



AND AFFILIATES

**CONSOLIDATING FINANCIAL STATEMENTS IN
ACCORDANCE WITH GOVERNMENT AUDITING
STANDARDS AND UNIFORM GUIDANCE
JUNE 30, 2016 AND 2015**

HOUSING FAMILIES INC. AND AFFILIATES

Contents
June 30, 2016 and 2015

	<u>Pages</u>
Unmodified Opinion on Consolidating Financial Statements Accompanied by Other Information - Not-For-Profit Entity	1 - 1A
Consolidating Financial Statements:	
Consolidating Statements of Financial Position	2 - 3
Consolidating Statements of Activities	4 - 5
Consolidating Statements of Changes in Entities' Equity (Deficit)	6
Consolidating Statements of Cash Flows.....	7 - 8
Consolidating Statements of Functional Expenses	9 - 10
Notes to Consolidating Financial Statements	11 - 27
Schedule of Expenditures of Federal Awards	28
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Consolidating Financial Statements Performed in Accordance With Government Auditing Standards	29 - 30
Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance	31 - 32
Schedule of Findings and Questioned Costs	33 - 34

**Unmodified Opinion on Consolidating Financial Statements Accompanied by Other
Information – Not-For-Profit Entity**

Independent Auditor's Report

To the Board of Directors of
Housing Families Inc. and Affiliates:

Report on the Consolidating Financial Statements

We have audited the accompanying consolidating financial statements of Housing Families Inc. (a Massachusetts corporation, not for profit) and Affiliates (collectively, the Agency), which comprise the consolidating statements of financial position as of June 30, 2016 and 2015, and the related consolidating statements of activities, changes in entities' equity (deficit), cash flows and functional expenses for the years 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 statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidating financial statements based on our audits. We conducted our audits 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 audits 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 risks 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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 on page one present fairly, in all material respects, the consolidating financial position of Housing Families Inc. and Affiliates as of June 30, 2016 and 2015, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the consolidating financial statements as a whole. The Schedule of Expenditures of Federal Awards for the year ended June 30, 2016, 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*, is presented for purposes 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 the 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 our report dated December 12, 2016, on our consideration of the Agency'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 Auditing Standards* in considering the Agency's internal control over financial reporting and compliance.



Boston, Massachusetts
December 12, 2016

HOUSING FAMILIES INC. AND AFFILIATES

Consolidating Statement of Financial Position
 June 30, 2016
 (With Summarized Comparative Totals as of June 30, 2015)

Assets	2016						2015	
	Housing Families Inc.	HFI Properties, Inc. and Affiliate (Exhibit A)	Eliminations	Total	Cross Street Housing LP	Eliminations	Total	Total
Current Assets:								
Cash	\$ 314,441	\$ 78,278	\$ -	\$ 392,719	\$ 5,100	\$ -	\$ 397,819	\$ 358,906
Accounts and pledges receivable	944,539	1,085	-	945,624	1,465	-	947,089	593,363
Prepaid expenses and other	31,368	-	-	31,368	-	-	31,368	48,754
Current portion of due from affiliates	22,900	-	(10,118)	12,782	-	(12,782)	-	-
Total current assets	<u>1,313,248</u>	<u>79,363</u>	<u>(10,118)</u>	<u>1,382,493</u>	<u>6,565</u>	<u>(12,782)</u>	<u>1,376,276</u>	<u>1,001,023</u>
Reserves and Deposits:								
Operating reserves	-	65,244	-	65,244	190,271	-	255,515	194,436
Reserves for replacements	-	131,104	-	131,104	73,342	-	204,446	210,265
Security deposits	-	11,456	-	11,456	19,018	-	30,474	44,480
Total reserves and deposits	<u>-</u>	<u>207,804</u>	<u>-</u>	<u>207,804</u>	<u>282,631</u>	<u>-</u>	<u>490,435</u>	<u>449,181</u>
Other Assets:								
Property and equipment, net	159,472	3,796,534	(67,247)	3,888,759	4,564,809	(97,499)	8,356,069	8,527,555
Capitalized costs, net	-	28,729	-	28,729	28,729	-	57,458	64,729
Due from affiliates, net of current portion	184,872	-	-	184,872	-	(184,872)	-	-
Notes receivable from affiliate, net	1,422,516	-	-	1,422,516	-	(1,422,516)	-	-
Total other assets	<u>1,766,860</u>	<u>3,825,263</u>	<u>(67,247)</u>	<u>5,524,876</u>	<u>4,593,538</u>	<u>(1,704,887)</u>	<u>8,413,527</u>	<u>8,592,284</u>
Total assets	<u>\$ 3,080,108</u>	<u>\$ 4,112,430</u>	<u>\$ (77,365)</u>	<u>\$ 7,115,173</u>	<u>\$ 4,882,734</u>	<u>\$ (1,717,669)</u>	<u>\$ 10,280,238</u>	<u>\$ 10,042,488</u>
Liabilities and Entities' Equity (Deficit)								
Current Liabilities:								
Current portion of long-term debt and accrued interest	\$ -	\$ 18,349	\$ -	\$ 18,349	\$ 42,243	\$ -	\$ 60,592	\$ 61,422
Current portion of capital lease obligations	23,570	-	-	23,570	-	-	23,570	18,389
Current portion of due to affiliates	-	10,118	(10,118)	-	12,782	(12,782)	-	-
Accounts payable	81,025	2,668	-	83,693	2,725	-	86,418	118,062
Accrued expenses	441,110	4,991	-	446,101	21,402	-	467,503	186,243
Total current liabilities	<u>545,705</u>	<u>36,126</u>	<u>(10,118)</u>	<u>571,713</u>	<u>79,152</u>	<u>(12,782)</u>	<u>638,083</u>	<u>384,116</u>
Long-Term Liabilities:								
Security deposits payable	-	11,456	-	11,456	19,018	-	30,474	44,480
Long-term debt and accrued interest, net of current portion	-	2,089,365	-	2,089,365	1,703,202	-	3,792,567	3,847,991
Capital lease obligations, net of current portion	57,571	-	-	57,571	-	-	57,571	30,527
Due to affiliates, net of current portion	-	-	-	-	184,872	(184,872)	-	-
Contingent debt and deferred interest	-	2,114,863	-	2,114,863	3,340,935	(1,422,516)	4,033,282	4,002,156
Total long-term liabilities	<u>57,571</u>	<u>4,215,684</u>	<u>-</u>	<u>4,273,255</u>	<u>5,248,027</u>	<u>(1,607,388)</u>	<u>7,913,894</u>	<u>7,925,154</u>
Total liabilities	<u>603,276</u>	<u>4,251,810</u>	<u>(10,118)</u>	<u>4,844,968</u>	<u>5,327,179</u>	<u>(1,620,170)</u>	<u>8,551,977</u>	<u>8,309,270</u>
Entities' Equity (Deficit):								
Unrestricted:								
Operating	550,154	126,830	-	676,984	159,927	-	836,911	593,955
Property and equipment	78,331	(266,210)	(67,247)	(255,126)	(604,372)	1,954,408	1,094,910	1,202,024
Housing development	1,607,388	-	-	1,607,388	-	(1,607,388)	-	-
Total unrestricted	<u>2,235,873</u>	<u>(139,380)</u>	<u>(67,247)</u>	<u>2,029,246</u>	<u>(444,445)</u>	<u>347,020</u>	<u>1,931,821</u>	<u>1,795,979</u>
Temporarily restricted	240,959	-	-	240,959	-	-	240,959	297,199
Total Housing Families entities' equity (deficit)	<u>2,476,832</u>	<u>(139,380)</u>	<u>(67,247)</u>	<u>2,270,205</u>	<u>(444,445)</u>	<u>347,020</u>	<u>2,172,780</u>	<u>2,093,178</u>
Non-controlling interest	-	-	-	-	-	(444,519)	(444,519)	(359,960)
Total entities' equity (deficit)	<u>2,476,832</u>	<u>(139,380)</u>	<u>(67,247)</u>	<u>2,270,205</u>	<u>(444,445)</u>	<u>(97,499)</u>	<u>1,728,261</u>	<u>1,733,218</u>
Total liabilities and entities' equity (deficit)	<u>\$ 3,080,108</u>	<u>\$ 4,112,430</u>	<u>\$ (77,365)</u>	<u>\$ 7,115,173</u>	<u>\$ 4,882,734</u>	<u>\$ (1,717,669)</u>	<u>\$ 10,280,238</u>	<u>\$ 10,042,488</u>

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

HOUSING FAMILIES INC. AND AFFILIATES

Consolidating Statement of Financial Position
June 30, 2015

Assets	Housing Families Inc.	HFI Properties, Inc. and Affiliate (Exhibit A)	Eliminations	Total	Cross Street Housing LP	Eliminations	Total
Current Assets:							
Cash	\$ 307,490	\$ 46,539	\$ -	\$ 354,029	\$ 4,877	\$ -	\$ 358,906
Accounts and pledges receivable	591,730	679	-	592,409	954	-	593,363
Prepaid expenses and other	48,096	-	-	48,096	658	-	48,754
Current portion of due from affiliates	2,000	888	(888)	2,000	-	(2,000)	-
Total current assets	<u>949,316</u>	<u>48,106</u>	<u>(888)</u>	<u>996,534</u>	<u>6,489</u>	<u>(2,000)</u>	<u>1,001,023</u>
Reserves and Deposits:							
Operating reserves	-	29,351	-	29,351	165,085	-	194,436
Reserves for replacements	-	118,622	-	118,622	91,643	-	210,265
Security deposits	14,006	11,456	-	25,462	19,018	-	44,480
Total reserves and deposits	<u>14,006</u>	<u>159,429</u>	<u>-</u>	<u>173,435</u>	<u>275,746</u>	<u>-</u>	<u>449,181</u>
Other Assets:							
Property and equipment, net	130,553	3,967,834	(69,494)	4,028,893	4,626,161	(127,499)	8,527,555
Capitalized costs, net	-	31,271	-	31,271	33,458	-	64,729
Due from affiliates, net of current portion	184,872	-	-	184,872	-	(184,872)	-
Notes receivable from affiliate, net	1,422,516	-	-	1,422,516	-	(1,422,516)	-
Total other assets	<u>1,737,941</u>	<u>3,999,105</u>	<u>(69,494)</u>	<u>5,667,552</u>	<u>4,659,619</u>	<u>(1,734,887)</u>	<u>8,592,284</u>
Total assets	<u>\$ 2,701,263</u>	<u>\$ 4,206,640</u>	<u>\$ (70,382)</u>	<u>\$ 6,837,521</u>	<u>\$ 4,941,854</u>	<u>\$ (1,736,887)</u>	<u>\$ 10,042,488</u>
Liabilities and Entities' Equity (Deficit)							
Current Liabilities:							
Current portion of long-term debt and accrued interest	\$ -	\$ 17,029	\$ -	\$ 17,029	\$ 44,393	\$ -	\$ 61,422
Current portion of capital lease obligations	18,389	-	-	18,389	-	-	18,389
Current portion of due to affiliates	888	-	(888)	-	2,000	(2,000)	-
Accounts payable	101,226	2,194	-	103,420	14,642	-	118,062
Accrued expenses	168,902	4,501	-	173,403	12,840	-	186,243
Total current liabilities	<u>289,405</u>	<u>23,724</u>	<u>(888)</u>	<u>312,241</u>	<u>73,875</u>	<u>(2,000)</u>	<u>384,116</u>
Long-Term Liabilities:							
Security deposits payable	14,006	11,456	-	25,462	19,018	-	44,480
Long-term debt and accrued interest, net of current portion	-	2,107,296	-	2,107,296	1,740,695	-	3,847,991
Capital lease obligations, net of current portion	30,527	-	-	30,527	-	-	30,527
Due to affiliates, net of current portion	-	-	-	-	184,872	(184,872)	-
Contingent debt and deferred interest	-	2,141,392	-	2,141,392	3,283,280	(1,422,516)	4,002,156
Total long-term liabilities	<u>44,533</u>	<u>4,260,144</u>	<u>-</u>	<u>4,304,677</u>	<u>5,227,865</u>	<u>(1,607,388)</u>	<u>7,925,154</u>
Total liabilities	<u>333,938</u>	<u>4,283,868</u>	<u>(888)</u>	<u>4,616,918</u>	<u>5,301,740</u>	<u>(1,609,388)</u>	<u>8,309,270</u>
Entities' Equity (Deficit):							
Unrestricted:							
Operating	381,101	70,762	-	451,863	142,092	-	593,955
Property and equipment	81,637	(147,990)	(69,494)	(135,847)	(501,978)	1,839,849	1,202,024
Housing development	1,607,388	-	-	1,607,388	-	(1,607,388)	-
Total unrestricted	<u>2,070,126</u>	<u>(77,228)</u>	<u>(69,494)</u>	<u>1,923,404</u>	<u>(359,886)</u>	<u>232,461</u>	<u>1,795,979</u>
Temporarily restricted	297,199	-	-	297,199	-	-	297,199
Total Housing Families entities' equity (deficit)	<u>2,367,325</u>	<u>(77,228)</u>	<u>(69,494)</u>	<u>2,220,603</u>	<u>(359,886)</u>	<u>232,461</u>	<u>2,093,178</u>
Non-controlling interest	-	-	-	-	-	(359,960)	(359,960)
Total entities' equity (deficit)	<u>2,367,325</u>	<u>(77,228)</u>	<u>(69,494)</u>	<u>2,220,603</u>	<u>(359,886)</u>	<u>(127,499)</u>	<u>1,733,218</u>
Total liabilities and entities' equity (deficit)	<u>\$ 2,701,263</u>	<u>\$ 4,206,640</u>	<u>\$ (70,382)</u>	<u>\$ 6,837,521</u>	<u>\$ 4,941,854</u>	<u>\$ (1,736,887)</u>	<u>\$ 10,042,488</u>

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

HOUSING FAMILIES INC. AND AFFILIATES

Consolidating Statement of Activities

For the Year Ended June 30, 2016

(With Summarized Comparative Totals for the Year Ended June 30, 2015)

	2016						2015	
	Housing Families Inc.	HFI Properties, Inc. and Affiliate (Exhibit B)	Eliminations	Total	Cross Street Housing LP	Eliminations	Total	Total
Changes in Unrestricted Net Assets:								
Operating support and revenues:								
Program service fees	\$ 5,640,983	\$ -	\$ -	\$ 5,640,983	\$ -	\$ -	\$ 5,640,983	\$ 2,988,043
Rental income, net of vacancies	-	324,947	(96,278)	228,669	386,609	(30,000)	585,278	544,488
Contributions	456,143	-	-	456,143	-	-	456,143	328,321
Donated goods and services	277,285	-	-	277,285	-	-	277,285	164,295
Special event	246,290	-	-	246,290	-	-	246,290	-
Grants	224,158	-	-	224,158	-	-	224,158	349,569
Management fees, program income and other	96,345	1,220	(16,247)	81,318	3,027	(17,876)	66,469	103,577
Net assets released from program restrictions	206,066	-	-	206,066	-	-	206,066	55,215
Net assets released from time restrictions	25,000	-	-	25,000	-	-	25,000	-
Total operating support and revenues	<u>7,172,270</u>	<u>326,167</u>	<u>(112,525)</u>	<u>7,385,912</u>	<u>389,636</u>	<u>(47,876)</u>	<u>7,727,672</u>	<u>4,533,508</u>
Operating expenses:								
Program services	5,920,414	-	(96,278)	5,824,136	-	(24,519)	5,799,617	3,127,069
General and administrative	542,702	-	-	542,702	-	(2,131)	540,571	356,109
Fundraising	480,879	-	-	480,879	-	(3,350)	477,529	313,048
Cross Street Housing LP	-	-	-	-	336,649	(17,876)	318,773	350,056
HFI Properties, Inc. and Affiliate	-	233,684	(16,247)	217,437	-	-	217,437	236,449
Total operating expenses before depreciation and amortization	<u>6,943,995</u>	<u>233,684</u>	<u>(112,525)</u>	<u>7,065,154</u>	<u>336,649</u>	<u>(47,876)</u>	<u>7,353,927</u>	<u>4,382,731</u>
Depreciation and amortization	<u>62,528</u>	<u>181,164</u>	<u>(2,247)</u>	<u>241,445</u>	<u>143,701</u>	<u>(30,000)</u>	<u>355,146</u>	<u>308,839</u>
Total operating expenses	<u>7,006,523</u>	<u>414,848</u>	<u>(114,772)</u>	<u>7,306,599</u>	<u>480,350</u>	<u>(77,876)</u>	<u>7,709,073</u>	<u>4,691,570</u>
Changes in unrestricted net assets from operations	165,747	(88,681)	2,247	79,313	(90,714)	30,000	18,599	(158,062)
Non-operating activities:								
Forgiveness of debt	-	26,529	-	26,529	-	-	26,529	32,000
Capital grant	(63,810)	-	-	(63,810)	63,810	-	-	-
Deferred interest expense	-	-	-	-	(57,655)	-	(57,655)	(66,642)
Net assets released from capital restrictions	63,810	-	-	63,810	-	-	63,810	-
Changes in unrestricted net assets	<u>165,747</u>	<u>(62,152)</u>	<u>2,247</u>	<u>105,842</u>	<u>(84,559)</u>	<u>30,000</u>	<u>51,283</u>	<u>(192,704)</u>
Changes in Temporarily Restricted Net Assets:								
Contributions	238,636	-	-	238,636	-	-	238,636	296,914
Net assets released from restrictions	(294,876)	-	-	(294,876)	-	-	(294,876)	(55,215)
Changes in temporarily restricted net assets	<u>(56,240)</u>	<u>-</u>	<u>-</u>	<u>(56,240)</u>	<u>-</u>	<u>-</u>	<u>(56,240)</u>	<u>241,699</u>
Changes in net assets	109,507	(62,152)	2,247	49,602	(84,559)	30,000	(4,957)	48,995
Changes in Net Assets Attributable to Non-Controlling Interest								
	-	-	-	-	84,559	-	84,559	265,151
Changes in net assets attributable to Housing Families	<u>\$ 109,507</u>	<u>\$ (62,152)</u>	<u>\$ 2,247</u>	<u>\$ 49,602</u>	<u>\$ -</u>	<u>\$ 30,000</u>	<u>\$ 79,602</u>	<u>\$ 314,146</u>

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

HOUSING FAMILIES INC. AND AFFILIATES

 Consolidating Statement of Activities
 For the Year Ended June 30, 2015

	Housing Families Inc.	HFI Properties, Inc. and Affiliate (Exhibit B)	Eliminations	Total	Cross Street Housing LP	Eliminations	Total
Changes in Unrestricted Net Assets:							
Operating support and revenues:							
Program service fees	\$ 2,991,043	\$ -	\$ -	\$ 2,991,043	\$ -	\$ (3,000)	\$ 2,988,043
Rental income, net of vacancies	-	310,887	(96,120)	214,767	359,721	(30,000)	544,488
Contributions	328,321	-	-	328,321	-	-	328,321
Donated goods and services	164,295	-	-	164,295	-	-	164,295
Grants	349,569	-	-	349,569	-	-	349,569
Management fees, program income and other	123,491	2,660	(15,491)	110,660	9,403	(16,486)	103,577
Net assets released from program restrictions	55,215	-	-	55,215	-	-	55,215
Total operating support and revenues	<u>4,011,934</u>	<u>313,547</u>	<u>(111,611)</u>	<u>4,213,870</u>	<u>369,124</u>	<u>(49,486)</u>	<u>4,533,508</u>
Operating expenses:							
Program services	3,247,309	-	(96,120)	3,151,189	-	(24,120)	3,127,069
General and administrative	358,392	-	-	358,392	-	(2,283)	356,109
Fundraising	316,645	-	-	316,645	-	(3,597)	313,048
Cross Street Housing LP	-	-	-	-	369,542	(19,486)	350,056
HFI Properties, Inc. and Affiliate	-	251,940	(15,491)	236,449	-	-	236,449
Total operating expenses before depreciation and amortization	<u>3,922,346</u>	<u>251,940</u>	<u>(111,611)</u>	<u>4,062,675</u>	<u>369,542</u>	<u>(49,486)</u>	<u>4,382,731</u>
Depreciation and amortization	<u>32,383</u>	<u>176,569</u>	<u>(2,247)</u>	<u>206,705</u>	<u>132,134</u>	<u>(30,000)</u>	<u>308,839</u>
Total operating expenses	<u>3,954,729</u>	<u>428,509</u>	<u>(113,858)</u>	<u>4,269,380</u>	<u>501,676</u>	<u>(79,486)</u>	<u>4,691,570</u>
Changes in unrestricted net assets from operations	57,205	(114,962)	2,247	(55,510)	(132,552)	30,000	(158,062)
Non-operating activities:							
Forgiveness of debt	-	32,000	-	32,000	-	-	32,000
Deferred interest income	65,957	-	-	65,957	-	(65,957)	-
Deferred interest expense	-	-	-	-	(132,599)	65,957	(66,642)
Changes in unrestricted net assets	<u>123,162</u>	<u>(82,962)</u>	<u>2,247</u>	<u>42,447</u>	<u>(265,151)</u>	<u>30,000</u>	<u>(192,704)</u>
Changes in Temporarily Restricted Net Assets:							
Contributions	296,914	-	-	296,914	-	-	296,914
Net assets released from program restrictions	(55,215)	-	-	(55,215)	-	-	(55,215)
Changes in temporarily restricted net assets	<u>241,699</u>	<u>-</u>	<u>-</u>	<u>241,699</u>	<u>-</u>	<u>-</u>	<u>241,699</u>
Changes in net assets	364,861	(82,962)	2,247	284,146	(265,151)	30,000	48,995
Changes in Net Assets Attributable to Non-Controlling Interest	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>265,151</u>	<u>-</u>	<u>265,151</u>
Changes in net assets attributable to Housing Families	<u>\$ 364,861</u>	<u>\$ (82,962)</u>	<u>\$ 2,247</u>	<u>\$ 284,146</u>	<u>\$ -</u>	<u>\$ 30,000</u>	<u>\$ 314,146</u>

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

HOUSING FAMILIES INC. AND AFFILIATES

 Consolidating Statements of Changes in Entities' Equity (Deficit)
 For the Years Ended June 30, 2016 and 2015

	Housing Families Inc.	HFI Properties, Inc. and Affiliate	Eliminations	Total	Cross Street Housing LP	Eliminations	Total	Non- Controlling Interest	Total
Balance, June 30, 2014	\$ 2,002,464	\$ 5,734	\$ (71,741)	\$ 1,936,457	\$ (94,735)	\$ (62,690)	\$ 1,779,032	\$ (94,809)	\$ 1,684,223
Changes in net assets	<u>364,861</u>	<u>(82,962)</u>	<u>2,247</u>	<u>284,146</u>	<u>(265,151)</u>	<u>295,151</u>	<u>314,146</u>	<u>(265,151)</u>	<u>48,995</u>
Balance, June 30, 2015	2,367,325	(77,228)	(69,494)	2,220,603	(359,886)	232,461	2,093,178	(359,960)	1,733,218
Changes in net assets	<u>109,507</u>	<u>(62,152)</u>	<u>2,247</u>	<u>49,602</u>	<u>(84,559)</u>	<u>114,559</u>	<u>79,602</u>	<u>(84,559)</u>	<u>(4,957)</u>
Balance, June 30, 2016	<u>\$ 2,476,832</u>	<u>\$ (139,380)</u>	<u>\$ (67,247)</u>	<u>\$ 2,270,205</u>	<u>\$ (444,445)</u>	<u>\$ 347,020</u>	<u>\$ 2,172,780</u>	<u>\$ (444,519)</u>	<u>\$ 1,728,261</u>

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

HOUSING FAMILIES INC. AND AFFILIATES

 Consolidating Statement of Cash Flows
 For the Year Ended June 30, 2016

	Housing Families Inc.	HFI Properties, Inc. and Affiliate	Cross Street Housing LP	Eliminations	Total
Cash Flows from Operating Activities:					
Changes in net assets	\$ 109,507	\$ (62,152)	\$ (84,559)	\$ 32,247	\$ (4,957)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:					
Depreciation and amortization	62,528	181,164	143,701	(32,247)	355,146
Bad debt	468	-	510	-	978
Capital grant	63,810	-	(63,810)	-	-
Forgiveness of debt	-	(26,529)	-	-	(26,529)
Deferred interest	-	-	57,655	-	57,655
Changes in operating assets and liabilities:					
Accounts and pledges receivable	(353,277)	(406)	(1,021)	-	(354,704)
Prepaid expenses and other	16,728	-	658	-	17,386
Due to/from affiliates	(21,788)	11,006	10,782	-	-
Accounts payable	(20,201)	474	(11,917)	-	(31,644)
Accrued expenses	272,208	490	8,562	-	281,260
Net cash provided by operating activities	<u>129,983</u>	<u>104,047</u>	<u>60,561</u>	<u>-</u>	<u>294,591</u>
Cash Flows from Investing Activities:					
Acquisition of property and equipment	(37,672)	(7,322)	(77,620)	-	(122,614)
Deposits to and interest earned on operating reserves	-	(35,893)	(25,186)	-	(61,079)
Withdrawal from (deposits to) and interest earned on reserves for replacements	-	(12,482)	18,301	-	5,819
Net cash used in investing activities	<u>(37,672)</u>	<u>(55,697)</u>	<u>(84,505)</u>	<u>-</u>	<u>(177,874)</u>
Cash Flows from Financing Activities:					
Capital grant	(63,810)	-	63,810	-	-
Principal payments on long-term debt	-	(16,611)	(39,643)	-	(56,254)
Principal payments on capital lease obligations	(21,550)	-	-	-	(21,550)
Net cash provided by (used in) financing activities	<u>(85,360)</u>	<u>(16,611)</u>	<u>24,167</u>	<u>-</u>	<u>(77,804)</u>
Net Change in Cash	6,951	31,739	223	-	38,913
Cash:					
Beginning of year	307,490	46,539	4,877	-	358,906
End of year	<u>\$ 314,441</u>	<u>\$ 78,278</u>	<u>\$ 5,100</u>	<u>\$ -</u>	<u>\$ 397,819</u>
Supplemental Disclosure of Cash Flow Information:					
Cash paid for interest	<u>\$ 11,278</u>	<u>\$ 22,198</u>	<u>\$ 98,000</u>	<u>\$ -</u>	<u>\$ 131,476</u>
Non-Cash Investing and Financing Transactions:					
Property and equipment acquired under capital leases	<u>\$ 53,775</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 53,775</u>
Forgiveness of contingent debt	<u>\$ -</u>	<u>\$ 26,529</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,529</u>

HOUSING FAMILIES INC. AND AFFILIATES

 Consolidating Statement of Cash Flows
 For the Year Ended June 30, 2015

	Housing Families Inc.	HFI Properties, Inc. and Affiliate	Cross Street Housing LP	Eliminations	Total
Cash Flows from Operating Activities:					
Changes in net assets	\$ 364,861	\$ (82,962)	\$ (265,151)	\$ 32,247	\$ 48,995
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:					
Depreciation and amortization	32,383	176,569	132,134	(32,247)	308,839
Bad debt	-	5,514	-	-	5,514
Capital grant	(63,810)	-	-	-	(63,810)
Forgiveness of debt	-	(32,000)	-	-	(32,000)
Deferred interest	(65,957)	-	132,599	-	66,642
Changes in operating assets and liabilities:					
Accounts and pledges receivable	(212,629)	(4,456)	2,682	-	(214,403)
Prepaid expenses and other	(39,248)	-	(12)	-	(39,260)
Due to/from affiliates	70,085	(72,229)	2,144	-	-
Accrued interest	-	-	565	-	565
Fiscal agent payable	(2,139)	-	-	-	(2,139)
Accounts payable	53,534	207	13,827	-	67,568
Accrued expenses	3,275	1,544	(640)	-	4,179
Net cash provided by (used in) operating activities	<u>140,355</u>	<u>(7,813)</u>	<u>18,148</u>	<u>-</u>	<u>150,690</u>
Cash Flows from Investing Activities:					
Acquisition of property and equipment	(98,281)	-	-	-	(98,281)
Withdrawals from operating reserves	-	10,659	14,894	-	25,553
Deposits to and interest earned on reserve for replacements	-	(47,448)	(10,436)	-	(57,884)
Net cash provided by (used in) investing activities	<u>(98,281)</u>	<u>(36,789)</u>	<u>4,458</u>	<u>-</u>	<u>(130,612)</u>
Cash Flows from Financing Activities:					
Capital grant	63,810	-	-	-	63,810
Proceeds from contingent debt	-	68,108	-	-	68,108
Proceeds from long-term debt	-	12,276	-	-	12,276
Principal payments on long-term debt	-	(114,251)	(37,916)	-	(152,167)
Principal payments on capital lease obligations	(19,500)	-	-	-	(19,500)
Net cash provided by (used in) financing activities	<u>44,310</u>	<u>(33,867)</u>	<u>(37,916)</u>	<u>-</u>	<u>(27,473)</u>
Net Change in Cash	86,384	(78,469)	(15,310)	-	(7,395)
Cash:					
Beginning of year	<u>221,106</u>	<u>125,008</u>	<u>20,187</u>	<u>-</u>	<u>366,301</u>
End of year	<u>\$ 307,490</u>	<u>\$ 46,539</u>	<u>\$ 4,877</u>	<u>\$ -</u>	<u>\$ 358,906</u>
Supplemental Disclosure of Cash Flow Information:					
Cash paid for interest	<u>\$ 4,004</u>	<u>\$ 27,165</u>	<u>\$ 103,593</u>	<u>\$ -</u>	<u>\$ 134,762</u>
Non-Cash Investing and Financing Transactions:					
Forgiveness of contingent debt	<u>\$ -</u>	<u>\$ 32,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 32,000</u>

HOUSING FAMILIES INC. AND AFFILIATES

Consolidating Statement of Functional Expenses

For the Year Ended June 30, 2016

(With Summarized Comparative Totals for the Year Ended June 30, 2015)

	2016										2015	
	Housing Families Inc.											
	Support Services											
Program Services	General and Administrative	Fundraising	Total Support Services	Total	HFI Properties, Inc. and Affiliate (Exhibit B)	Eliminations	Total	Cross Street Housing LP	Eliminations	Total	Total	
Personnel and Related Costs:												
Salaries	\$ 1,863,689	\$ 260,136	\$ 213,691	\$ 473,827	\$ 2,337,516	\$ 9,353	\$ -	\$ 2,346,869	\$ 11,912	\$ -	\$ 2,358,781	\$ 1,523,925
Payroll taxes and benefits	362,438	32,711	31,167	63,878	426,316	5,008	-	431,324	3,088	-	434,412	314,774
Temporary help	23,906	1,684	3,133	4,817	28,723	-	-	28,723	-	-	28,723	35,095
Total personnel and related costs	2,250,033	294,531	247,991	542,522	2,792,555	14,361	-	2,806,916	15,000	-	2,821,916	1,873,794
Occupancy:												
Rent	2,179,297	12,341	10,975	23,316	2,202,613	-	(96,278)	2,106,335	-	(30,000)	2,076,335	1,165,343
Repairs and maintenance	102,616	23,209	439	23,648	126,264	66,690	-	192,954	63,186	-	256,140	214,448
Utilities	94,700	176	249	425	95,125	64,642	-	159,767	74,348	-	234,115	211,389
Interest	-	-	-	-	-	22,198	-	22,198	98,000	-	120,198	123,073
Taxes and insurance	30,221	2,187	-	2,187	32,408	45,578	-	77,986	39,907	-	117,893	97,114
Extermination contract	9,208	120	-	120	9,328	-	-	9,328	3,338	-	12,666	10,444
Total occupancy	2,416,042	38,033	11,663	49,696	2,465,738	199,108	(96,278)	2,568,568	278,779	(30,000)	2,817,347	1,821,811
Other:												
Pass-through client services	410,000	-	-	-	410,000	-	-	410,000	-	-	410,000	-
Donated goods and services	258,910	3,375	15,000	18,375	277,285	-	-	277,285	-	-	277,285	164,295
Office supplies and equipment	160,147	46,194	21,526	67,720	227,867	2,830	-	230,697	2,109	-	232,806	131,362
Professional fees	79,974	91,465	-	91,465	171,439	1,138	-	172,577	21,272	-	193,849	144,110
Special event	-	-	133,085	133,085	133,085	-	-	133,085	-	-	133,085	-
Non-capital equipment	76,138	18,031	3,149	21,180	97,318	-	-	97,318	-	-	97,318	10,770
Grant expense	94,807	-	1,366	1,366	96,173	-	-	96,173	-	-	96,173	46,140
Training, travel and meals	51,960	21,665	5,826	27,491	79,451	-	-	79,451	-	-	79,451	34,905
Telephone	54,916	3,790	1,547	5,337	60,253	-	-	60,253	-	-	60,253	37,585
Dues and subscriptions	10,143	3,924	16,933	20,857	31,000	-	-	31,000	-	-	31,000	31,413
Printing and postage	13,399	5,308	11,160	16,468	29,867	-	-	29,867	-	-	29,867	27,238
Vehicle costs	18,900	-	-	-	18,900	-	-	18,900	-	-	18,900	15,954
Miscellaneous	10,585	1,908	2,528	4,436	15,021	-	-	15,021	1,613	-	16,634	11,375
Insurance	5,506	8,749	-	8,749	14,255	-	-	14,255	-	-	14,255	12,551
Advertising	3,237	168	9,105	9,273	12,510	-	-	12,510	-	-	12,510	15,424
Interest	5,717	5,561	-	5,561	11,278	-	-	11,278	-	-	11,278	4,004
Management fees	-	-	-	-	-	16,247	(16,247)	-	17,876	(17,876)	-	-
Total other	1,254,339	210,138	221,225	431,363	1,685,702	20,215	(16,247)	1,689,670	42,870	(17,876)	1,714,664	687,126
Total expenses before depreciation and amortization	5,920,414	542,702	480,879	1,023,581	6,943,995	233,684	(112,525)	7,065,154	336,649	(47,876)	7,353,927	4,382,731
Depreciation and Amortization	53,624	8,904	-	8,904	62,528	181,164	(2,247)	241,445	143,701	(30,000)	355,146	308,839
Total expenses	\$ 5,974,038	\$ 551,606	\$ 480,879	\$ 1,032,485	\$ 7,006,523	\$ 414,848	\$ (114,772)	\$ 7,306,599	\$ 480,350	\$ (77,876)	\$ 7,709,073	\$ 4,691,570

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

HOUSING FAMILIES INC. AND AFFILIATES

 Consolidating Statement of Functional Expenses
 For the Year Ended June 30, 2015

	Housing Families Inc.				Total	HFI Properties, Inc. and Affiliate (Exhibit B)	Eliminations	Total	Cross Street Housing LP	Eliminations	Total
	Support Services			Total Support Services							
	Program Services	General and Admins- trative	Fundraising								
Personnel and Related Costs:											
Salaries	\$ 1,129,884	\$ 158,628	\$ 215,162	\$ 373,790	\$ 1,503,674	\$ -	\$ -	\$ 1,503,674	\$ 20,251	\$ -	\$ 1,523,925
Payroll taxes and benefits	243,006	31,890	34,629	66,519	309,525	-	-	309,525	5,249	-	314,774
Temporary help	33,166	1,929	-	1,929	35,095	-	-	35,095	-	-	35,095
Total personnel and related costs	1,406,056	192,447	249,791	442,238	1,848,294	-	-	1,848,294	25,500	-	1,873,794
Occupancy:											
Rent	1,285,985	2,130	3,348	5,478	1,291,463	-	(96,120)	1,195,343	-	(30,000)	1,165,343
Repairs and maintenance	32,110	6,390	12	6,402	38,512	101,481	-	139,993	74,455	-	214,448
Utilities	76,512	468	519	987	77,499	58,669	-	136,168	75,221	-	211,389
Interest	-	-	-	-	-	22,782	-	22,782	100,291	-	123,073
Taxes and insurance	14,241	-	-	-	14,241	44,486	-	58,727	38,387	-	97,114
Extermination contract	6,458	-	-	-	6,458	-	-	6,458	3,986	-	10,444
Total occupancy	1,415,306	8,988	3,879	12,867	1,428,173	227,418	(96,120)	1,559,471	292,340	(30,000)	1,821,811
Other:											
Donated goods and services	162,505	-	1,790	1,790	164,295	-	-	164,295	-	-	164,295
Office supplies and equipment	75,607	32,458	15,317	47,775	123,382	2,185	-	125,567	5,795	-	131,362
Professional fees	26,444	91,557	-	91,557	118,001	2,206	-	120,207	23,903	-	144,110
Non-capital equipment	10,770	-	-	-	10,770	-	-	10,770	-	-	10,770
Grant expense	46,140	-	-	-	46,140	-	-	46,140	-	-	46,140
Training, travel and meals	20,017	6,784	8,104	14,888	34,905	-	-	34,905	-	-	34,905
Telephone	33,576	1,662	2,347	4,009	37,585	-	-	37,585	-	-	37,585
Dues and subscriptions	3,819	12,027	15,567	27,594	31,413	-	-	31,413	-	-	31,413
Printing and postage	11,116	1,712	14,410	16,122	27,238	-	-	27,238	-	-	27,238
Vehicle costs	15,954	-	-	-	15,954	-	-	15,954	-	-	15,954
Miscellaneous	2,693	1,111	413	1,524	4,217	4,640	-	8,857	5,518	(3,000)	11,375
Insurance	3,748	8,803	-	8,803	12,551	-	-	12,551	-	-	12,551
Advertising	10,119	278	5,027	5,305	15,424	-	-	15,424	-	-	15,424
Interest	3,439	565	-	565	4,004	-	-	4,004	-	-	4,004
Management fees	-	-	-	-	-	15,491	(15,491)	-	16,486	(16,486)	-
Total other	425,947	156,957	62,975	219,932	645,879	24,522	(15,491)	654,910	51,702	(19,486)	687,126
Total expenses before depreciation and amortization	3,247,309	358,392	316,645	675,037	3,922,346	251,940	(111,611)	4,062,675	369,542	(49,486)	4,382,731
Depreciation and Amortization	20,779	11,006	598	11,604	32,383	176,569	(2,247)	206,705	132,134	(30,000)	308,839
Total expenses	\$ 3,268,088	\$ 369,398	\$ 317,243	\$ 686,641	\$ 3,954,729	\$ 428,509	\$ (113,858)	\$ 4,269,380	\$ 501,676	\$ (79,486)	\$ 4,691,570

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

HOUSING FAMILIES INC. AND AFFILIATES

Notes to Consolidating Financial Statements
June 30, 2016 and 2015

1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES

OPERATIONS AND NONPROFIT STATUS

Housing Families Inc. (HFI) was founded in 1986 by community members concerned about the growing crisis of homelessness among families in the cities of Everett, Malden and Medford, Massachusetts. HFI has grown into one of the largest providers of family housing in Massachusetts. Over 1,700 families have been helped since HFI first opened its doors.

HFI works to end family homelessness in the communities it serves by providing safe, temporary shelter, creating affordable housing, and offering individualized supportive services to family members of all ages. HFI respects each family in its journey toward greater security and stability.

HFI develops new programs and projects in response to the emerging needs of homeless families. The Board, staff and volunteers are dedicated to raising awareness of homelessness and poverty, and helping families to move into, retain and sustain permanent housing.

In fiscal year 2016 HFI increased to 100 shelter units from 49 in the previous fiscal year (17,885 bed nights to 36,500 bed nights). The increase in units increased fiscal year 2016 program service fee revenue and rent expense by approximately \$1,800,000 for the additional 51 units. Other expense increases included additional personnel and related expenses for support staff and pass-through client services due to an increased number of clients.

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

SIGNIFICANT ACCOUNTING POLICIES

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

Principles of Consolidation

The consolidating financial statements include the accounts of HFI and its affiliates: Cross Street Realty, Inc., HFI Properties, Inc., Malden Medford Homes LLC, and Cross Street Housing Limited Partnership (collectively, HFI and Affiliates) (see Note 2). All significant intercompany transactions have been eliminated.

Estimates

The preparation of consolidating financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidating financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

HOUSING FAMILIES INC. AND AFFILIATES

Notes to Consolidating Financial Statements
June 30, 2016 and 2015

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

Program service fees are recorded over the contract period or as services are provided. Rental income is recognized over the lease term. Unrestricted grants and contributions are recorded as revenue when received or unconditionally pledged. Restricted grants and contributions are recorded as temporarily restricted revenues and net assets when received or unconditionally pledged. Transfers are made to unrestricted net assets as costs are incurred or time restrictions or program restrictions have lapsed. Donor restricted grants received and satisfied in the same period are included in unrestricted net assets. All other revenue is recognized as earned.

Fair Value Measurements

HFI and Affiliates follow the accounting and disclosure standards pertaining to ASC Topic, *Fair Value Measurements*, for qualifying assets and liabilities. Fair value is defined as the price that HFI and Affiliates would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants.

HFI and Affiliates use a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. This hierarchy is broken down into three levels based on inputs that market participants would use in valuing the financial instruments based on market data obtained from sources independent of HFI and Affiliates. Inputs refer broadly to the assumptions that market participants would use in pricing the financial instrument, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the financial instrument developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset developed based on the best information available.

The three-tier hierarchy of inputs is summarized in the three broad levels as follows:

- Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets at the measurement date.
- Level 2 - Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.
- Level 3 - Inputs that are unobservable and which require significant judgment or estimation.

An asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement. All qualifying assets and liabilities are valued using Level 1 inputs.

HOUSING FAMILIES INC. AND AFFILIATES

Notes to Consolidating Financial Statements
June 30, 2016 and 2015

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Description of Net Assets

Unrestricted net assets are those net resources that bear no external restrictions and are generally available for use by HFI and Affiliates. HFI and Affiliates have grouped their unrestricted net assets into the following categories:

Operating - consists of amounts relating to program and other operating activities and are currently available for operations.

Property and equipment - reflect the net book value of HFI and Affiliates' property and equipment and reserves for replacements, net of related debt.

Housing development - represents funds for HFI's development related activities (see Note 2).

Temporarily restricted net assets are those unexpended financial resources that are restricted by donors as to purpose or timing of expenditure. Temporarily restricted net assets are restricted as follows as of June 30:

	<u>2016</u>	<u>2015</u>
Purpose	\$ 190,959	\$ 208,389
Time	50,000	25,000
Capital	<u>-</u>	<u>63,810</u>
	<u>\$ 240,959</u>	<u>\$ 297,199</u>

Non-controlling interest represents the net capital interest of an outside investor participating in the ownership of Cross Street Housing Limited Partnership (see Note 2).

Pledges Receivable

Pledges receivable are recorded at their net present value when unconditionally committed. Pledges receivable at June 30, 2016, are expected to be collected in fiscal year 2017. Pledges receivable at June 30, 2015, were collected in fiscal year 2016.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is recorded based on management's analysis of specific accounts and their estimate of amounts that may be uncollectible, if any. There was no allowance for doubtful accounts as of June 30, 2016 and 2015.

Property, Equipment and Depreciation

Property and equipment are capitalized at cost when purchased or at fair value at the date of donation. Renewals and betterments are capitalized as additions to the related asset accounts, while repairs and maintenance are expensed as incurred. Property and equipment are depreciated using the straight-line method over the following estimated useful lives:

Buildings and improvements	20 - 40 years
Furniture and equipment	3 - 10 years
Vehicles	5 years

HOUSING FAMILIES INC. AND AFFILIATES

Notes to Consolidating Financial Statements
June 30, 2016 and 2015

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capitalized Costs and Amortization

Capitalized costs consist of intangible costs which have been capitalized and amortized on the straight-line basis (fifteen to twenty years) (see Note 4).

Security Deposits

Security deposits consist of tenant deposits collected upon move-in. Interest is paid annually to the tenants based on the current interest rate of the bank where the deposits are held.

Donated Goods and Services

HFI receives donated goods and services from various organizations for use in its programs. These goods and services are reflected in the accompanying consolidating financial statements at fair market value, determined by management, as follows for the years ended June 30:

	<u>2016</u>	<u>2015</u>
Program supplies	\$ 141,485	\$ 75,007
Contracted services	<u>135,800</u>	<u>89,288</u>
	<u>\$ 277,285</u>	<u>\$ 164,295</u>

Expense Allocation

The consolidating financial statements present expenses by functional classification in accordance with the overall mission of HFI and Affiliates. Each functional classification displays all expenses related to the underlying operations by natural classification. Expenses are allocated among program and supporting services on the basis of time records and the estimates made by management.

Contingent Debt

HFI and Affiliates have contingent loans from various organizations to assist in the development of housing and other projects (see Note 7). These loans generally are not required to be repaid unless the project fails to maintain its status as low-income housing or HFI and Affiliates fail to comply with other conditions. It is the intention of the Board of Directors and management to maintain these properties as low-income housing and to meet other conditions. Therefore, these loans have been classified as contingent debt in the accompanying consolidating statements of financial position.

Advertising

Advertising costs are expensed as incurred.

HOUSING FAMILIES INC. AND AFFILIATES

Notes to Consolidating Financial Statements
June 30, 2016 and 2015

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

HFI and Affiliates account for uncertainty in income taxes in accordance with ASC Topic, *Income Taxes*. This standard clarifies the accounting for uncertainty in tax positions and prescribes a recognition threshold and measurement attribute for the consolidating financial statements regarding a tax position taken or expected to be taken in a tax return. HFI and Affiliates has determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the consolidating financial statements at June 30, 2016 and 2015.

As described on page 11, HFI is exempt from income taxes under Section 501(c)(3) of the IRC. Cross Street Realty, Inc. and HFI Properties, Inc. are for-profit corporations. At June 30, 2016 and 2015, Cross Street Realty, Inc. and HFI Properties, Inc. had, for Federal income tax purposes, net operating loss carryforwards of approximately \$309,000 and \$256,000, respectively, available to offset future taxable income. Cross Street Realty, Inc. and HFI Properties, Inc. had, for state income tax purposes, net operating loss carryforwards of approximately \$303,000 and \$250,000, respectively, available to offset future taxable income as of June 30, 2016 and 2015.

Cross Street Realty, Inc. and HFI Properties, Inc. account for uncertainty in income taxes in accordance with ASC Topic, *Income Taxes*. This standard does not have a material effect on the consolidating financial statements as of June 30, 2016 and 2015, since the tax benefit of the net operating loss carryforwards have been fully reserved.

Cross Street Housing Limited Partnership (CSLP) accounts for uncertainty in income taxes in accordance with ASC Topic, *Income Taxes*. No income tax provision has been included in the accompanying consolidating financial statements as the income, loss and credits of CSLP are reported by the partners on their respective income tax returns.

Consolidating Statements of Activities

Transactions deemed by management to be ongoing, major, or central to the provision of program services are reported as operating support and revenues and operating expenses on the accompanying consolidating statements of activities. Non-operating activities include forgiveness of debt, deferred interest expense capital activity.

Low-Income Housing Tax Credit

CSLP has been awarded low-income housing tax credits (LIHTC) under IRC Section 42. As a condition of receiving these LIHTC, CSLP must operate its property in a manner prescribed by this Code Section and by the Tax Regulatory Agreement for a minimum of fifteen years, expiring in 2019.

Subsequent Events

Subsequent events have been evaluated through December 12, 2016, which is the date the consolidating financial statements were available to be issued. There were no events that met the criteria for recognition or disclosure in the consolidating financial statements.

HOUSING FAMILIES INC. AND AFFILIATES

Notes to Consolidating Financial Statements
June 30, 2016 and 2015

2. RELATED PARTY TRANSACTIONS

HFI is presented on the consolidated basis and includes the following entity:

Cross Street Realty, Inc. (the General Partner) is a Massachusetts corporation, 79% owned by HFI. The General Partner holds a .01% ownership interest in CSLP.

Consolidating Entities

HFI and Affiliates' consolidating financial statements include the following entities:

Malden Medford Homes LLC (MM Homes) is a single member limited liability company formed in January 2011, with HFI Properties, Inc. as its sole member. MM Homes was formed to acquire, develop and operate certain properties in Malden and Medford, Massachusetts. MM Homes has elected to be treated as a disregarded entity for tax purposes.

HFI Properties, Inc. (HFI Properties) is a Massachusetts corporation formed in August 2010. The purpose of HFI Properties is to hold title to real property for the benefit of HFI. HFI owns 100% of HFI Properties' common stock.

Cross Street Housing Limited Partnership is a Massachusetts limited partnership. CSLP owns and operates a building located in Malden, Massachusetts consisting of nineteen units of low-income housing, one rent-free unit, and one commercial space, which is rented to HFI (the Project). Massachusetts Housing Equity Fund 2002 LLC (MHEF) holds a 99.99% interest in the capital, income, losses, and cash flow of CSLP. Non-controlling interest represents the interests of MHEF.

Transactions between HFI and the entities described above are as follows:

The Project was developed by HFI. HFI has an agreement with CSLP to receive a development fee for various services rendered in connection with the development of the Project. These fees are payable from development financing, cash flow or from the proceeds of sale or refinancing or at the latest December 31, 2018. The Project did not make any development fee payments to HFI during fiscal years 2016 and 2015. The unpaid development and overhead fee reimbursements were \$184,872 as of June 30, 2016 and 2015, and are included in due to/from affiliate in the accompanying consolidating statements of financial position. This note is secured by a third mortgage on the property.

HFI provides management services and staff to CSLP, MM Homes and HFI Properties. Management fees billed for the years ended June 30, 2016 and 2015, consisted of the following:

	<u>2016</u>	<u>2015</u>
CSLP	\$ 17,876	\$ 16,486
MM Homes	10,526	9,977
HFI Properties	<u>5,721</u>	<u>5,514</u>
	<u>\$ 34,123</u>	<u>\$ 31,977</u>

Management fees are included in management fees, program income and other and management fee expense in the accompanying consolidating financial statements.

CSLP has granted a continuing right of first refusal to HFI to purchase the property in the event that CSLP proposes to sell, transfer, assign, or lease the property. HFI would be required to continue to maintain the property as low-income housing under this agreement.

HOUSING FAMILIES INC. AND AFFILIATES

Notes to Consolidating Financial Statements
June 30, 2016 and 2015

2. RELATED PARTY TRANSACTIONS (Continued)

Consolidating Entities (Continued)

Amounts due to HFI from its affiliates for management fees and general advances are as follows:

	<u>2016</u>	<u>2015</u>
Due from CSLP	\$ 12,782	\$ 2,000
Due from MM Homes	5,122	-
Due from HFI Properties	<u>4,996</u>	<u>-</u>
	<u>\$ 22,900</u>	<u>\$ 2,000</u>

HFI has a 5.375% note receivable from CSLP of \$998,598, of which \$805,583 has been advanced at June 30, 2016 and 2015. Principal and interest are due annually if certain cash flow, as defined in the agreement, is achieved. There were no payments due for fiscal years 2016 and 2015. Interest compounds annually. All unpaid principal and deferred interest are due in full on July 23, 2033. For fiscal years 2016 and 2015, deferred interest expense on this loan was \$76,559 and \$65,957, respectively. This note is secured by a fourth mortgage on CSLP's property. During fiscal year 2016, HFI forgave the deferred interest portion that was earned during fiscal year 2016.

CSLP has a lease agreement with HFI to rent its commercial space to HFI. Future minimum lease payments through the end of the agreement are \$30,000 per year. HFI is also responsible for its proportionate share of utilities and real estate taxes. The lease term is for fifteen years through December 2019. Rent was \$30,000 for fiscal years 2016 and 2015. Under the terms of the lease agreement, rent will increase annually for increases in real estate taxes and operating expenses.

As part of the development of the Project, the General Partner has agreed to make contributions to fund operating deficits to CSLP to the extent that operating deficits exceed the funds available in the operating reserve accounts (see Note 9).

The sponsor loan, development fee, development overhead, and interest receivable on sponsor loan amounts are expected to be repaid when the Project is sold or refinanced, which is expected to be in 2019.

MM Homes has a lease agreement with HFI to rent program space to HFI. This agreement renews annually, subject to HFI receiving future state contract funding to operate the program. Rent was \$96,278 and \$96,120 for fiscal years 2016 and 2015, respectively.

HOUSING FAMILIES INC. AND AFFILIATES

Notes to Consolidating Financial Statements
June 30, 2016 and 2015

2. RELATED PARTY TRANSACTIONS (Continued)

Consolidating Entities (Continued)

Notes receivable consist of the following at June 30:

	<u>2016</u>	<u>2015</u>
Sponsor loan receivable	\$ 805,583	\$ 805,583
Interest receivable on sponsor loan	<u>693,492</u>	<u>616,933</u>
Total notes receivable	1,499,075	1,422,516
Less - reserve on uncollectable amounts	<u>76,559</u>	<u>-</u>
Notes receivable, net	<u>\$ 1,422,516</u>	<u>\$ 1,422,516</u>

In September 2015, HFI entered into a \$300,000 line of credit agreement with a bank where one of HFI's Board of Directors is an employee of the bank (see Note 6). There was no balance as of June 30, 2016.

3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

<u>2016</u>	<u>HFI</u>	<u>HFI Properties, Inc. and Affiliate</u>	<u>CSLP</u>	<u>Eliminations</u>	<u>Total</u>
Land	\$ -	\$ 322,100	\$ 963,600	\$ -	\$ 1,285,700
Buildings and improvements	-	4,545,950	5,110,704	(525,764)	9,130,890
Furniture and equipment	229,596	33,723	49,845	-	313,164
Vehicles	<u>86,491</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>86,491</u>
Total cost	316,087	4,901,773	6,124,149	(525,764)	10,816,245
Less - accumulated depreciation	<u>156,615</u>	<u>1,105,239</u>	<u>1,559,340</u>	<u>(361,018)</u>	<u>2,460,176</u>
	<u>\$ 159,472</u>	<u>\$ 3,796,534</u>	<u>\$ 4,564,809</u>	<u>\$ (164,746)</u>	<u>\$ 8,356,069</u>

<u>2015</u>	<u>HFI</u>	<u>HFI Properties, Inc. and Affiliate</u>	<u>CSLP</u>	<u>Eliminations</u>	<u>Total</u>
Land	\$ -	\$ 322,100	\$ 963,600	\$ -	\$ 1,285,700
Buildings and improvements	-	4,545,950	5,033,084	(525,764)	9,053,270
Furniture and equipment	187,601	26,401	49,845	-	263,847
Vehicles	<u>60,489</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>60,489</u>
Total cost	248,090	4,894,451	6,046,529	(525,764)	10,663,306
Less - accumulated depreciation	<u>117,537</u>	<u>926,617</u>	<u>1,420,368</u>	<u>(328,771)</u>	<u>2,135,751</u>
	<u>\$ 130,553</u>	<u>\$ 3,967,834</u>	<u>\$ 4,626,161</u>	<u>\$ (196,993)</u>	<u>\$ 8,527,555</u>

HOUSING FAMILIES INC. AND AFFILIATES

Notes to Consolidating Financial Statements
June 30, 2016 and 2015

3. PROPERTY AND EQUIPMENT (Continued)

Depreciation expense during fiscal years 2016 and 2015 was \$347,875 and \$301,182, respectively. Substantially all property and equipment are pledged as collateral on long-term and contingent debt (see Notes 5 and 7).

HFI accounts for the carrying value of its property and equipment in accordance with ASC Topic, *Impairment and Disposal of Long-Lived Assets*. As of June 30, 2016 and 2015, HFI has not recognized any reduction in the carrying value of its property and equipment under these standards.

HFI currently has equipment and vehicles under various capital lease agreements with a total cost of \$123,948 and \$93,623 as of June 30, 2016 and 2015, respectively (see Note 8). Depreciation expense for fiscal years 2016 and 2015 for assets under capital lease was \$25,570 and \$21,219, respectively. During fiscal year 2016, HFI disposed of assets under a capital lease obligation with cost and accumulated depreciation of \$23,450. As of June 30, 2016 and 2015, accumulated depreciation was \$56,758 and \$54,638, respectively, on these assets.

4. CAPITALIZED COSTS AND AMORTIZATION

Capitalized costs consist of the following at June 30:

	<u>2016</u>	<u>2015</u>
Mortgage financing fees	\$ 85,994	\$ 85,994
Low-income housing tax credit application fees	<u>35,000</u>	<u>35,000</u>
	120,994	120,994
Less - accumulated amortization	<u>63,536</u>	<u>56,265</u>
	<u>\$ 57,458</u>	<u>\$ 64,729</u>

Mortgage financing fees are being amortized over the term of the mortgages (twenty years) (see Note 5), and the low-income housing tax credit application fees are being amortized over the tax credit compliance period of fifteen years. Amortization expense for fiscal years 2016 and 2015 was \$7,271 and \$7,657, respectively. Amortization expense for the next five fiscal years is expected to be \$7,271.

5. LONG-TERM DEBT

Long-term debt consists of the following at June 30:

HFI Properties	<u>2016</u>	<u>2015</u>
Non-interest bearing note payable to Malden Redevelopment Authority (MRA). Payments are due annually each August based on 25% of net cash flow of the property, as defined in the agreement. Based on this calculation, a payment of \$1,546 and \$884 was due at June 30, 2016 and 2015. During fiscal year 2016, a principal payment of \$884 was made on this note. The note matures in September 2041, and is secured by a first mortgage on property located in Revere, Massachusetts.	\$ 546,737	\$ 547,621

HOUSING FAMILIES INC. AND AFFILIATES

Notes to Consolidating Financial Statements
June 30, 2016 and 2015

5. LONG-TERM DEBT (Continued)

	<u>2016</u>	<u>2015</u>
HFI Properties (Continued)		
5.75% interest bearing note payable to a bank. Principal and interest payments of \$2,359 are due monthly through November 2016. Effective in November 2016, the interest rate shall be adjusted to the Five-Year Federal Home Loan Classic Advance Rate, plus 2.75%, but never less than 5.75%. This note matures in November 2021 and requires a balloon payment of \$295,704 at maturity. This note is secured by a shared second mortgage on property located in Revere, Massachusetts.	<u>348,156</u>	<u>355,866</u>
Total HFI Properties	<u>894,893</u>	<u>903,487</u>
MM Homes		
Non-interest bearing note payable to MRA. Payments of 25% of net cash flow, as defined in the agreement, are due annually each December. Based on this calculation, there was no payment due at June 30, 2016 and 2015. MM Homes made a principal payment of \$18,176 during fiscal year 2015. MM Homes did not make a principal payment during fiscal year 2016. The note matures in August 2041, and is secured by a shared first mortgage on property located in Malden and Medford, Massachusetts.	847,459	847,459
Non-interest bearing note payable with Community Economic Development Assistance Corporation (CEDAC) through its Housing Innovations Fund (HIF) program for a maximum amount of \$227,200. During fiscal year 2015, MM Homes drew down \$12,276 under the terms of this agreement. The note stipulates that payments of principal be made before the maturity date, if gross receipts exceed 105% of cash expenditures, as defined in the agreement. Based on this calculation, there were no payments due at June 30, 2016 and 2015. MM Homes made payments totaling \$47,213 in fiscal year 2015, which consisted of the fiscal years 2014 and 2013 cash flow payments. The note matures in August 2042, and is secured by a shared first mortgage on property in Malden and Medford, Massachusetts.	179,988	179,988
Non-interest bearing note payable with CEDAC through its HIF program. The note stipulates that payments of principal be made before the maturity date, if gross receipts exceed 105% of cash expenditures, as defined in the agreement. Based on this calculation, there were no payments due at June 30, 2016. Based on this calculation, a payment of \$10,508 was due at June 30, 2015. During fiscal year 2015, MM Homes made principal payments totaling \$19,770, which consisted of the fiscal years 2014 and 2013 cash flow payments. The note matures in February 2028, and is secured by a shared first mortgage on property in Medford, Massachusetts.	70,230	70,230

HOUSING FAMILIES INC. AND AFFILIATES

Notes to Consolidating Financial Statements
June 30, 2016 and 2015

5. LONG-TERM DEBT (Continued)

	<u>2016</u>	<u>2015</u>
MM Homes (Continued)		
Non-interest bearing note payable with CEDAC through its HIF program. The note stipulates that payments of principal be made before the maturity date, if gross receipts exceed 105% of cash expenditures, as defined in the agreement. Based on this calculation, there were no payments due at June 30, 2016 and 2015. During fiscal year 2015, MM Homes made principal payments totaling \$13,180, which consisted of the fiscal years 2014 and 2013 cash flow payments. All unpaid principal is due in July 2030. The note is secured by a shared first mortgage on property in Malden, Massachusetts.	46,820	46,820
2% note payable to MRA, due in quarterly principal and interest payments of \$1,158. The note matures in April 2027, and is secured by a shared first mortgage on property located in Malden, Massachusetts.	45,588	48,779
2% note payable to MRA, due in quarterly principal and interest payments of \$731. The note matures in November 2022, and is secured by a shared first mortgage on property located in Malden, Massachusetts.	19,195	22,292
3% note payable to MRA, due in monthly principal and interest payments of \$171. The note matures in February 2018, and is secured by a shared first mortgage on property located in Malden, Massachusetts.	<u>3,541</u>	<u>5,270</u>
Total MM Homes	<u>1,212,821</u>	<u>1,220,838</u>
CSLP		
7% note payable to a bank, due in monthly principal and interest payments of \$8,786 using a thirty-year amortization schedule. There is a balloon payment of approximately \$760,000 due on June 15, 2025. This note is secured by a first mortgage on the property.	1,106,081	1,133,016
4.17% note payable to MRA. CSLP makes monthly principal and interest payments of \$2,686, with interest at 3%. The difference between the interest rate of 4.17% and the monthly payments using the 3% rate are deferred and are due at maturity (see Note 7). This note matures in July 2046, and is secured by a shared second mortgage on the property.	<u>635,758</u>	<u>647,509</u>
Total CSLP	<u>1,741,839</u>	<u>1,780,525</u>
Total long-term debt	3,849,553	3,904,850
Plus - accrued interest to a bank	3,606	4,563
Less - current portion	<u>60,592</u>	<u>61,422</u>
Total long-term debt, net of current portion	<u>\$ 3,792,567</u>	<u>\$ 3,847,991</u>

HOUSING FAMILIES INC. AND AFFILIATES

Notes to Consolidating Financial Statements
June 30, 2016 and 2015

5. LONG-TERM DEBT (Continued)

Aggregate maturities of long-term debt and accrued interest over the next five years are as follows:

<u>Fiscal Year</u>	
2017	\$ 60,592
2018	\$ 61,623
2019	\$ 63,507
2020	\$ 66,989
2021	\$ 67,758

The mortgage notes payable contain various covenants and restrictions on HFI and Affiliates as described in the agreements. HFI and Affiliates were in compliance with these covenants and restrictions as of June 30, 2016 and 2015.

6. NOTE PAYABLE TO A BANK

In September 2015, HFI entered into a \$300,000 line of credit agreement with a bank. Borrowings under the agreement are due on demand and interest is payable monthly at the bank's base lending rate (3.5% at the time of closing), plus 0.5%. Borrowings on the line of credit are secured by a security interest in all business assets. The line of credit renews annually on December 31st at the discretion of the bank. As of June 30, 2016, there was no outstanding balance under this agreement.

HFI had available up to \$100,000 under a line of credit agreement with a bank at June 30, 2015. Borrowings under the agreement were due on demand, and interest was payable monthly at the bank's base lending rate (3.25% at June 30, 2016 and 2015), plus 1.5%, or a minimum interest rate of 4.75%, whichever is greater. Collateral for borrowings on the line of credit was a security interest in all business assets. As of June 30, 2015, there was no outstanding balance under this agreement. The line of credit was closed in September 2015.

7. CONTINGENT DEBT AND DEFERRED INTEREST

Contingent debt consists of the following at June 30:

	<u>2016</u>	<u>2015</u>
HFI Properties		
Non-interest bearing note payable to the Commonwealth of Massachusetts, Department of Housing and Community Development (DHCD). All outstanding principal is due in September 2025, and is secured by a shared second mortgage on property in Revere, Massachusetts.	\$ 535,000	\$ 535,000
Non-interest bearing note payable with the City of Peabody. All outstanding principal is due on demand if there is a default under the loan agreement or the property is transferred. Commencing in fiscal year 2016, and every year thereafter through fiscal year 2025, a portion of the outstanding principal balance will be forgiven, as defined in the agreement. Accordingly, \$5,195 was forgiven during fiscal year 2016. The note is secured by a shared second mortgage on property in Revere, Massachusetts.	46,755	51,950

HOUSING FAMILIES INC. AND AFFILIATESNotes to Consolidating Financial Statements
June 30, 2016 and 2015

7. CONTINGENT DEBT AND DEFERRED INTEREST (Continued)

	<u>2016</u>	<u>2015</u>
HFI Properties (Continued)		
Non-interest bearing note payable with the City of Revere. All outstanding principal is due on demand if there is a default under the loan agreement or the property is sold or transferred. The note is secured by a shared second mortgage on property in Revere, Massachusetts.	<u>40,000</u>	<u>40,000</u>
Total contingent debt - HFI Properties	<u>621,755</u>	<u>626,950</u>
MM Homes		
Non-interest bearing note payable with DHCD under its Affordable Housing Trust Fund program. All outstanding principal is due in August 2042, and is secured by a shared first mortgage on property in Malden and Medford, Massachusetts.	750,000	750,000
Non-interest bearing note payable with a maximum outstanding amount of \$750,000 with DHCD under its Non-Federal Investment Trust Fund program. All outstanding principal is due in August 2042. The note is secured by a shared first mortgage on property in Malden and Medford, Massachusetts.	743,108	743,108
Non-interest bearing note payable to MRA, which matured in November 2015. Commencing on November 8, 2013, and every year thereafter through November 2015, 33% of the principal amount was to be forgiven, granted MM Homes remained in compliance with certain covenants as defined in the agreement. MM Homes was in compliance with these covenants during fiscal years 2016 and 2015. For fiscal years, 2016 and 2015, \$13,334 was forgiven under the terms of the agreement.	-	13,334
Non-interest bearing note payable to MRA, which matured in August 2015. Commencing on August 3, 2013, and every year thereafter, 33% of the principal amount was to be forgiven, granted MM Homes remains in compliance with certain covenants as defined in the agreement. MM Homes was in compliance with these covenants as of June 30, 2015. For the years ended June 30, 2016 and 2015, \$8,000 was forgiven under the terms of the agreement.	<u>-</u>	<u>8,000</u>
Total contingent debt - MM Homes	<u>1,493,108</u>	<u>1,514,442</u>

HOUSING FAMILIES INC. AND AFFILIATES

Notes to Consolidating Financial Statements
June 30, 2016 and 2015

7. CONTINGENT DEBT AND DEFERRED INTEREST (Continued)

CSLP	<u>2016</u>	<u>2015</u>
5.375% note payable to HFI, with interest compounded annually through June 30, 2015. During fiscal year 2016, HFI forgave the fiscal year 2016 portion of deferred interest on this note. All unpaid principal and accrued interest are due in full in July 2023. This note is secured by a shared second mortgage on the property.	805,583	805,583
4.17% note payable to DHCD, with interest compounded annually. All unpaid principal and deferred interest are due in full in August 2033. This note is secured by a shared second mortgage on the property.	750,000	750,000
Non-interest bearing note payable to CEDAC in the amount of \$500,000. All principal is due on December 31, 2033. Payments are due on February 15 th of each year, if gross cash receipts for the year exceed 105% of gross cash expenditures for the year, as defined in the agreement. There were no payments due as of June 30, 2016 and 2015. This note is secured by a shared second mortgage on the property.	<u>500,000</u>	<u>500,000</u>
Total contingent debt - CSLP	2,055,583	2,055,583
Plus - deferred interest (see below)	<u>1,285,352</u>	<u>1,227,697</u>
Total contingent debt and deferred interest - CSLP	<u>3,340,935</u>	<u>3,283,280</u>
Total contingent debt and deferred interest	5,455,798	5,424,672
Less - elimination	<u>1,422,516</u>	<u>1,422,516</u>
	<u>\$ 4,033,282</u>	<u>\$ 4,002,156</u>

Deferred interest consists of the following as of June 30:

	<u>2016</u>	<u>2015</u>
Related party note, net (see page 17)	\$ 616,933	\$ 616,933
DHCD note (see above)	485,257	435,807
MRA note (see page 21)	<u>183,162</u>	<u>174,957</u>
	<u>\$ 1,285,352</u>	<u>\$ 1,227,697</u>

CEDAC, DHCD and MRA may extend the maturity dates of the notes on pages 22 through 24 for an additional forty years, if the property continues to be used for low-income housing.

The contingent debt agreements contain various covenants and restrictions on HFI and Affiliates as described in the agreements. HFI and Affiliates were in compliance with these covenants at June 30, 2016 and 2015.

HOUSING FAMILIES INC. AND AFFILIATES

Notes to Consolidating Financial Statements
June 30, 2016 and 2015

8. COMMITMENTS

Facility Leases

HFI leases program facilities under various operating leases expiring through December 2017, that are renewable annually. Rent expense under the facility leases was approximately \$2,076,000 and \$1,165,000 for the years ended June 30, 2016 and 2015, respectively. The minimum lease payments under these agreements for fiscal years 2017 and 2018 are approximately \$1,963,000 and \$169,000, respectively.

Equipment Leases

HFI leases certain equipment (see Notes 1 and 3) as of June 30, 2016 and 2015, under various capital lease agreements through July 2021. Interest rates under these agreements range between 2.1% and 15% during fiscal years 2016 and 2015.

Future minimum lease payments under these agreements are as follows:

<u>Fiscal Year</u>	
2017	\$ 29,309
2018	19,153
2019	17,390
2020	16,533
2021	8,479
Thereafter	<u>160</u>
Total future minimum payments	91,024
Less - amounts representing interest	<u>9,883</u>
Present value of future minimum lease payments	81,141
Less - current portion	<u>23,570</u>
Long-term portion	<u>\$ 57,571</u>

9. RESERVES AND DEPOSITS

Reserves for Replacements

CSLP was required to establish and fund a reserve for replacements. The reserve for replacements is to be used to fund capital improvements. In fiscal years 2016 and 2015, CSLP was required to make monthly deposits of approximately \$882 and \$879, respectively, into this account. The required monthly deposits increase by 4% per year. During fiscal year 2016, CSLP was approved to withdraw \$29,133 from this account. As of June 30, 2016 and 2015, this account was adequately funded. CSLP's reserve for replacements had a balance of \$73,342 and \$91,643 at June 30, 2016 and 2015, respectively.

HFI Properties was required to establish and fund a reserve for replacements. The reserve for replacements is to be used to fund capital improvements. HFI Properties is required to deposit \$500 per unit annually into the reserve for replacements account. HFI Properties must receive approval for any withdrawals in excess of \$2,000 from the reserve for replacements account. As of June 30, 2016 and 2015, this account was adequately funded. HFI Properties' reserve for replacements had a balance of \$63,095 and \$59,666 as of June 30, 2016 and 2015, respectively.

HOUSING FAMILIES INC. AND AFFILIATES

Notes to Consolidating Financial Statements
June 30, 2016 and 2015

9. RESERVES AND DEPOSITS (Continued)

Reserves for Replacements (Continued)

During fiscal year 2014, MM Homes established a reserve for replacements. MM Homes is not required to maintain a minimum balance and any deposits or withdrawals from this account are at the discretion of management. MM Homes' reserve for replacements had a balance of \$68,009 and \$58,956 as of June 30, 2016 and 2015, respectively.

Operating Reserves

CSLP was also required to establish and fund an operating reserve. The operating reserve is to be used to fund operating deficits, if any. CSLP is required to deposit the lesser of 2% of project expenses or net cash flow annually into the operating reserve until the operating reserve reaches a balance equal to 50% of project expenses, as defined in CSLP agreement (approximately \$190,000 as of June 30, 2016 and 2015). During fiscal year 2015, CSLP was approved to withdraw approximately \$15,000 from this account to fund operating expenses. As of June 2015, CSLP was required to make monthly deposits of \$4,167 into this account through December 2015. CSLP deposited a total of \$25,186 during fiscal year 2016. CSLP's operating reserve had a balance of \$190,271 and \$165,085 at June 30, 2016 and 2015, respectively.

HFI Properties was also required to establish and fund an operating reserve. The operating reserve is to be used to fund operating deficits, if any. HFI Properties is required to deposit an amount sufficient to maintain a balance equal to 25% of the annual operating budget (approximately \$21,700 and \$29,800 as of June 30, 2016 and 2015, respectively). This account was not adequately funded as of June 30, 2015. In July 2015, HFI Properties made a deposit of \$8,299 to adequately fund this account. This account was adequately funded as of June 30, 2016. HFI Properties' operating reserve held a balance of \$37,790 and \$29,351 as of June 30, 2016 and 2015, respectively.

During fiscal year 2014, MM Homes established an operating reserve which is to be used to fund any future operating deficits. MM Homes is not required to maintain a minimum balance and any deposits or withdrawals from this account are at the discretion of management. During fiscal year 2016, MM Homes deposited \$27,454 into the operating reserve.

10. FUNDING

HFI and Affiliates receive a significant portion of their total unrestricted operating support and revenues (approximately 72% and 65% during fiscal years 2016 and 2015, respectively) from two funding sources under unit-rate and cost reimbursable contracts. These reimbursements are subject to audit by the funding sources. In the opinion of management, the results of such audits, if any, will not have a material effect on the consolidating financial position of HFI and Affiliates as of June 30, 2016 and 2015, or on the changes in their net assets for the years then ended.

CSLP receives significant rental subsidies from the Malden Housing Authority (MHA) for qualified tenants. MHA has committed to provide subsidies through May 2030. MHA provided \$269,558 and \$265,835 in rental subsidies and vacancy reimbursements to CSLP during the years ended June 30, 2016 and 2015, respectively.

HFI Properties, Inc. and Affiliate also receives significant rental subsidies from MHA and the Metro Boston Housing Partnership (MBHP) for qualified tenants. MHA and MBHP have committed to provide subsidies to HFI Properties, Inc. and Affiliate through January 2025 and March 2018, respectively. Collectively, MHA and MBHP provided \$193,465 and \$182,907 in rental subsidies to HFI Properties, Inc. and Affiliate during the years ended June 30, 2016 and 2015, respectively.

HOUSING FAMILIES INC. AND AFFILIATES

Notes to Consolidating Financial Statements
June 30, 2016 and 2015

11. CONCENTRATIONS

HFI and Affiliates maintain their cash balances in various banks in Massachusetts and are insured within the limits of Federal Deposit Insurance Corporation (FDIC). HFI and Affiliates have not experienced any losses in such accounts. HFI and Affiliates believe they are not exposed to any significant credit risk on their cash.

Approximately 85% of HFI's accounts and pledges receivable were due from two sources as of June 30, 2016. Approximately 70% of HFI's accounts and pledges receivable were due from one source as of June 30, 2015.

12. RECLASSIFICATION

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

HOUSING FAMILIES INC. AND AFFILIATES

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Housing and Urban Development:			
Direct Program:			
Continuum of Care Program	14.267	N/A	\$ 171,445
Passed -Through Heading Home, Inc.:			
Continuum of Care Program	14.267	MA0475L1T16	236,004
Continuum of Care Program	14.267	N/A	205,159
Passed-Through Commonwealth of Massachusetts, Department of Housing and Community Development:			
Continuum of Care Program	14.267	OCD810015FD	<u>86,056</u>
Total CFDA #14.267			698,664
Passed -Through City of Everett:			
Community Development Block Grants/ Entitlement Grants	14.218	N/A	46,286
U.S. Department of Department of Health and Human Services:			
Passed -Through Action for Boston Community Development:			
Community Services Block Grant	93.569	OCD42001560	<u>73,425</u>
Total Expenditures of Federal Awards			<u><u>\$ 818,375</u></u>

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the Federal assistance activity of the Agency and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Guidance, *Audits of States, Local Governments, and Non-Profit Organizations*.

The Agency's consolidating financial statements include the operations of HFI Properties, Inc., Malden Medford Homes LLC and Cross Street Housing Limited Partnership (collectively, the Affiliates), which are not included in the accompanying Schedule of Expenditures of Federal Awards during the year ended June 30, 2016, since the Affiliates are not subject to Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Guidance.

Note 2. Indirect Cost Rate

The Agency has elected not to use the 10% de minimis cost rate for its Federal programs.

**Report on Internal Control Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Consolidating Financial Statements
Performed in Accordance with Government Auditing Standards**

Independent Auditor's Report

To the Board of Directors of
Housing Families Inc. and Affiliates:

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 Housing Families Inc. and Affiliates (collectively, the Agency), which comprise the consolidating statement of financial position as of June 30, 2016, and the related consolidating statements of activities, changes in entities' equity (deficit), cash flows and functional expenses for the year then ended, and the related notes to the consolidating financial statements, and have issued our report thereon dated December 12, 2016. The financial statements of HFI Properties, Inc., Malden Medford Homes LLC and Cross Street Housing Limited Partnership (collectively, the Affiliates) are organized as for-profit entities (see page 16) and were not audited in accordance with *Government Auditing Standards* and, accordingly, this report does not include reporting on internal control over financial reporting or instances of noncompliance associated with the Affiliates.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidating financial statements, we considered the Agency'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 Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency'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 Agency'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.

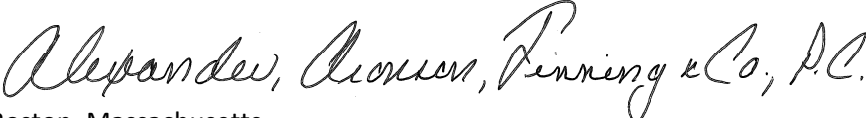
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 Agency'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 consolidating 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 Agency'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 Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Boston, Massachusetts
December 12, 2016

**Report on Compliance for Each Major Federal Program and Report on Internal Control
Over Compliance Required by the Uniform Guidance**

Independent Auditor's Report

To the Board of Directors of
Housing Families Inc. and Affiliates:

Report on Compliance for Each Major Federal Program

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

The Agency's consolidating financial statements include the financial statements of HFI Properties, Inc., Malden Medford Homes LLC and Cross Street Housing Limited Partnership (collectively, the Affiliates) which are organized as for-profit entities and, accordingly, their Federal Awards are not included in the schedule of expenditures of federal awards for the year ended June 30, 2016. Our audit, described below, did not include the Federal Awards of those Affiliates because those Affiliates are not subject to Uniform Guidance standards.

Management's Responsibility

Management is responsible for compliance with the Federal statutes, regulations, and the terms and conditions of its Federal awards applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Agency'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; audit 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). 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 the Agency'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 each major Federal program. However, our audit does not provide a legal determination of the Agency's compliance.

Opinion on Each Major Federal Program

In our opinion, the Agency 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.

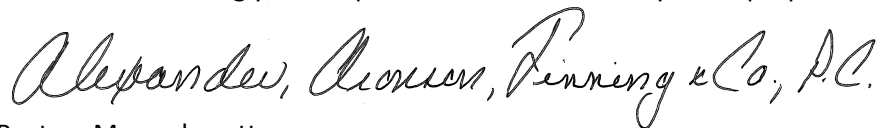
Report on Internal Control Over Compliance

Management of the Agency is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to on the previous page. In planning and performing our audit of compliance, we considered the Agency's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with 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 the Agency'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. 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.



Boston, Massachusetts
December 12, 2016

HOUSING FAMILIES INC. AND AFFILIATES

Schedule of Findings and Questioned Costs
June 30, 2016

1. SUMMARY OF AUDITOR’S RESULTS

Consolidating Financial Statements

Type of auditor’s report issued on whether the consolidating financial statements audited were prepared in accordance with GAAP: Unmodified

Is a “going concern” emphasis-of-matter paragraph included in the auditor’s report? Yes X No

Internal control over financial reporting:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified? Yes X None reported

Noncompliance material to consolidating financial statements noted? Yes X No

Federal Awards

Internal control over the major Federal program:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified? Yes X None reported

Type of auditor’s report issued on compliance for the major Federal program: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes X No

Identification of the major Federal program:

<u>Name of Federal Program or Cluster</u>	Federal CFDA Number
Continuum of Care Program	14.267

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? Yes X No

HOUSING FAMILIES INC. AND AFFILIATES

Schedule of Findings and Questioned Costs
June 30, 2016

2. CONSOLIDATING FINANCIAL STATEMENT FINDINGS

None

3. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None