP's subsidiaries were formed in order to create low income housing in order to generate LIHTC.

Other governmental entities having a similar policy have lent money to these subsidiaries at advantageous terms. These subsidiaries have not discounted their below market interest rate loans as they were made at arm's length and to preserve the integrity of costs eligible for the LIHTC.

HAP and the rest of its subsidiaries discount below market loans to their present value when proceeds are received. The excess of proceeds over their present value are recognized as grant income. The discounts on below market loans are amortized to interest expense over the lives of the loans.

HAP, Inc. and Subsidiaries
Notes to Consolidating Financial Statements – *Continued*
June 30, 2016

2. *Summary of Significant Accounting Policies – Continued*

Income Taxes

HAP is exempt from income taxes as a non-profit corporation under Section 501(c)(3) of the U.S. Internal Revenue Code and is also exempt from state income taxes, except for income taxes on unrelated business income, if any. For the year ended June 30, 2016, HAP had no unrelated business income subject to income taxes. Accordingly, no provision for income taxes has been included in these financial statements. HAP's for-profit subsidiaries file separate income tax returns.

HAP's for-profit corporate subsidiaries account for income taxes, whereby deferred taxes are recognized using the liability method. This method calculates deferred tax assets and liabilities based on tax rates that are expected to apply when temporary differences reverse.

Regarding HAP's partnership subsidiaries, no provision has been made for Federal or state income taxes since each partner or member includes its pro-rata share of net income or loss in its return.

HAP evaluates tax positions taken or expected to be taken in its tax returns and in its subsidiaries' tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. At June 30, 2016, HAP believes that it has no uncertain tax positions within its tax returns or within any of its subsidiaries' open tax returns (2013-2015).

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Functional Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs based on direct charges, personnel time estimates, space utilization and number of housing units administered.

HAP, Inc. and Subsidiaries
Notes to Consolidating Financial Statements – *Continued*
June 30, 2016

3. *Restricted Cash and Restricted Investments*

Restricted cash and restricted investments consist of the following:

	<i>Cash</i>	<i>Investments</i>
Federal rental assistance	\$ 3,473,137	\$ -
State rental assistance	1,215,073	-
Capital projects fund	857,386	-
Unadvanced loan program proceeds	814,015	-
Client deposits held in trust	542,357	-
Mortgage escrows and reserves	3,796,079	220,394
Collateral for notes payable and guarantees	-	50,210
	<hr/>	<hr/>
Total	<u>\$ 10,698,047</u>	<u>\$ 270,604</u>

4. *Investments*

Fair Value Method Investments

The Organization's investments consist of certificates of deposit (CD's) with original maturities greater than three months. The CD's accrue interest at rates ranging from 0.03% to 0.60% and mature between October 24, 2016 and July 6, 2017. The fair value of the CD's, measured on a recurring basis, at June 30, 2016 is \$462,912 (Level 2).

The CD's have been valued using the income approach. The income approach to fair value measurement estimates the fair value by calculating the present value of future cash flows that the asset is expected to generate over its lifetime. The cash flows are discounted to the measurement date at the rate of return that is required to compensate for the risk associated with the receipt of the future cash flows. There were no changes in the valuation technique during fiscal year 2016.

Cost Method Investment

HAP invested \$51,510 for a 1% subscriber's interest in HPI Holding Company, Inc. (HPI). HAP along with various other unrelated entities entered into a contractual agreement to form HPI, a Vermont insurance company. HAP purchases its liability insurance through HPI. The investment in HPI Holding, Inc. is valued at cost due to the lack of information that can be used to approximate the fair value. Management annually receives audited financial statements and performs an assessment of any possible impairment. As of June 30, 2016 management has determined that no such impairment exists.

HAP, Inc. and Subsidiaries
Notes to Consolidating Financial Statements – *Continued*
June 30, 2016

5. *Accounts Receivable*

Accounts receivable consist of the following:

<i>Description</i>	<i>Amount</i>
HomeBase program	\$ 116,497
Continuum of care program	89,535
Family shelter services program	1,582,481
Development consulting	186,890
Tenant and subsidy rental income	146,751
Federal rental assistance programs	346,531
RAFT program	120,570
Safe step program	135,355
Secure jobs initiative program	25,273
Housing consumer education center program	47,341
Other	<u>211,539</u>
Accounts receivable, gross	3,008,763
Allowance for doubtful accounts	<u>(1,475)</u>
Accounts receivable, net	<u><u>\$ 3,007,288</u></u>

6. *Loans Receivable*

Home Modification Loan Program

HAP has an agreement with the Community Economic Development Assistance Corporation (CEDAC) to administer a home modification loan program (HMLP) which offers loans of \$30,000 or less to eligible property owners. Under HMLP, loans are made to finance modifications to provide for the needs of persons with disabilities. The loans are secured by mortgages on homes and carry annual interest rates of up to 3%. The majority of these loans are interest-free and each loan is to be repaid upon sale of the individual properties. Proceeds from repayment of loans are used to make new loans under HMLP. Upon termination of the HMLP contract, all assets of HMLP are to be returned to CEDAC.

At June 30, 2016, HAP is servicing \$5,959,387 outstanding HMLP loans with 215 homeowners.

HAP, Inc. and Subsidiaries
Notes to Consolidating Financial Statements – *Continued*
June 30, 2016

6. *Loans Receivable*

Hunter Place Apartments Limited Partnership

The rights to Hunter Place Apartments Limited Partnership's Massachusetts low-income housing tax credits were donated to HAP in 2016. HAP sold these tax credits to Clocktower Tax Credits, LLC for \$1,350,186. HAP subsequently loaned the sales proceeds back to Hunter Place Apartments Limited Partnership. The note is secured by the apartment complex, accrues interest at 0.01% compounded annually, and matures on December 31, 2054. At June 30, 2016, the outstanding loan balance was \$1,350,186. HAP has fully allowed against the outstanding loan balance and has not recognized accrued interest income due to the length of the maturity period and the loans repayment priority.

Iglesia de Dios Pentecostal El Sinari

On August 3, 2015, HAP sold a parcel of land on Union Street in Springfield, Massachusetts to Iglesia de Dios Pentecostal El Sinari (the Church) for \$40,000. The Church paid \$10,000 in cash and financed the remaining amount with a \$30,000 note payable to HAP. Payments of principal plus interest at 4% per annum began in September 2015. Any unpaid principal and accrued interest is due upon the note's maturity on August 1, 2020.

7. *Contract Advances*

Contract advances consist of the following:

<i>Description</i>	<i>Amount</i>
Federal rental assistance programs	\$ 3,330,108
Massachusetts rental assistance programs	527,325
Home modification loan program	6,618,659
Foreclosure prevention counseling and assistance	20,949
Other	<u>124,591</u>
Total contract advances	<u><u>\$ 10,621,632</u></u>

HAP, Inc. and Subsidiaries
Notes to Consolidating Financial Statements – *Continued*
June 30, 2016

8. *Deferred Revenue*

Deferred revenue consists of the following:

<i>Description</i>	<i>Amount</i>
Tax credit exchange funds	\$ 5,708,375
Foreclosure prevention counseling and assistance	64,599
Supportive housing program	76,370
Asset management services	7,245
Other	<u>4,466</u>
Total deferred revenue	<u>\$ 5,861,055</u>

9. *Mortgages and Notes Payable*

Mortgages and notes payable consist of the following at June 30, 2016:

	<i>Amortizing</i>	<i>Non-amortizing</i>
<i>Operations:</i>		
<i>Administration:</i>		
Commercial mortgage note with Berkshire Bank, bearing interest at 2.875%. The note requires monthly payments of interest only through August 2014 and monthly payments of principal and interest of \$4,811 from September 2014 through August 2038. The note is secured by real estate held in Springfield, Massachusetts.	\$ 945,829	\$ -
Line of credit to Cooperative Fund of New England, maximum loan amount is \$1,000,000, interest accrues at 5.5% and is payable monthly through November 15, 2020. The line of credit is secured by certain equipment and accounts receivable.	908,088	-
Note payable to the Trustees for the Diocese of Western Massachusetts, bearing interest at 4% and payable in quarterly payments of interest only. The principal and all accrued but unpaid interest shall be due in full on December 1, 2017.	350,000	-
Mortgage note payable with Common Capital, bearing interest at 5%. The note is payable in monthly installments of principal and interest of \$1,660 through March 2021. The note is secured by real estate held in Easthampton, Massachusetts.	247,997	-

HAP, Inc. and Subsidiaries
Notes to Consolidating Financial Statements – *Continued*
June 30, 2016

9. *Mortgages and Notes Payable – Continued*

	<i>Amortizing</i>	<i>Non-amortizing</i>
Note payable to the president and former owner of MBL, bearing interest at 3%. The note is payable in annual principal installments of \$62,500 and interest accrued through June 2019.	\$ 250,000	\$ -
Note payable to CEDAC approved up to \$400,000. Interest accrues at 7% and is payable along with the outstanding principal balance upon obtaining permanent financing. Proceeds have been used to fund the predevelopment costs at Library Commons in Holyoke, Massachusetts.	-	299,779
<i>Fuller Future LLC:</i>		
Note payable to the Life Initiative approved up to \$400,000. Interest accrues at 4.5% and is payable along with the outstanding principal balance upon obtaining permanent financing but no later than March 31, 2019. Proceeds have been used to fund the acquisition of 188 Fuller Street in Ludlow, Massachusetts.	-	163,008
Note payable to Neighborworks Capital Corporation approved up to \$337,500, bearing interest at 5% and payable in quarterly payments only. The outstanding principal balance and all accrued but unpaid interest is payable upon obtaining permanent financing but no later than November 18, 2018. Proceeds have been used to fund the predevelopment costs at 188 Fuller Street in Ludlow, Massachusetts.	-	337,500
<i>HAP Rental Properties:</i>		
<i>Butternut Properties Limited Partnership:</i>		
Mortgage note payable to the Commonwealth of Massachusetts Department of Housing and Community Development (DHCD) under the HOME Investment Partnership Program. The note is non-interest bearing requiring no payments until March 8, 2041 and is secured by the apartment complex. The note is reflected net of unamortized discount of \$562,693 (effective rate of 7%) with a face amount of \$683,073.	-	120,380

HAP, Inc. and Subsidiaries
Notes to Consolidating Financial Statements – *Continued*
June 30, 2016

9. Mortgages and Notes Payable – Continued

	<i>Amortizing</i>	<i>Non-amortizing</i>
Mortgage note payable to DHCD administered by the Massachusetts Housing Finance Agency (MHFA) under the Affordable Housing Trust Fund Program. The note is non-interest bearing requiring no payments until March 8, 2041 and is secured by the apartment complex. The note is reflected net of unamortized discount of \$822,266 (effective rate of 7%) with a face amount of \$1,000,000.	\$ -	\$ 177,734
<i>Dwight Clinton Joint Venture:</i>		
Mortgage note payable to DHCD under the Housing Stabilization Fund Program. The note is non-interest bearing requiring no payments until May 13, 2029. The note is secured by the apartment complex and assignment of certain leases and rents. The note is reflected net of unamortized discount of \$339,096 (effective rate of 8.81%) with a face amount of \$500,000.	-	160,904
Mortgage note payable to DHCD under the HOME Investment Partnership Program. The non-interest bearing loan requires no payments until August 2035, at which time the outstanding balance is due. The loan is reflected net of unamortized discount of \$80,663 (effective rate of 9.86%) with a face amount of \$95,151. The note is secured by the apartment complex and assignment of certain leases and rents.	-	14,488
<i>Earle Street Apartments:</i>		
Mortgage note payable to Massachusetts Housing Partnership Fund, payable in monthly installments of \$1,690, including principal and interest at 7.25% and matures on December 31, 2026. The note is secured by the apartment complex.	189,022	-
Mortgage note payable to Massachusetts Housing Partnership Fund. The note is non-interest bearing requiring no payments until December 31, 2027 and is secured by the apartment complex. The note is reflected net of unamortized discount of \$48,408 (effective rate of 4.41%) with a face amount of \$121,864.	-	73,456

HAP, Inc. and Subsidiaries
Notes to Consolidating Financial Statements – *Continued*
June 30, 2016

9. Mortgages and Notes Payable – Continued

	<i>Amortizing</i>	<i>Non-amortizing</i>
Mortgage note payable to CEDAC, non-interest bearing, payable annually to the extent that cash receipts exceed 105% of cash disbursements. Any remaining unpaid principal is due and payable on January 7, 2037. The note is secured by the apartment complex and assignment of certain leases and rents. The note is reflected net of unamortized discount of \$120,275 (effective rate of 4.41%) with a face amount of \$202,345.	\$ -	\$ 82,070
<i>The Lorraine:</i>		
Mortgage note payable to CEDAC under the Housing Innovations Fund II Program. The note is non-interest bearing and will be repaid out of surplus cash. The unpaid balance and accrued interest are due upon the sale or refinancing of the underlying property but no later than March 8, 2030. The note is secured by the apartment complex and an assignment of leases and rents. The note is reflected net of unamortized discount of \$355,266 (effective rate of 9.05%) with a face amount of \$500,000.	-	144,734
Mortgage note payable to DHCD under the Housing Stabilization Fund Program. The note is non-interest bearing requiring no payments until April 24, 2030, provided the intended use of the property does not change. The note is secured by the apartment complex and an assignment of leases and rents. The note is reflected net of unamortized discount of \$356,349 (effective rate of 9.05%) with a face amount of \$500,000.	-	143,651
Mortgage note payable to the City of Northampton, due March 14, 2030, with an option for a ten year extension. The note is non-interest bearing, does not require any payments until the due date, and is secured by the apartment complex. The note is reflected net of unamortized discount of \$120,790 (effective rate of 9.05%) with a face amount of \$170,000.	-	49,210

HAP, Inc. and Subsidiaries
Notes to Consolidating Financial Statements – *Continued*
June 30, 2016

9. Mortgages and Notes Payable – Continued

	<i>Amortizing</i>	<i>Non-amortizing</i>
<i>Mountain View Apartments:</i>		
Mortgage notes payable to the United States Department of Agriculture (USDA), Rural Development Agency, bearing interest at 8.5%, payable in monthly installments of \$8,359 to maturity, June 1, 2037. The notes are secured by a mortgage on the apartment complex and assignment of certain leases and rents. The Project receives a monthly interest subsidy in the amount of \$5,899, for a reduced monthly loan payment of \$2,460.	\$ 979,285	\$ -
Mortgage note payable to Massachusetts Housing Partnership Fund Board under Housing Stabilization Fund Program. The note is non-interest bearing with no payments due until the maturity date of April 28, 2033. The note is carried net of unamortized discount of \$469,368 (effective rate of 9.05%) with a face amount of \$600,000. The note is secured by the apartment complex and assignments of certain leases and rents.	-	130,632
<i>Northampton Lodging:</i>		
Note payable to CEDAC approved up to \$1,600,000, bearing interest at 5.5% and payable in quarterly payments only. The outstanding principal balance and all accrued but unpaid interest is payable upon obtaining permanent financing but no later than July 14, 2017. Proceeds have been used to fund the acquisition of 129 Pleasant Street in Northampton, Massachusetts.	-	1,600,000
Note payable to CEDAC approved up to \$1,000,000. Interest accrues at 7% and is payable along with the outstanding principal balance upon obtaining permanent financing. Proceeds have been used to fund the predevelopment costs at 129 Pleasant Street in Northampton, Massachusetts.	-	880,381
<i>Paradise Pond LLC:</i>		
Mortgage note payable to DHCD administered by MHFA under the Affordable Housing Trust Fund Program. The note is non-interest bearing requiring no payments until August 15, 2035. The note is secured by the apartment complex and assignment of certain leases and rents. The note is reflected net of unamortized discount of \$590,096 (effective rate of 7.5%) with a face amount of \$775,000.	-	184,904

HAP, Inc. and Subsidiaries
Notes to Consolidating Financial Statements – *Continued*
June 30, 2016

9. Mortgages and Notes Payable – Continued

	<i>Amortizing</i>	<i>Non-amortizing</i>
Mortgage note payable to DHCD under the Housing Stabilization Fund Program. The note is non-interest bearing requiring no payments until August 15, 2055. The note is secured by the apartment complex and assignment of certain leases and rents. The note is reflected net of unamortized discount of \$676,758 (effective rate of 7.5%) with a face amount of \$775,000.	\$ -	\$ 38,242
Mortgage note payable to CEDAC, non-interest bearing, payable annually to the extent that cash receipts exceed 105% of cash disbursements. Any remaining unpaid principal is due and payable on August 15, 2035. The note is secured by the apartment complex and assignment of certain leases and rents. The note is reflected net of unamortized discount of \$647,203 (effective rate of 7.5%) with a face amount of \$850,000.	-	202,797
Mortgage note payable to Massachusetts Housing Partnership Fund, payable in monthly installments of \$650, including interest at 6.1%, and matures October 31, 2026. The loan is secured by the apartment complex.	78,378	-
Mortgage note payable to Massachusetts Housing Partnership Fund, bearing interest at 2%, payable monthly. The note is due October 31, 2026, and is secured by the apartment complex.	134,263	-
<i>Southampton Housing for the Elderly, Inc.:</i> The Organization has a thirty-five year 2.6% HUD insured mortgage note payable to Walker and Dunlop LLC. The note requires monthly payments for principal and interest of \$11,881. The final payment is due February 1, 2032. The note is secured by the apartment complex and assignment of certain leases and rents.	3,068,986	-

HAP, Inc. and Subsidiaries
Notes to Consolidating Financial Statements – *Continued*
June 30, 2016

9. Mortgages and Notes Payable – Continued

	<i>Amortizing</i>	<i>Non-amortizing</i>
<i>Stevens Senior Housing of Ludlow, Inc.:</i>		
Mortgage note payable to DHCD under the HOME Investment Partnership Program. The note is non-interest bearing requiring no payments until September 25, 2044. The note is secured by the apartment complex and assignment of certain leases and rents. The note is reflected net of unamortized discount of \$301,880 (effective rate of 4.61%) with a face amount of \$415,000.	\$ -	\$ 113,120
Mortgage note payable to DHCD under the Housing Stabilization Fund Program. The note is non-interest bearing requiring no payments until September 25, 2064. The note is secured by the apartment complex and assignment of certain leases and rents. The note is reflected net of unamortized discount of \$886,712 (effective rate of 4.61%) with a face amount of \$994,744.	-	108,032
Mortgage note payable to DHCD administered by MHFA under the Affordable Housing Trust Fund Program. The note is non-interest bearing requiring no payments until September 25, 2054. The note is secured by the apartment complex and assignment of certain leases and rents. The note is reflected net of unamortized discount of \$827,946 (effective rate of 4.61%) with a face amount of \$1,000,000.	-	172,054
Mortgage note payable to CEDAC, non-interest bearing, payable annually to the extent that cash receipts exceed 105% of cash disbursements. Any remaining unpaid principal is due and payable on September 25, 2044. The note is secured by the apartment complex and assignment of certain leases and rents. The note is reflected net of unamortized discount of \$218,227 (effective rate of 4.61%) with a face amount of \$300,000.	-	81,773

HAP, Inc. and Subsidiaries
Notes to Consolidating Financial Statements – *Continued*
June 30, 2016

9. Mortgages and Notes Payable – Continued

	<i>Amortizing</i>	<i>Non-amortizing</i>
<i>Partnership Interest Rental Properties:</i>		
<i>CBA Housing Limited Partnership:</i>		
Mortgage note payable to USDA Rural Development is payable in monthly installments of \$2,876, net of a monthly subsidy of \$3,164 and bears interest at 4.875% per annum. The agreement provides for an interest subsidy making the effective rate 1% over the life of the note. Final payment is due in January 22, 2060, or upon the occurrence of an event of default or the sale or other transfer of the Project. The apartment complex is pledged as collateral for the mortgage.	\$ 1,307,743	\$ -
Mortgage note payable to DHCD under the HOME Investment Partnership Program, accrues no interest except on delinquent payments. The note is payable on November 21, 2040, or upon the occurrence of an event of default or the sale or other transfer of the Project. The apartment complex is pledged as collateral for the mortgage.	-	715,000
Mortgage note payable to DHCD administered by MHFA under the Affordable Housing Trust Fund Program, accrues no interest except on delinquent payments. All interest and principal due under this note are payable on November 21, 2040, or upon the occurrence of an event of default or the sale or other transfer of the Project. The apartment complex is pledged as collateral for the mortgage.	-	1,000,000
<i>Church Street School Limited Partnership:</i>		
Mortgage note payable to USDA Rural Development is payable in monthly installments of \$2,123, net of a monthly subsidy of \$2,691 and bears interest at 5.375% per annum. The agreement provides for an interest subsidy making the effective rate 1% over the life of the note. Final payment is due on October 1, 2038, or upon the occurrence of an event of default or the sale or other transfer of the Project. The apartment complex is pledged as collateral for the mortgage.	958,211	-

HAP, Inc. and Subsidiaries
Notes to Consolidating Financial Statements – *Continued*
June 30, 2016

9. Mortgages and Notes Payable – Continued

	<i>Amortizing</i>	<i>Non-amortizing</i>
Mortgage note payable to DHCD under the HOME Investment Partnership Program, accrues interest at a rate of 7.50% compounded annually. All interest and principal due under this note are payable on May 24, 2038, or upon the occurrence of an event of default or the sale or other transfer of the Project. The note is secured by a mortgage on the apartment complex and assignment of certain leases and rents.	\$ -	\$ 243,890
Mortgage note payable to DHCD administered by MHFA under the Affordable Housing Trust Fund, accrues interest at a rate of 7.50% compounded annually. All interest and principal due under this note are payable on May 24, 2038, or upon the occurrence of an event of default or the sale or other transfer of the Project. The note is secured by a mortgage on the apartment complex and assignment of certain leases and rents.	-	733,960
<i>KenQuad Limited Partnership:</i>		
KenQuad Limited Partnership Issue, Series 2015A Revenue Bonds were issued by Massachusetts Development Finance Agency to finance construction at the apartment complex. The bonds require monthly payments of interest accruing at the LIBOR daily floating rate plus 2.25%. The bonds mature on June 15, 2017 when all outstanding amounts will be due. The apartment complex is pledged as collateral for the mortgage.	1,319,082	-
KenQuad Limited Partnership Issue, Series 2015B Revenue Bonds were issued by Massachusetts Development Finance Agency to finance construction at the apartment complex. The bonds require monthly payments of interest accruing at the LIBOR daily floating rate plus 2.25% until the "MHP Servicing Period" begins, as defined in the Trust Indenture. Thereafter, monthly payments of principal and interest at a fixed rate of 4.95% per annum are required. The bonds mature on June 15, 2047 when all outstanding amounts will be due. The apartment complex is pledged as collateral for the mortgage.	650,000	-

HAP, Inc. and Subsidiaries
Notes to Consolidating Financial Statements – *Continued*
June 30, 2016

9. Mortgages and Notes Payable – Continued

	<i>Amortizing</i>	<i>Non-amortizing</i>
Mortgage note payable under the HOME Investments Partnership Program through DHCD and the City of Springfield bearing simple interest at a rate of 1% interest per annum. The note and accrued interest are due and payable in full on June 16, 2047, net of amortized discount of \$446,099 (effective rate of 2.5%) with a face amount of \$1,127,000. The note is secured by the apartment complex and assignment of certain leases and rents.	\$ -	\$ 680,901
Mortgage note payable under the HOME Investments Partnership Program through DHCD and the City of Springfield bearing simple interest at a rate of 1% interest per annum. The note and accrued interest are due and payable in full on June 16, 2047, net of amortized discount of \$172,186 (effective rate of 2.5%) with a face amount of \$435,000. The note is secured by the apartment complex and assignment of certain leases and rents.	-	262,814
Mortgage note payable to Valley Community Development Corporation funded through the sale of the Project's Massachusetts low-income housing tax credits. The note bears interest at 2.5% compounded annually. Unpaid principal and interest is due December 2065. The note is secured by a mortgage on the apartment complex.	-	1,128,125
<i>New Court Terrace, LLC:</i>		
Mortgage note payable to DHCD under the HOME Investment Partnership Program, accrues interest compounded annually at a rate of 5.75% per annum. All interest and principal due under this note are payable on October 2, 2033, or upon the occurrence of an event of default, as specified in the loan agreement. The apartment complex is pledged as collateral for the mortgage.	-	550,000
Mortgage note payable to the City of Springfield Office of Housing and Neighborhood Services under the Lead Hazard Abatement Program, accrues interest at a rate of 5.75% per annum. All interest and principal due under this note are payable October 2, 2023, or on demand if the premises are not used as required in Section 3 of the loan agreement. The apartment complex is pledged as collateral for the mortgage.	-	220,000

HAP, Inc. and Subsidiaries
Notes to Consolidating Financial Statements – *Continued*
June 30, 2016

9. Mortgages and Notes Payable – Continued

	<i>Amortizing</i>	<i>Non-amortizing</i>
Mortgage note payable to the City of Springfield Community Development Department under the HOME Investment Partnership Program, accrues interest thereon compounded annually at a rate of 6.50% per annum. All interest, principal, and other payments due under this note are payable July 25, 2042, or upon sale or refinance of the Project. The apartment complex is pledged as collateral for the mortgage.	\$ -	\$ 450,000
Mortgage note payable to DHCD administered by MHFA under the Affordable Housing Trust Fund Program, accrues interest at a rate of 5.00% per annum. All interest and principal due under this note are payable on October 1, 2033, or upon the occurrence of an event of default or the sale or other transfer of the Project. Under these circumstances, the note becomes immediately payable and due. The apartment complex is pledged as collateral for the mortgage.	-	667,612
<i>Olympia Amherst Limited Partnership:</i>		
Massachusetts Housing Partnership Fund has provided funding in the amount of \$535,000. The loan bears interest at 6.97% and is payable in monthly installments of principal and interest of \$3,549 through April 2035. The note is secured by the apartment complex.	529,061	-
Mortgage note payable to DHCD under the Housing Stabilization Fund Program, accrues interest at 1% per annum. The note is payable on September 5, 2063, or upon the occurrence of an event of default or the sale or other transfer of the Project. The apartment complex is pledged as collateral for the mortgage.	-	1,715,000
Mortgage note payable to DHCD administered by MHFA under the Affordable Housing Trust Fund Program, accrues interest at 1% per annum. All interest and principal due under this note are payable on September 5, 2044 or upon the occurrence of an event of default or the sale or other transfer of the Project. The apartment complex is pledged as collateral for the mortgage.	-	1,000,000

HAP, Inc. and Subsidiaries
Notes to Consolidating Financial Statements – *Continued*
June 30, 2016

9. Mortgages and Notes Payable – Continued

	<i>Amortizing</i>	<i>Non-amortizing</i>
<i>Parsons Limited Partnership:</i>		
Easthampton Savings Bank provided construction funding of \$4,656,447 with interest at a rate of 3.75% per annum fixed for the term of the loan. The note requires interest only payments thru the construction period. At the end of the construction period a \$750,000 principal payment is due with monthly payments of principal and interest for the subsequent 30 years required thereafter. The apartment complex is pledged as collateral for the mortgage.	\$ 746,747	\$ -
Mortgage note payable to DHCD under the Non-Federal Investment Trust Fund Program, accrues no interest except on delinquent payments. The note is payable on July 27, 2045, or upon the occurrence of an event of default or the sale or other transfer of the Project. The apartment complex is pledged as collateral for the mortgage.	-	490,217
Mortgage note payable to DHCD under the Housing Stabilization Fund Program, accrues no interest except on delinquent payments. The note is payable on July 27, 2065, or upon the occurrence of an event of default or the sale or other transfer of the Project. The apartment complex is pledged as collateral for the mortgage.	-	1,000,000
Mortgage note payable to DHCD administered by MHFA under the Affordable Housing Trust Fund Program, accrues no interest except on delinquent payments. All interest and principal due under this note are payable on July 27, 2065 or upon the occurrence of an event of default or the sale or other transfer of the Project. The apartment complex is pledged as collateral for the mortgage.	-	1,175,000
Mortgage note payable to Valley Community Development Corporation, accrues no interest except on delinquent payments. All interest and principal due under this note are payable on July 28, 2065 or upon the occurrence of an event of default or the sale or other transfer of the Project. The apartment complex is pledged as collateral for the mortgage.	-	300,000

HAP, Inc. and Subsidiaries
Notes to Consolidating Financial Statements – *Continued*
June 30, 2016

9. *Mortgages and Notes Payable – Continued*

	<i>Amortizing</i>	<i>Non-amortizing</i>
<i>Verano Apartments Limited Partnership:</i>		
Massachusetts Housing Partnership Fund has provided funding in the amount of \$415,000. The loan bears interest at 6.23% and is payable in monthly installments of principal and interest of \$2,550 through October 2036. The note is secured by the apartment complex.	\$ 353,028	\$ -
Mortgage note payable to DHCD under the HOME Investment Partnership Program, accrues interest at a rate of 5.50% per annum. All interest and principal due under this note are payable on August 14, 2035, or upon the occurrence of an event of default or the sale or other transfer of the Project. Under these circumstances, the note becomes immediately payable and due. The note is secured by the apartment complex and assignment of certain leases and rents.	-	550,000
Mortgage note payable to DHCD administered by MHFA under the Affordable Housing Trust Fund, accrues interest at a rate of 4.00% per annum. All interest and principal due under this note are payable on August 14, 2035, or upon the occurrence of an event of default or the sale or other transfer of the Project. Under these circumstances, the note becomes immediately payable and due. The note is secured by the apartment complex and assignment of certain leases and rents.	-	550,000
Self Help Shelters, Inc. and HAP CHS, doing business as the joint venture Rehab Shelters, acting by and through HAP CHS, have provided funding of \$247,500. This note bears interest compounding annually at a rate of 9%. Payment began two years after date of borrowing, and continuing every 12 months thereafter during the entire term of this note to an amount equal to the prior calendar year's net cash flow. The note is secured by the apartment complex and assignment of certain leases and rents. The entire outstanding balance of principal and unpaid interest shall be due upon the sooner of: (a) the date which is 20 years from the borrowing date, or (b) the sale or transfer of the real property comprising collateral for this note. Under these circumstances, the note becomes immediately payable and due. HAP-CHS's 45% share of principal and accrued interest have been eliminated in the consolidating financial statements.	-	136,350

HAP, Inc. and Subsidiaries
Notes to Consolidating Financial Statements – *Continued*
June 30, 2016

9. *Mortgages and Notes Payable – Continued*

	<i>Amortizing</i>	<i>Non-amortizing</i>
Mortgage note payable to the City of Holyoke Office for Community Development, accrues interest at a rate of 5.50% per annum. All principal and interest payments under this note shall be payable on August 14, 2035. No payments shall be due before the maturity date. The note is secured by the apartment complex and assignment of certain leases and rents.	\$ -	\$ 100,000
Total notes payable	13,015,720	18,947,718
Less current portion	(1,802,041)	(299,779)
Total long-term liabilities	<u>\$ 11,213,679</u>	<u>\$ 18,647,939</u>

The maturities of the mortgages and notes for the ensuing five years and thereafter are summarized as follows:

<i>Fiscal Year</i>	<i>Amount</i>
2017	2,101,820
2018	2,396,283
2019	968,069
2020	425,619
2021	320,171
Thereafter	<u>33,793,756</u>
Total note payments	40,005,718
Unamortized discount	<u>(8,042,280)</u>
Present value of note payments	<u>\$ 31,963,438</u>

Interest costs for the year ended June 30, 2016 was \$1,489,304, of which \$81,565 was capitalized.

10. *Related Party Transactions*

During 2016, a member of HAP's board of directors was an officer of Valley Community Development Corporation (Valley CDC), a Massachusetts non-profit organization.

Financing

The Partnership has two notes payable to Valley CDC as described in Note 9.

HAP, Inc. and Subsidiaries
Notes to Consolidating Financial Statements – *Continued*
June 30, 2016

10. Related Party Transactions – Continued

Developer Fees and Overhead

Parsons Limited Partnership has agreed to pay \$204,060 in developer fees and \$280,643 in overhead expenses to Valley CDC under a developer services agreement between Parsons Limited Partnership, HAP, and Valley CDC. As of June 30, 2016, the Organization had paid \$359,953 and \$124,750 was owed for under the agreement. The remaining fee and overhead will be paid in 2017.

11. Net Assets

Board Designated

The Board of Directors has designated \$2,669,457 in unrestricted net assets to be used in support of affordable housing programs.

Temporarily Restricted

The following summarizes the activity of temporarily restricted net assets for the year ended June 30, 2016:

	<i>Balance</i>	<i>Temporarily</i>	<i>Releases</i>	<i>Balance</i>
	<i>July 1, 2015</i>	<i>Restricted</i>	<i>from</i>	<i>June 30, 2016</i>
		<i>Contributions</i>	<i>Restriction</i>	
Homeownership programs	\$ 109,558	\$ 44,000	\$ (11,288)	\$ 142,270
Neighborhood revitalization	160,326	34,440	(155,326)	39,440
Client services programs	139,709	-	(73,990)	65,719
Family self-sufficiency	-	2,500	-	2,500
Management services	40,000	-	(40,000)	-
Green energy development	10,000	60,000	(4,295)	65,705
Elderly supportive housing	4,383,904	7,396	-	4,391,300
Below market rate loans	7,534,556	24,021	(134,582)	7,423,995
Time restricted	-	50,000	-	50,000
Total	<u>\$ 12,378,053</u>	<u>\$ 222,357</u>	<u>\$ (419,481)</u>	<u>\$ 12,180,929</u>

HAP, Inc. and Subsidiaries
Notes to Consolidating Financial Statements – *Continued*
June 30, 2016

11. Net Assets – Continued

Permanently Restricted

NeighborWorks® provided \$100,000 in capital grants during the year for making affordable loans to capital projects. This amount is permanently restricted although proceeds on capital projects, or interest earned, over and above the corpus may be transferred to unrestricted net assets for furthering HAP's mission. However, should HAP become defunct, all remaining grant funds, interest earnings, capital project proceeds and the loan and capital projects portfolios representing use of these funds will revert to NeighborWorks®. Additionally, NeighborWorks® approved the release of \$260,000 from permanently restricted to unrestricted net assets. The total permanently restricted net assets of \$1,152,245 at June 30, 2016, is restricted by NeighborWorks® for affordable loans to capital projects.

12. Income Taxes

HAP's for-profit subsidiaries had provisions for income taxes for the year ended June 30, 2016, consisting of the following:

<i>Description</i>	<i>Amount</i>
State tax expense	\$ 4,104
Federal tax expense	<u>-</u>
Total	<u>\$ 4,104</u>

As of June 30, 2016, HAP's for-profit subsidiaries had net operating loss carry-forwards totaling approximately \$78,176 and capital loss carry-forwards totaling approximately \$44,000 available to offset future taxable income. These net operating loss carry-forwards will expire at various times between 2016 and 2031 and the capital loss carry-forwards will expire in 2019. Additionally, HAP's for-profit subsidiaries had net passive loss carry-forwards totaling approximately \$161,537 and passive tax credit carry-forwards totaling approximately \$1,758 available to offset future passive taxable income. It is unclear if HAP will realize value from these credits and loss carry-forwards; accordingly a related tax deferred asset has not been recorded.

13. Tax Sheltered Annuity Retirement Plan

HAP provides retirement benefits for its full-time employees through its tax sheltered annuity retirement plan. This plan constitutes a defined contribution plan under section 403(b) of the Internal Revenue Code and allows for a discretionary employer match of employee contributions of up to 4% of annual compensation for employees who have completed 1.5 years of service as defined by the plan. Pension expense for the year ended June 30, 2016 was \$281,207.

HAP, Inc. and Subsidiaries
Notes to Consolidating Financial Statements – *Continued*
June 30, 2016

13. Tax Sheltered Annuity Retirement Plan – Continued

Additionally, all employees are eligible to make elective contributions in a voluntary retirement plan upon the beginning of employment.

14. Rental Income Under Operating Leases

The Organization has commercial lease agreements with tenants that expire at various times through 2018. The minimum future rental income on non-cancelable operating leases are as follows:

<i>Fiscal Year</i>	<i>Amount</i>
2017	\$ 99,187
2018	\$ 50,725
2019	\$ 9,600

15. Commitments

Leases

HAP leases program space and equipment under non-cancelable operating leases expiring in various years through fiscal year 2021. For the year ended June 30, 2016, expense under the various leases totaled \$135,831.

The minimum payments due on the leases for the next five years are as follows:

<i>Fiscal Year</i>	<i>Amount</i>
2017	\$ 102,868
2018	84,578
2019	66,302
2020	55,193
2021	<u>20,595</u>
Total	<u>\$ 329,536</u>

HAP, Inc. and Subsidiaries
Notes to Consolidating Financial Statements – *Continued*
June 30, 2016

15. Commitments – Continued

Financing Commitments

The Organization has received various financing commitments to fund acquisition, predevelopment and construction costs related to development and renovations at several of its projects. As of June 30, 2016, the following commitments were received:

<i>Lender</i>	<i>Project</i>	<i>Commitment</i>
Valley CDC	KenQuad	\$ 1,979,731
Life Initiative	Mill Street	531,000
CEDAC	Mill Street	400,000
CEDAC	NewCourt Terrace	400,000
CEDAC	Library Commons	<u>625,000</u>
	Total	<u>\$ 3,935,731</u>

16. Concentrations

Operations

HAP's real estate holdings are concentrated in the multifamily real estate market. In addition, HAP operates in a heavily regulated environment. The operations of HAP are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to HUD, DHCD and MassHousing ("the Agencies"). Such administrative directives, rules and regulations are subject to change by an Act of Congress or an administrative change mandated by the Agencies. Changes may occur with little notice or inadequate funding to pay for the related costs, including the additional administrative burden, to comply with such changes.

Cash

HAP maintains its cash accounts in several commercial banks located in Massachusetts. Accounts at each bank are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per bank. Additionally, deposits in excess of FDIC coverage are covered by Depositors Insurance Fund (DIF) at certain Massachusetts banks. The Organization does not believe it is exposed to significant risk as it periodically reviews the credit standings of the related institutions. A summary of the total insured and uninsured cash balances at June 30, 2016 is as follows:

Total cash in all banks	\$ 15,000,053
Portion insured by FDIC and DIF	<u>(14,502,141)</u>
Uninsured cash balances	<u>\$ 497,912</u>

HAP, Inc. and Subsidiaries
Notes to Consolidating Financial Statements – *Continued*
June 30, 2016

16. Concentrations – Continued

Support

HAP's main source of funding is provided from contracts with DHCD, which is approximately 82% of its revenue and 78% of its accounts receivable for the year ended June 30, 2016.

17. Contingencies

Litigation

The Organization is defending complaints (judicial and administrative) for personal injury by former property tenants, wrongful termination due to discrimination by former employees, and discrimination in the provision of services by clients or former clients. The Organization believes it has meritorious defenses against each of the complaints and intends to vigorously contest them, and expects that the resolution of such complaints will not have a material adverse effect on its financial position. Therefore no adjustment has been made to the 2016 financial statements.

Grant Funding

HAP's various grants and contracts are subject to audit by appropriate governmental agencies. Acceptance of final costs incurred under these grants and contracts resides with these grantors. As of the date of these statements, the materiality of adjustments to final costs, if any, cannot be determined and management does not anticipate any. Therefore, no adjustment has been made to the 2016 financial statements.

Contingency Reserves

HAP conducts real estate development activities and provides housing assistance, shelter and other related social services through various commercial contracts and government grants and contracts. HAP has recognized a contingency reserve for future estimated costs to be incurred to meet the ultimate terms of such grants and contracts, or for other practical purposes related to such grants and contracts. HAP's grants and contracts are not billed for these costs until actually incurred. HAP's contingency reserve as of June 30, 2016 was \$600,000 and is included as a liability on the statement of financial position. It is at least reasonably possible that HAP's estimate for the contingency reserve will change within the near term.

HAP, Inc. and Subsidiaries
Notes to Consolidating Financial Statements – *Continued*
June 30, 2016

17. *Contingencies – Continued*

Surplus Revenue Retention

Surplus generated under Commonwealth of Massachusetts unit rate contracts must comply with 808 CMR 1.03(7), “Surplus Revenue Retention Policy”. In accordance with these requirements, HAP is entitled to retain surplus up to twenty percent (20%) of the total revenue of all Commonwealth programs per year as unrestricted net assets. The surplus can be used to further HAP’s charitable purposes, but may not be used for non-reimbursable expenses as defined in 808 CMR 1.05. For the year ended June 30, 2016, the current year surplus revenue did not exceed 20% of the total revenue of all of the Commonwealth programs.

Prior to the issuance of an amendment to 808 CMR 1.03 effective for fiscal year 2016, providers under Commonwealth of Massachusetts unit rate contracts were entitled to retain a surplus up to five percent (5%) of the total revenue of all Commonwealth programs per year as unrestricted net assets, but not more than twenty percent (20%) on a cumulative basis. HAP anticipated exceeding these limits and received DHCD’s approval on August 30, 2016 to use its current year surplus revenue and its cumulative retained surplus revenue for certain program operations, initiatives and technology costs totaling \$2,960,377. At June 30, 2016, HAP had spent \$1,760,995 of these costs. As of the date the financial statements were available to be issued, it is uncertain if the amendment to 808 CMR 1.03 will change HAP’s commitment for the remaining \$1,199,382 in expenditures under DHCD’s approved spending plan.

18. *Conditional Promise to Give*

The conditional promise to give consists of a donation to the rights on Soldier on Veterans Village II, LLC’s Massachusetts low-income housing tax credits conditional upon company receiving eligibility statements from DHCD. The credits are expected to be sold to a third party upon receipt for \$1,050,167 with the proceeds loaned back to Soldier on Veterans Village II, LLC. The conditional promise to give will be recognized in the financial statements when the conditions on which they depended are substantially met.

19. *Loss on Impairment*

During fiscal year 2016, HAP performed an impairment assessment on their building located at 322 Main Street, Springfield, Massachusetts. Due to the abutter controlling the real estate surrounding the building, HAP determined that the building was impaired and as a result recorded an impairment charge of \$842,201 in the accompanying financial statement of functional expenses for 2016.

HAP, Inc. and Subsidiaries
Notes to Consolidating Financial Statements – *Continued*
June 30, 2016

20. Business Combination

On July 1, 2015, HAP purchased 100% of the ownership interest in MBL Housing and Development, Inc. The Organization plans to continue MBL's operations as a stand alone affordable housing development consulting firm. The following table summarizes the consideration paid for MBL and the amounts of assets acquired and liabilities assumed at the acquisition date.

Consideration

Cash	\$ 250,000
Note receivable	<u>250,000</u>
Total consideration for acquisition	<u>\$ 500,000</u>

Recognized amounts of identifiable assets acquired and liabilities assumed

Financial assets	\$ 589,744
Property and equipment	891
Financial liabilities	<u>(90,635)</u>
Total identifiable net assets	<u>\$ 500,000</u>

The fair value of the financial assets acquired includes accounts receivables with a fair value and face value of \$226,137.

21. Subsequent Events

On July 21, 2016, HAP, Inc. purchased the property located at 586 Mill Street in Agawam, Massachusetts for \$531,000. The acquisition was financed through a \$531,000 mortgage note payable to the Life Initiative. The note requires quarterly payments of interest at 5% and matures the earlier of the start of construction or July 21, 2019.

On November 1, 2016, HAP entered into a purchase and sales agreement to sell the property it owns on 322 Main Street, Springfield, Massachusetts for \$1,000,000 which equals the property's carrying value. The agreement also provides leasing terms allowing HAP to rent the property. HAP will rent the space for 30 months subsequent to the sale at a rate of \$24,006 per month. Proceeds from the sale are expected to pay off the mortgage note held by Berkshire Bank as described in Note 9. The sale is expected to close in fiscal year 2017.

The Organization has performed an evaluation of subsequent events through December 15, 2016, which is the date the Organization's consolidating financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

HAP, Inc. and Subsidiaries
Schedule of Financial Position of Housing Assistance Programs
June 30, 2016

	<i>Federal Voucher</i>	<i>Moderate Rehab</i>	<i>MRVP</i>	<i>Other Programs</i>	<i>Total</i>
<i>Assets</i>					
Restricted cash	\$ 3,261,129	\$ 261,147	\$ 552,867	\$ 161,622	\$ 4,236,765
Accounts receivable - DHCD	35,479	85,823	-	225,229	346,531
Related party receivables/(payables)	1,856,698	1,100,436	(354,036)	240,380	2,843,478
Software	113,198	23,935	-	-	137,133
Less: accumulated depreciation	<u>(113,198)</u>	<u>(23,935)</u>	<u>-</u>	<u>-</u>	<u>(137,133)</u>
Total assets	<u>\$ 5,153,306</u>	<u>\$ 1,447,406</u>	<u>\$ 198,831</u>	<u>\$ 627,231</u>	<u>\$ 7,426,774</u>
<i>Liabilities</i>					
Accounts payable	\$ 4,572	\$ 287	\$ -	\$ 24	\$ 4,883
Accounts payable - DHCD	272,542	-	-	-	272,542
Accrued expenses	156,721	14,446	10,030	35,588	216,785
Escrow liabilities	211,509	-	-	-	211,509
Contract advances	<u>2,921,912</u>	<u>349,266</u>	<u>527,325</u>	<u>58,126</u>	<u>3,856,629</u>
Total liabilities	<u>3,567,256</u>	<u>363,999</u>	<u>537,355</u>	<u>93,738</u>	<u>4,562,348</u>
<i>Net Assets</i>					
Unrestricted	-	-	(338,524)	533,493	194,969
Board designated	<u>1,586,050</u>	<u>1,083,407</u>	<u>-</u>	<u>-</u>	<u>2,669,457</u>
Total net assets	<u>1,586,050</u>	<u>1,083,407</u>	<u>(338,524)</u>	<u>533,493</u>	<u>2,864,426</u>
Total liabilities and net assets	<u>\$ 5,153,306</u>	<u>\$ 1,447,406</u>	<u>\$ 198,831</u>	<u>\$ 627,231</u>	<u>\$ 7,426,774</u>

HAP, Inc. and Subsidiaries
Schedule of Revenue, Expenses, and Changes in Net Assets of Housing Assistance Programs
For the Year Ended June 30, 2016

	<i>Federal Voucher</i>	<i>Moderate Rehab</i>	<i>MRVP</i>	<i>Other Programs</i>	<i>Total</i>
Revenue and Support					
Contributions	\$ 27,500	\$ -	\$ -	\$ -	\$ 27,500
Grants and grant assistance payments	30,489,199	3,935,763	4,477,753	175,251	39,077,966
Fee for service, grant administration fees	3,317,917	539,409	336,840	284,935	4,479,101
Program fees	<u>6,044</u>	<u>-</u>	<u>1,475</u>	<u>82,553</u>	<u>90,072</u>
Total revenue and support	<u>33,840,660</u>	<u>4,475,172</u>	<u>4,816,068</u>	<u>542,739</u>	<u>43,674,639</u>
Expenses					
Salaries	1,490,166	327,705	275,846	179,019	2,272,736
Payroll tax and fringe benefits	384,063	82,862	72,192	45,034	584,151
Employee training	13,348	-	-	795	14,143
Professional services	18,524	-	-	240	18,764
Contract services	93,085	-	-	27,717	120,802
Communications	11,645	1,800	-	1,305	14,750
Postage	62,400	811	1,001	479	64,691
Materials production	25,492	3,414	37	509	29,452
Program expense	5,694	2	-	-	5,696
Office supplies	29,085	5,197	2,244	1,349	37,875
Licenses, dues and fees	14,219	108	-	-	14,327
Travel	37,932	5,873	1,948	1,154	46,907
Audit expense	15,566	11,875	1,114	1,327	29,882
Repairs and maintenance	510	-	-	-	510
Recruitment	60	-	25	-	85
Provider reimbursement	52,555	-	-	-	52,555
Other expenses	5,484	-	-	148	5,632
Grants and assistance disbursed	30,489,199	3,935,763	4,477,753	175,251	39,077,966
Interest	4,028	77	-	-	4,105
Computer operations	75,401	15,996	14,063	8,498	113,958
Occupancy	157,896	25,526	22,426	13,567	219,415
Administrative allocation	<u>388,227</u>	<u>79,987</u>	<u>70,518</u>	<u>42,560</u>	<u>581,292</u>
Total expenses	<u>33,374,579</u>	<u>4,496,996</u>	<u>4,939,167</u>	<u>498,952</u>	<u>43,309,694</u>
Change in net assets	466,081	(21,824)	(123,099)	43,787	364,945
Net assets - beginning of year	<u>1,119,969</u>	<u>1,105,231</u>	<u>(215,425)</u>	<u>489,706</u>	<u>2,499,481</u>
Net assets - end of year	<u>\$ 1,586,050</u>	<u>\$ 1,083,407</u>	<u>\$ (338,524)</u>	<u>\$ 533,493</u>	<u>\$ 2,864,426</u>

HAP, Inc. and Subsidiaries
Schedule of Financial Position - NeighborWorks® America Capital Fund
June 30, 2016

Assets

Cash	\$ 580,000
Related party receivables	113,520
Loans receivable	<u>458,725</u>
Total assets	<u><u>\$ 1,152,245</u></u>

Liabilities and Net Assets

Liabilities	\$ -
Net assets	<u>1,152,245</u>
Total liabilities and net assets	<u><u>\$ 1,152,245</u></u>

HAP, Inc. and Subsidiaries
Schedule of Activities - NeighborWorks® America Capital Fund
For the Year Ended June 30, 2016

Revenue, Gains, Other Support and Release of Capital:

Capital grant - NeighborWorks® America - beginning balance	\$ 1,312,245
Additions	100,000
Released - unrestricted	<u>(260,000)</u>
Net assets at end of year	<u><u>\$ 1,152,245</u></u>

Investment income in the amount of \$2,557 was earned on the net assets of the NeighborWorks® America Investment and Grant Agreement and was available for unrestricted use by HAP. There were no proceeds from capital projects in excess of the amount of funds necessary to maintain the net assets at a level disclosed in the Investment and Grant Agreement with NeighborWorks® America (\$1,152,245). Accordingly, no funds were transferred from the NeighborWorks® America Revolving Loan and Capital Projects Fund for that purpose.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

HAP, Inc. and Subsidiaries
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

<i>Federal Program Cluster or Program Title Pass-through Grantor</i>	<i>Federal CFDA Number</i>	<i>Federal Pass-through Identifying Number</i>	<i>Total Federal Expenditures</i>	<i>Expenditures to Subrecipients</i>
<i>U.S. Department of Housing and Urban Development</i>				
Fair Housing Initiatives Program				
Direct Program	14.408	FH400G1437	\$ 31,248	\$ 9,000
Moving to Work Demonstration Program				
Passed through Massachusetts Department of Housing and Community Development (DHCD)	14.881	SOCD264515469015MTW	32,247,783	-
Section 8 Project-Based Cluster:				
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation				
Passed through Massachusetts DHCD	14.856	SOCD264016469019MRB	4,475,095	-
Housing Voucher Cluster				
Section 8 Housing Choice Vouchers				
Passed through Massachusetts DHCD	14.871	SOCD264016469014HCV	835,555	-
Passed through Massachusetts DHCD	14.871	SOCD264116469016FUP	416,461	-
Total Housing Voucher Cluster			<u>1,252,016</u>	<u>-</u>
Supportive Housing Program				
Passed through Massachusetts DHCD	14.235	WELC3084SSTAP00020000	198,993	-
Passed through City of Springfield	14.235	20150551	12,769	-
Passed through City of Springfield	14.235	20160627	50,242	-
Passed through Hilltown Community Development Corporation	14.235	MA0072L1T071407	14,651	-
Passed through Hilltown Community Development Corporation	14.235	MA0072L1T071508	7,848	-
Total Supportive Housing Program			<u>284,503</u>	<u>-</u>

HAP, Inc. and Subsidiaries
Schedule of Expenditures of Federal Awards – *Continued*
For the Year Ended June 30, 2016

<i>Federal Program Cluster or Program Title Pass-through Grantor</i>	<i>Federal CFDA Number</i>	<i>Federal Pass-through Identifying Number</i>	<i>Total Federal Expenditures</i>	<i>Expenditures to Subrecipients</i>
Shelter Plus Care				
Passed through Massachusetts DHCD	14.238	OCD810014FCOMGRANT20	\$ 154,882	\$ -
Passed through Massachusetts DHCD	14.238	OCD810015FCOMGRANT20	35,127	-
Total Shelter Plus Care			<u>190,009</u>	<u>-</u>
CDBG - Entitlement Grants Cluster				
Community Development Block Grants/Entitlement Grants				
Passed through Massachusetts DHCD (Loan)	14.218	N/A	170,000	-
Passed through City of Holyoke	14.218	N/A	<u>7,880</u>	<u>-</u>
Total CDBG - Entitlement Grants Cluster			<u>177,880</u>	<u>-</u>
Continuum of Care Program				
Passed through City of Springfield	14.267	20160623	22,394	-
Passed through City of Springfield	14.267	20150625	79,190	-
Passed through City of Springfield	14.267	20150684	<u>4,026</u>	<u>-</u>
Total Continuum of Care Program			<u>105,610</u>	<u>-</u>
Family Self Sufficiency Program				
Passed through Massachusetts DHCD	14.896	SOCD264016469021FSS	98,573	-
Emergency Solutions Grant Program				
Passed through City of Springfield	14.231	20160087	92,411	-
Supportive Housing for Persons with Disabilities				
Passed through Massachusetts DHCD	14.181	SOCD264216469017MS5	68,460	-
Housing Counseling Assistance Program				
Passed through Housing Partnership Network	14.169	15-09	25,636	-

HAP, Inc. and Subsidiaries
Schedule of Expenditures of Federal Awards – *Continued*
For the Year Ended June 30, 2016

<i>Federal Program Cluster or Program Title Pass-through Grantor</i>	<i>Federal CFDA Number</i>	<i>Federal Pass-through Identifying Number</i>	<i>Total Federal Expenditures</i>	<i>Expenditures to Subrecipients</i>
Section 4 Capacity Building for Community Development and Affordable Housing				
Passed through Life Initiative	14.252	PA# 46848-0001	\$ 15,000	\$ -
Passed through Life Initiative	14.252	PA# 46848-0002	<u>5,000</u>	<u>-</u>
Total Section 4 Capacity Building for Community Development and Affordable Housing			<u>20,000</u>	<u>-</u>
Community Development Block Grants/State's Program and Non-entitlement Grants in Hawaii				
Passed through Town of West Springfield	14.228	14-180-006	<u>4,200</u>	<u>-</u>
Total U.S. Department of Housing and Urban Development			<u>39,073,424</u>	<u>9,000</u>
<i>U.S. Department of Treasury</i>				
NeighborWorks Grant Funds				
Passed through Neighborworks Reinvestment Corporation	21.U01	2013-8408-0016-GPD19	4,295	-
Passed through Neighborworks Reinvestment Corporation	21.U01	2014-8408-0896-SUP_2	48,788	-
Passed through Neighborworks Reinvestment Corporation	21.U01	2014-8408-0011-OU36	105,326	-
Passed through Neighborworks Reinvestment Corporation	21.U01	2015-8408-0024-NECO48	75,000	-
Passed through Neighborworks Reinvestment Corporation	21.U01	2015-8408-0042-CBEG49	10,000	-
Passed through Neighborworks Reinvestment Corporation	21.U01	2015-8408-0364-SUP50	2,500	-
Passed through Neighborworks Reinvestment Corporation	21.U01	2015-8408-0510-SUP30	30,000	-
Passed through Neighborworks Reinvestment Corporation	21.U01	2016-8408-0009-RED88	100,000	-
Passed through Neighborworks Reinvestment Corporation	21.U01	2016-8408-0014-OU87	79,000	-
Passed through Neighborworks Reinvestment Corporation	21.U01	2016-8408-0106-SUP10	5,000	-
Passed through Neighborworks Reinvestment Corporation	21.U01	2016-8408-0090-NWW	500	-
Passed through Housing Partnership Network	21.U01	PL 113-235	<u>38,340</u>	<u>-</u>
Total NeighborWorks Grant Funds			<u>498,749</u>	<u>-</u>
Total U.S. Department of Treasury			<u>498,749</u>	<u>-</u>

HAP, Inc. and Subsidiaries
Schedule of Expenditures of Federal Awards – *Continued*
For the Year Ended June 30, 2016

<i>Federal Program Cluster or Program Title Pass-through Grantor</i>	<i>Federal CFDA Number</i>	<i>Federal Pass-through Identifying Number</i>	<i>Total Federal Expenditures</i>	<i>Expenditures to Subrecipients</i>
<i>U.S. Department of Homeland Security</i>				
Emergency Food and Shelter National Board Program				
Pass through United Way of the Pioneer Valley	97.024	N/A	\$ 1,959	\$ -
Total U.S. Department of Homeland Security			1,959	-
Total expenditures of federal awards			<u>\$ 39,574,132</u>	<u>\$ 9,000</u>

HAP, Inc. and Subsidiaries
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

1. *Basis of Presentation*

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of HAP, Inc. (HAP) under programs of the Federal government for the year ended June 30, 2016. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion HAP's operations, it is not intended to and does not present the financial position, changes in net assets or cash flows of HAP.

2. *Summary of Significant Accounting Policies*

- a) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- b) The Organization has elected not to use the 10% de minimus indirect cost rate as allowed under the Uniform Guidance.

3. *Loan Assistance*

The Community Development Block Grant loan which was received in a prior fiscal year, is included on the Schedule at its outstanding balance as of July 1, 2015 as it includes continuing compliance requirements. During 2016, no additional proceeds were received or payments made. At June 30, 2016, the loan balance was \$170,000.

**REPORTS ON INTERNAL CONTROL
AND COMPLIANCE**



Daniel Dennis & Company LLP

Certified Public Accountants

*Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed In Accordance With
Government Auditing Standards*

The Board of Directors

HAP, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidating financial statements of HAP, Inc. and Subsidiaries (the Organization) which comprise the consolidating statement of financial position as of June 30, 2016, and the related consolidating statements of activities, changes in net assets/(deficit), functional expenses, and cash flows for the year then ended, and the related notes to the consolidating financial statements, and have issued our report thereon dated December 15, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidating financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidating financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization's consolidating financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidating financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Daniel Dennis & Company LLP

December 15, 2016



Daniel Dennis & Company LLP

Certified Public Accountants

Independent Auditors' Report on Compliance For Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance

The Board of Directors
HAP, Inc.

Report on Compliance for Each Major Federal Program

We have audited HAP, Inc.'s (HAP) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on HAP's major federal program for the year ended June 30, 2016. HAP's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

HAP, Inc. and Subsidiaries' consolidating financial statements include the operations of Southampton Housing for the Elderly, Inc. and Stevens Senior Housing of Ludlow, Inc., which received \$3,598,283 and \$4,928,041, respectively, in federal awards, which are not included in the schedule of expenditures of federal awards during the year ended June 30, 2016. Our audit, as described below, did not include the operations of Southampton Housing for the Elderly, Inc. and Stevens Senior Housing of Ludlow, Inc. because their federal awards are audited within each organization's stand alone audit performed in accordance with Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for HAP's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of the Uniform Guidance. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about HAP's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of HAP's compliance.

Opinion on the Major Federal Program

In our opinion, HAP complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of HAP is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered HAP's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of HAP's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses or significant deficiencies. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Daniel Dennis & Company LLP

December 15, 2016

HAP, Inc. and Subsidiaries
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2016

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditor's report issued - Unmodified

Internal control over financial reporting:

- Material weaknesses identified? _____ yes X no
- Significant deficiencies identified that are not considered to be material weaknesses? _____ yes X none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

- Material weaknesses identified? _____ yes X no
- Significant deficiencies identified that are not considered to be material weaknesses? _____ yes X none reported

Type of auditor's report issued on compliance for major programs - Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)? _____ yes X no

Identification of major programs:

CFDA Number	Name of Program
14.881	<i>Moving to Work Demonstration Program</i>

Dollar threshold used to distinguish between type A and type B programs: \$ 1,187,224

Auditee qualified as low-risk auditee? X yes _____ no

HAP, Inc. and Subsidiaries
Schedule of Findings and Questioned Costs – *Continued*
For the Year Ended June 30, 2016

II. FINANCIAL STATEMENT FINDINGS

A. *Deficiencies in Internal Control over Financial Reporting*

None

B. *Material Fraud and Noncompliance with Provisions of Laws and Regulations*

None

C. *Material Noncompliance with Provisions of Contracts and Grants Agreements*

None

D. *Material Abuse*

None

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

HAP, Inc. and Subsidiaries
Schedule of Prior Year Audit Findings
For the Year Ended June 30, 2016

There were no unresolved audit findings from prior year's audits of HAP, Inc. and subsidiaries.