



AND AFFILIATES

**CONSOLIDATING FINANCIAL STATEMENTS IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS
AND UNIFORM GUIDANCE
JUNE 30, 2019 AND 2018**

HOUSING FAMILIES INC. AND AFFILIATES

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June 30, 2019 and 2018

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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, HFI and Affiliates), which comprise the consolidating statements of financial position as of June 30, 2019 and 2018, and the related consolidating statements of activities, changes in net assets, 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, 2019 and 2018, 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 audits were 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, 2019, 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 2, 2019, on our consideration of HFI and Affiliates' 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 solely 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 the effectiveness of HFI and Affiliates' 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 HFI and Affiliates' internal control over financial reporting and compliance.



Westborough, Massachusetts
December 2, 2019

HOUSING FAMILIES INC. AND AFFILIATES

Consolidating Statement of Financial Position

June 30, 2019

(With Summarized Comparative Totals as of June 30, 2018)

Assets	2019			2018	
	Housing Families Inc.	Rental Properties (Exhibit A)	Eliminations	Total	Total
Current Assets:					
Cash	\$ 409,721	\$ 99,720	\$ -	\$ 509,441	\$ 498,798
Accounts and pledges receivable	490,395	4,577	-	494,972	663,403
Prepaid expenses and other	49,843	5,307	-	55,150	72,392
Current portion due from affiliates	265,582	35,071	(300,653)	-	-
Total current assets	<u>1,215,541</u>	<u>144,675</u>	<u>(300,653)</u>	<u>1,059,563</u>	<u>1,234,593</u>
Reserves and Deposits:					
Operating reserves	-	255,438	-	255,438	255,123
Reserves for replacements	-	177,913	-	177,913	204,681
Security deposits	-	31,110	-	31,110	31,345
Total reserves and deposits	<u>-</u>	<u>464,461</u>	<u>-</u>	<u>464,461</u>	<u>491,149</u>
Other Assets:					
Property and equipment, net	105,534	7,490,304	(68,005)	7,527,833	7,722,180
Due from affiliates, net of current portion	184,872	-	(184,872)	-	-
Notes receivable from affiliate, net	1,422,516	-	(1,422,516)	-	-
Total other assets	<u>1,712,922</u>	<u>7,490,304</u>	<u>(1,675,393)</u>	<u>7,527,833</u>	<u>7,722,180</u>
Total assets	<u>\$ 2,928,463</u>	<u>\$ 8,099,440</u>	<u>\$ (1,976,046)</u>	<u>\$ 9,051,857</u>	<u>\$ 9,447,922</u>
Liabilities and Net Assets					
Current Liabilities:					
Notes payable to a bank	\$ 250,000	\$ -	\$ -	\$ 250,000	\$ 250,000
Current portion of long-term debt and accrued interest	-	71,990	-	71,990	64,089
Current portion of capital lease obligations	23,223	-	-	23,223	18,100
Current portion of due to affiliates	35,071	265,582	(300,653)	-	-
Accounts payable	52,765	9,017	-	61,782	51,403
Accrued expenses	205,538	8,000	-	213,538	238,698
Total current liabilities	<u>566,597</u>	<u>354,589</u>	<u>(300,653)</u>	<u>620,533</u>	<u>622,290</u>
Long-Term Liabilities:					
Security deposits payable	-	31,110	-	31,110	31,345
Long-term debt, accrued interest and unamortized debt issuance costs, net of current portion	-	2,418,698	-	2,418,698	2,485,076
Capital lease obligations, net of current portion	68,855	-	-	68,855	30,553
Due to affiliates, net of current portion	-	184,872	(184,872)	-	-
Contingent debt and deferred interest	-	6,770,269	(1,422,516)	5,347,753	5,288,176
Total long-term liabilities	<u>68,855</u>	<u>9,404,949</u>	<u>(1,607,388)</u>	<u>7,866,416</u>	<u>7,835,150</u>
Total liabilities	<u>635,452</u>	<u>9,759,538</u>	<u>(1,908,041)</u>	<u>8,486,949</u>	<u>8,457,440</u>
Net Assets					
Net assets without donor restrictions:					
Operating	622,167	117,514	-	739,681	845,765
Property and equipment	13,456	(1,777,612)	2,582,934	818,778	867,145
Housing development	1,607,388	-	(1,607,388)	-	-
Total net assets without donor restrictions	<u>2,243,011</u>	<u>(1,660,098)</u>	<u>975,546</u>	<u>1,558,459</u>	<u>1,712,910</u>
Net assets with donor restrictions	<u>50,000</u>	<u>-</u>	<u>-</u>	<u>50,000</u>	<u>103,850</u>
Total Housing Families Inc. net assets	<u>2,293,011</u>	<u>(1,660,098)</u>	<u>975,546</u>	<u>1,608,459</u>	<u>1,816,760</u>
Non-controlling interest	<u>-</u>	<u>-</u>	<u>(1,043,551)</u>	<u>(1,043,551)</u>	<u>(826,278)</u>
Total net assets	<u>2,293,011</u>	<u>(1,660,098)</u>	<u>(68,005)</u>	<u>564,908</u>	<u>990,482</u>
Total liabilities and net assets	<u>\$ 2,928,463</u>	<u>\$ 8,099,440</u>	<u>\$ (1,976,046)</u>	<u>\$ 9,051,857</u>	<u>\$ 9,447,922</u>

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

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HOUSING FAMILIES INC. AND AFFILIATES

 Consolidating Statement of Financial Position
 June 30, 2018

Assets	Housing Families Inc.	Rental Properties (Exhibit A)	Eliminations	Total
Current Assets:				
Cash	\$ 402,118	\$ 96,680	\$ -	\$ 498,798
Accounts and pledges receivable	652,061	11,342	-	663,403
Prepaid expenses and other	57,883	14,509	-	72,392
Current portion due from affiliates	205,315	35,569	(240,884)	-
Total current assets	1,317,377	158,100	(240,884)	1,234,593
Reserves and Deposits:				
Operating reserves	-	255,123	-	255,123
Reserves for replacements	-	204,681	-	204,681
Security deposits	-	31,345	-	31,345
Total reserves and deposits	-	491,149	-	491,149
Other Assets:				
Property and equipment, net	58,348	7,764,084	(100,252)	7,722,180
Due from affiliates, net of current portion	184,872	-	(184,872)	-
Notes receivable from affiliate, net	1,422,516	-	(1,422,516)	-
Total other assets	1,665,736	7,764,084	(1,707,640)	7,722,180
Total assets	\$ 2,983,113	\$ 8,413,333	\$ (1,948,524)	\$ 9,447,922
Liabilities and Net Assets				
Current Liabilities:				
Notes payable to a bank	\$ 250,000	\$ -	\$ -	\$ 250,000
Current portion of long-term debt and accrued interest	-	64,089	-	64,089
Current portion of capital lease obligations	18,100	-	-	18,100
Current portion of due to affiliates	35,569	205,315	(240,884)	-
Accounts payable	42,851	8,552	-	51,403
Accrued expenses	224,041	14,657	-	238,698
Total current liabilities	570,561	292,613	(240,884)	622,290
Long-Term Liabilities:				
Security deposits payable	-	31,345	-	31,345
Long-term debt, accrued interest and unamortized debt issuance costs, net of current portion	-	2,485,076	-	2,485,076
Capital lease obligations, net of current portion	30,553	-	-	30,553
Due to affiliates, net of current portion	-	184,872	(184,872)	-
Contingent debt and deferred interest	-	6,710,692	(1,422,516)	5,288,176
Total long-term liabilities	30,553	9,411,985	(1,607,388)	7,835,150
Total liabilities	601,114	9,704,598	(1,848,272)	8,457,440
Net Assets:				
Net assets without donor restrictions:				
Operating	661,066	184,699	-	845,765
Property and equipment	9,695	(1,475,964)	2,333,414	867,145
Housing development	1,607,388	-	(1,607,388)	-
Total net assets without donor restrictions	2,278,149	(1,291,265)	726,026	1,712,910
Net assets with donor restrictions	103,850	-	-	103,850
Total Housing Families Inc. net assets	2,381,999	(1,291,265)	726,026	1,816,760
Non-controlling interest	-	-	(826,278)	(826,278)
Total net assets	2,381,999	(1,291,265)	(100,252)	990,482
Total liabilities and net assets	\$ 2,983,113	\$ 8,413,333	\$ (1,948,524)	\$ 9,447,922

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, 2019

(With Summarized Comparative Totals for the Year Ended June 30, 2018)

	2019			2018	
	Housing Families Inc.	Rental Properties (Exhibit B)	Eliminations	Total	Total
Changes in Net Assets Without Donor Restrictions:					
Operating support and revenues:					
Program service fees	\$ 5,559,033	\$ -	\$ -	\$ 5,559,033	\$ 5,379,314
Rental income, net of vacancies	-	744,815	(126,120)	618,695	632,749
Grants	353,773	-	-	353,773	463,533
Contributions	306,548	-	-	306,548	273,282
Donated goods and services	266,580	-	-	266,580	227,886
Management fees, program income and other	118,697	1,638	(35,960)	84,375	88,354
Net assets released from program restrictions	53,850	-	-	53,850	87,500
Net assets released from time restrictions	50,000	-	-	50,000	50,000
Total operating support and revenues	6,708,481	746,453	(162,080)	7,292,854	7,202,618
Operating expenses:					
Program services	5,610,963	-	(120,639)	5,490,324	5,397,242
General and administrative	728,481	-	(2,131)	726,350	786,350
Fundraising	389,639	-	(3,350)	386,289	356,205
Rental Properties	-	734,082	(35,960)	698,122	720,236
Total operating expenses before depreciation and amortization	6,729,083	734,082	(162,080)	7,301,085	7,260,033
Depreciation and amortization	35,363	321,627	(32,247)	324,743	349,993
Total operating expenses	6,764,446	1,055,709	(194,327)	7,625,828	7,610,026
Changes in net assets without donor restrictions from operations	(55,965)	(309,256)	32,247	(332,974)	(407,408)
Non-operating activities:					
Gain on termination of capital lease	20,827	-	-	20,827	-
Forgiveness of debt	-	5,195	-	5,195	5,195
Deferred interest expense	-	(64,772)	-	(64,772)	(61,522)
Changes in net assets without donor restrictions	(35,138)	(368,833)	32,247	(371,724)	(463,735)
Changes in Net Assets With Donor Restrictions:					
Contributions	50,000	-	-	50,000	93,850
Net assets released from restrictions	(103,850)	-	-	(103,850)	(137,500)
Changes in net assets with donor restrictions	(53,850)	-	-	(53,850)	(43,650)
Changes in net assets	(88,988)	(368,833)	32,247	(425,574)	(507,385)
Changes in Net Assets Attributable to Non-Controlling Interest					
Changes in net assets attributable to Housing Families Inc.	\$ (88,988)	\$ (151,560)	\$ 32,247	\$ (208,301)	\$ (304,085)

HOUSING FAMILIES INC. AND AFFILIATES

 Consolidating Statement of Activities
 For the Year Ended June 30, 2018

	<u>Housing Families Inc.</u>	<u>Rental Properties (Exhibit B)</u>	<u>Eliminations</u>	<u>Total</u>
Changes in Net Assets Without Donor Restrictions:				
Operating support and revenues:				
Program service fees	\$ 5,379,314	\$ -	\$ -	\$ 5,379,314
Rental income, net of vacancies	-	758,869	(126,120)	632,749
Grants	463,533	-	-	463,533
Contributions	273,282	-	-	273,282
Donated goods and services	227,886	-	-	227,886
Management fees, program income and other	120,477	2,685	(34,808)	88,354
Net assets released from program restrictions	87,500	-	-	87,500
Net assets released from time restrictions	50,000	-	-	50,000
	<u>6,601,992</u>	<u>761,554</u>	<u>(160,928)</u>	<u>7,202,618</u>
Operating expenses:				
Program services	5,517,881	-	(120,639)	5,397,242
General and administrative	788,481	-	(2,131)	786,350
Fundraising	359,555	-	(3,350)	356,205
Rental Properties	-	755,044	(34,808)	720,236
	<u>6,665,917</u>	<u>755,044</u>	<u>(160,928)</u>	<u>7,260,033</u>
Total operating expenses before depreciation and amortization	<u>6,665,917</u>	<u>755,044</u>	<u>(160,928)</u>	<u>7,260,033</u>
Depreciation and amortization	<u>68,580</u>	<u>313,660</u>	<u>(32,247)</u>	<u>349,993</u>
Total operating expenses	<u>6,734,497</u>	<u>1,068,704</u>	<u>(193,175)</u>	<u>7,610,026</u>
Changes in net assets without donor restrictions from operations	(132,505)	(307,150)	32,247	(407,408)
Non-operating activities:				
Forgiveness of debt	-	5,195	-	5,195
Deferred interest expense	-	(61,522)	-	(61,522)
Changes in net assets without donor restrictions	<u>(132,505)</u>	<u>(363,477)</u>	<u>32,247</u>	<u>(463,735)</u>
Changes in Net Assets With Donor Restrictions:				
Contributions	93,850	-	-	93,850
Net assets released from program restrictions	(137,500)	-	-	(137,500)
Changes in net assets with donor restrictions	<u>(43,650)</u>	<u>-</u>	<u>-</u>	<u>(43,650)</u>
Changes in net assets	(176,155)	(363,477)	32,247	(507,385)
Changes in Net Assets Attributable to Non-Controlling Interest	<u>-</u>	<u>203,300</u>	<u>-</u>	<u>203,300</u>
Changes in net assets attributable to Housing Families Inc.	<u>\$ (176,155)</u>	<u>\$ (160,177)</u>	<u>\$ 32,247</u>	<u>\$ (304,085)</u>

HOUSING FAMILIES INC. AND AFFILIATES

Consolidating Statements of Changes in Net Assets
For the Years Ended June 30, 2019 and 2018

	<u>Housing Families Inc.</u>	<u>Rental Properties</u>	<u>Eliminations</u>	<u>Total</u>	<u>Non- Controlling Interest</u>	<u>Total</u>
Balance, June 30, 2017	\$ 2,558,154	\$ (927,788)	\$ 490,479	\$ 2,120,845	\$ (622,978)	\$ 1,497,867
Changes in net assets	<u>(176,155)</u>	<u>(363,477)</u>	<u>235,547</u>	<u>(304,085)</u>	<u>(203,300)</u>	<u>(507,385)</u>
Balance, June 30, 2018	2,381,999	(1,291,265)	726,026	1,816,760	(826,278)	990,482
Changes in net assets	<u>(88,988)</u>	<u>(368,833)</u>	<u>249,520</u>	<u>(208,301)</u>	<u>(217,273)</u>	<u>(425,574)</u>
Balance, June 30, 2019	<u><u>\$ 2,293,011</u></u>	<u><u>\$ (1,660,098)</u></u>	<u><u>\$ 975,546</u></u>	<u><u>\$ 1,608,459</u></u>	<u><u>\$ (1,043,551)</u></u>	<u><u>\$ 564,908</u></u>

HOUSING FAMILIES INC. AND AFFILIATES

 Consolidating Statement of Cash Flows
 For the Year Ended June 30, 2019

	<u>Housing Families Inc.</u>	<u>Rental Properties</u>	<u>Eliminations</u>	<u>Total</u>
Cash Flows from Operating Activities:				
Changes in net assets	\$ (88,988)	\$ (368,833)	\$ 32,247	\$ (425,574)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:				
Depreciation and amortization	35,363	321,627	(32,247)	324,743
Interest - amortization of debt issuance costs	-	4,935	-	4,935
Forgiveness of debt	-	(5,195)	-	(5,195)
Gain on termination of capital lease	(20,827)	-	-	(20,827)
Deferred interest	-	64,772	-	64,772
Bad debt	-	1,291	-	1,291
Changes in operating assets and liabilities:				
Accounts and pledges receivable	161,666	5,474	-	167,140
Prepaid expenses and other	8,040	6,870	-	14,910
Due to/from affiliates	(60,765)	60,765	-	-
Accounts payable	9,914	465	-	10,379
Accrued expenses	(18,503)	(6,657)	-	(25,160)
Net cash provided by operating activities	<u>25,900</u>	<u>85,514</u>	<u>-</u>	<u>111,414</u>
Cash Flows from Investing Activities:				
Acquisition of property and equipment	-	(45,515)	-	(45,515)
Deposits to and interest earned on operating reserves	-	(315)	-	(315)
Deposits to and interest earned on reserves for replacements	-	(23,577)	-	(23,577)
Withdrawals from reserves for replacements	-	50,345	-	50,345
Net cash used in investing activities	<u>-</u>	<u>(19,062)</u>	<u>-</u>	<u>(19,062)</u>
Cash Flows from Financing Activities:				
Principal payments on long-term debt	-	(63,412)	-	(63,412)
Principal payments on capital lease obligations	(18,297)	-	-	(18,297)
Net cash used in financing activities	<u>(18,297)</u>	<u>(63,412)</u>	<u>-</u>	<u>(81,709)</u>
Net Change in Cash	7,603	3,040	-	10,643
Cash:				
Beginning of year	<u>402,118</u>	<u>96,680</u>	<u>-</u>	<u>498,798</u>
End of year	<u>\$ 409,721</u>	<u>\$ 99,720</u>	<u>\$ -</u>	<u>\$ 509,441</u>
Supplemental Disclosure of Cash Flow Information:				
Cash paid for interest	<u>\$ 19,751</u>	<u>\$ 108,920</u>	<u>\$ -</u>	<u>\$ 128,671</u>
Non-Cash Investing and Financing Transactions:				
Equipment purchased through capital lease obligation	<u>\$ 87,885</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 87,885</u>
Forgiveness of contingent debt	<u>\$ -</u>	<u>\$ 5,195</u>	<u>\$ -</u>	<u>\$ 5,195</u>

HOUSING FAMILIES INC. AND AFFILIATES

 Consolidating Statement of Cash Flows
 For the Year Ended June 30, 2018

	<u>Housing Families Inc.</u>	<u>Rental Properties</u>	<u>Eliminations</u>	<u>Total</u>
Cash Flows from Operating Activities:				
Changes in net assets	\$ (176,155)	\$ (363,477)	\$ 32,247	\$ (507,385)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:				
Depreciation and amortization	68,580	313,660	(32,247)	349,993
Interest - amortization of debt issuance costs	-	4,936	-	4,936
Loss on disposal of property and equipment	1,338	-	-	1,338
Forgiveness of debt	-	(5,195)	-	(5,195)
Deferred interest	-	61,522	-	61,522
Bad debt	6,483	154	-	6,637
Changes in operating assets and liabilities:				
Accounts and pledges receivable	(44,813)	(5,227)	-	(50,040)
Prepaid expenses and other	(28,816)	(6,382)	-	(35,198)
Due to/from affiliates	(57,151)	57,151	-	-
Accounts payable	27,215	(19,477)	-	7,738
Accrued expenses	(8,111)	(21,311)	-	(29,422)
Net cash provided by (used in) operating activities	<u>(211,430)</u>	<u>16,354</u>	<u>-</u>	<u>(195,076)</u>
Cash Flows from Investing Activities:				
Acquisition of property and equipment	-	(14,718)	-	(14,718)
Withdrawals from reserves for replacements	-	47,000	-	47,000
Deposits to and interest earned on operating reserves	-	(362)	-	(362)
Deposits to and interest earned on reserves for replacements	-	(23,633)	-	(23,633)
Net cash provided by investing activities	<u>-</u>	<u>8,287</u>	<u>-</u>	<u>8,287</u>
Cash Flows from Financing Activities:				
Proceeds from notes payable to a bank	250,000	-	-	250,000
Principal payments on long-term debt	-	(59,308)	-	(59,308)
Principal payments on capital lease obligations	(21,131)	-	-	(21,131)
Net cash provided by (used) in financing activities	<u>228,869</u>	<u>(59,308)</u>	<u>-</u>	<u>169,561</u>
Net Change in Cash	17,439	(34,667)	-	(17,228)
Cash:				
Beginning of year	<u>384,679</u>	<u>131,347</u>	<u>-</u>	<u>516,026</u>
End of year	<u>\$ 402,118</u>	<u>\$ 96,680</u>	<u>\$ -</u>	<u>\$ 498,798</u>
Supplemental Disclosure of Cash Flow Information:				
Cash paid for interest	<u>\$ 9,087</u>	<u>\$ 100,127</u>	<u>\$ -</u>	<u>\$ 109,214</u>
Non-Cash Investing and Financing Transactions:				
Forgiveness of contingent debt	<u>\$ -</u>	<u>\$ 5,195</u>	<u>\$ -</u>	<u>\$ 5,195</u>

HOUSING FAMILIES INC. AND AFFILIATES

Consolidating Statement of Functional Expenses

For the Year Ended June 30, 2019

(With Summarized Comparative Totals for the Year Ended June 30, 2018)

	2019							2018	
	Housing Families Inc.								
	Support Services								
	Program Services	General and Administrative	Fundraising	Total Support Services	Total	Rental Properties (Exhibit B)	Eliminations	Total	Total
Personnel and Related Costs:									
Salaries	\$ 1,499,513	\$ 448,162	\$ 233,892	\$ 682,054	\$ 2,181,567	\$ 61,025	\$ -	\$ 2,242,592	\$ 2,361,674
Payroll taxes and benefits	337,357	73,901	42,874	116,775	454,132	-	-	454,132	470,501
Temporary help	4,962	-	-	-	4,962	-	-	4,962	17,170
Total personnel and related costs	1,841,832	522,063	276,766	798,829	2,640,661	61,025	-	2,701,686	2,849,345
Occupancy:									
Rent	2,706,497	24,017	23,726	47,743	2,754,240	-	(126,120)	2,628,120	2,389,610
Repairs and maintenance	223,139	12,349	179	12,528	235,667	135,936	-	371,603	411,180
Utilities	133,110	-	-	-	133,110	143,617	-	276,727	276,191
Taxes and insurance	35,896	492	492	984	36,880	100,352	-	137,232	127,135
Interest	-	-	-	-	-	109,320	-	109,320	100,527
Extermination contract	9,871	480	-	480	10,351	7,391	-	17,742	16,549
Total occupancy	3,108,513	37,338	24,397	61,735	3,170,248	496,616	(126,120)	3,540,744	3,321,192
Other:									
Donated goods and services	258,123	-	8,457	8,457	266,580	-	-	266,580	227,886
Professional fees	43,301	70,555	32,690	103,245	146,546	27,927	-	174,473	149,792
Office supplies and equipment	80,826	41,316	18,367	59,683	140,509	4,682	-	145,191	171,227
Resident services	-	-	-	-	-	100,589	-	100,589	105,093
Non-capital equipment	81,359	-	-	-	81,359	-	-	81,359	22,565
Pass-through client services	65,980	-	-	-	65,980	-	-	65,980	134,760
Telephone	37,603	9,144	2,876	12,020	49,623	-	-	49,623	71,625
Training, travel and meals	24,669	5,221	10,637	15,858	40,527	-	-	40,527	54,694
Insurance	12,580	15,007	554	15,561	28,141	-	-	28,141	26,814
Vehicle costs	20,408	-	-	-	20,408	-	-	20,408	14,955
Interest	922	18,829	-	18,829	19,751	-	-	19,751	9,087
Grant expense	19,407	-	-	-	19,407	-	-	19,407	24,173
Miscellaneous	8,458	4,015	523	4,538	12,996	2,348	-	15,344	15,895
Printing and postage	2,414	2,410	4,943	7,353	9,767	-	-	9,767	15,462
Dues and subscriptions	3,898	2,583	1,293	3,876	7,774	-	-	7,774	13,451
Special event	-	-	7,408	7,408	7,408	-	-	7,408	-
Interest - amortization of debt issuance costs	-	-	-	-	-	4,935	-	4,935	4,936
Advertising	670	-	728	728	1,398	-	-	1,398	27,081
Management fees	-	-	-	-	-	35,960	(35,960)	-	-
Total other	660,618	169,080	88,476	257,556	918,174	176,441	(35,960)	1,058,655	1,089,496
Total expenses before depreciation and amortization	5,610,963	728,481	389,639	1,118,120	6,729,083	734,082	(162,080)	7,301,085	7,260,033
Depreciation and Amortization	30,214	5,149	-	5,149	35,363	321,627	(32,247)	324,743	349,993
Total expenses	\$ 5,641,177	\$ 733,630	\$ 389,639	\$ 1,123,269	\$ 6,764,446	\$ 1,055,709	\$ (194,327)	\$ 7,625,828	\$ 7,610,026

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, 2018

	Housing Families Inc.				Total	Rental Properties (Exhibit B)	Eliminations	Total
	Support Services							
	Program Services	General and Adminis- trative	Fundraising	Total Support Services				
Personnel and Related Costs:								
Salaries	\$ 1,614,675	\$ 451,838	\$ 229,559	\$ 681,397	\$ 2,296,072	\$ 65,602	\$ -	\$ 2,361,674
Payroll taxes and benefits	348,478	85,378	36,645	122,023	470,501	-	-	470,501
Temporary help	17,170	-	-	-	17,170	-	-	17,170
Total personnel and related costs	<u>1,980,323</u>	<u>537,216</u>	<u>266,204</u>	<u>803,420</u>	<u>2,783,743</u>	<u>65,602</u>	<u>-</u>	<u>2,849,345</u>
Occupancy:								
Rent	2,456,605	39,220	19,905	59,125	2,515,730	-	(126,120)	2,389,610
Repairs and maintenance	168,450	27,593	-	27,593	196,043	215,137	-	411,180
Utilities	139,023	-	-	-	139,023	137,168	-	276,191
Taxes and insurance	53,544	-	-	-	53,544	73,591	-	127,135
Interest	-	-	-	-	-	100,527	-	100,527
Extermination contract	12,543	540	-	540	13,083	3,466	-	16,549
Total occupancy	<u>2,830,165</u>	<u>67,353</u>	<u>19,905</u>	<u>87,258</u>	<u>2,917,423</u>	<u>529,889</u>	<u>(126,120)</u>	<u>3,321,192</u>
Other:								
Donated goods and services	221,733	100	6,053	6,153	227,886	-	-	227,886
Professional fees	29,752	92,616	18,000	110,616	140,368	9,424	-	149,792
Office supplies and equipment	101,450	44,371	21,201	65,572	167,022	4,205	-	171,227
Resident services	-	-	-	-	-	105,093	-	105,093
Non-capital equipment	21,214	-	1,351	1,351	22,565	-	-	22,565
Pass-through client services	134,760	-	-	-	134,760	-	-	134,760
Telephone	58,217	9,532	3,876	13,408	71,625	-	-	71,625
Training, travel and meals	42,194	5,001	7,499	12,500	54,694	-	-	54,694
Insurance	10,205	16,016	593	16,609	26,814	-	-	26,814
Vehicle costs	14,955	-	-	-	14,955	-	-	14,955
Interest	1,498	7,589	-	7,589	9,087	-	-	9,087
Grant expense	24,173	-	-	-	24,173	-	-	24,173
Miscellaneous	12,500	1,564	744	2,308	14,808	1,087	-	15,895
Printing and postage	3,132	3,305	9,025	12,330	15,462	-	-	15,462
Dues and subscriptions	7,686	3,386	2,379	5,765	13,451	-	-	13,451
Interest - amortization of debt issuance costs	-	-	-	-	-	4,936	-	4,936
Advertising	23,924	432	2,725	3,157	27,081	-	-	27,081
Management fees	-	-	-	-	-	34,808	(34,808)	-
Total other	<u>707,393</u>	<u>183,912</u>	<u>73,446</u>	<u>257,358</u>	<u>964,751</u>	<u>159,553</u>	<u>(34,808)</u>	<u>1,089,496</u>
Total expenses before depreciation and amortization	5,517,881	788,481	359,555	1,148,036	6,665,917	755,044	(160,928)	7,260,033
Depreciation and Amortization	<u>62,998</u>	<u>5,582</u>	<u>-</u>	<u>5,582</u>	<u>68,580</u>	<u>313,660</u>	<u>(32,247)</u>	<u>349,993</u>
Total expenses	<u>\$ 5,580,879</u>	<u>\$ 794,063</u>	<u>\$ 359,555</u>	<u>\$ 1,153,618</u>	<u>\$ 6,734,497</u>	<u>\$ 1,068,704</u>	<u>\$ (193,175)</u>	<u>\$ 7,610,026</u>

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

HOUSING FAMILIES INC. AND AFFILIATES

Notes to Consolidating Financial Statements
June 30, 2019 and 2018

1. 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 5,000 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.

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.

2. 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, a controlled limited partnership (CSLP) (collectively, HFI and Affiliates) (see Note 3). All significant intercompany transactions have been eliminated.

Accounting Principle Adoption

During fiscal year 2019, HFI and Affiliates adopted FASB's Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This ASU modified the current guidance over several criteria, of which the following affected HFI and Affiliates' consolidating financial statements:

- Net assets are segregated into two categories, "with donor restrictions" and "without donor restrictions", as opposed to the previous requirement of three classes of net assets (see page 13).
- Qualitative and quantitative information relating to management of liquidity and the availability of financial assets to cover short-term cash needs within one year from the consolidating statement of financial position date (see Note 13).
- An explanation of the methods used to allocate costs among program and supporting functions (see page 14).

The adoption of this ASU did not impact HFI and Affiliates' net asset balance, change in net assets, or cash flows for the year ended June 30, 2018. This ASU provides an option to omit disclosures about liquidity and availability of resources for the fiscal year 2018 consolidating financial statements.

HOUSING FAMILIES INC. AND AFFILIATES

Notes to Consolidating Financial Statements
June 30, 2019 and 2018

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Revenue Recognition

Program service fees are recorded over the contract period or as services are provided. Rental income is recognized over the lease term. Grants and contributions without donor restrictions are recorded as revenue when received or unconditionally pledged. Contributions with donor restrictions are recorded as revenues and net assets with donor restrictions when received or unconditionally pledged. Transfers are made to net assets without donor restrictions as costs are incurred or time restrictions or program restrictions have lapsed. Donor restricted contributions received and satisfied in the same period are included in net assets without donor restrictions. 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, 2019 and 2018

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Description of Net Assets

Net assets without donor restrictions 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 net assets without donor restrictions 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 3).

Net assets with donor restrictions are those unexpended financial resources that are restricted by donors as to purpose or timing of expenditure. Net assets with donor restrictions are restricted as follows as of June 30:

	<u>2019</u>	<u>2018</u>
Subject to expenditure for specified purpose:		
Youth & Family Programs	\$ 50,000	\$ -
Stabilization Programs	-	40,000
Miscellaneous Programs	-	13,850
Subject to the passage of time	<u>-</u>	<u>50,000</u>
	<u>\$ 50,000</u>	<u>\$ 103,850</u>

Non-controlling interest represents the non-controlling interest of an outside investor participating in the ownership of CSLP (see Note 3).

Pledges Receivable

Pledges receivable are recorded at their net present value when unconditionally committed.

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, 2019 and 2018.

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, 2019 and 2018

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capitalized Costs and Amortization

Capitalized costs consist of low-income housing tax credit application fees that have been capitalized and amortized on the straight-line basis. Capitalized costs have a cost of \$35,000 as of June 30, 2019 and 2018. Accumulated amortization of capitalized costs was \$29,693 and \$27,361 as of June 30, 2019 and 2018, respectively. Capitalized costs, net of accumulated amortization are included in prepaid expenses and other in the accompanying consolidating statements of financial position. Amortization during fiscal years 2019 and 2018 was \$2,332 and \$2,333, respectively, and is included in depreciation and amortization in the accompanying consolidating financial statements. Amortization expense for the next two years is \$2,332 per year and \$643 on the third year.

Unamortized Debt Issuance Costs

Unamortized debt issuance costs are amortized over the period the related obligation is outstanding using the straight-line method, which approximates the effective interest method.

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 value, determined by management, as follows for the years ended June 30:

	<u>2019</u>	<u>2018</u>
Contracted services	\$ 162,055	\$ 142,038
Program supplies	<u>104,525</u>	<u>85,848</u>
	<u>\$ 266,580</u>	<u>\$ 227,886</u>

HFI receives services of volunteers in various aspects of its programs. The value of these services is not reflected in the accompanying consolidating financial statements, since the value assigned to these services by the donating volunteers is not ascertainable and does not meet the criteria for recognition of U.S. GAAP.

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 related directly to a program or function are distributed to that program or function, while other expenses are allocated based upon management's estimate of the percentage attributable to each program or function.

Certain categories of expenses are attributable to more than one program or supporting function and are allocated on a reasonable basis that is consistently applied. The expenses that are allocated are salaries and payroll taxes and fringe benefits, which are allocated on the basis of time and effort, certain rent expense, which are allocated based on square footage, repairs and maintenance which are allocated based on the number of units, and depreciation and amortization, which are allocated based on usage studies conducted annually.

HOUSING FAMILIES INC. AND AFFILIATES

Notes to Consolidating Financial Statements
June 30, 2019 and 2018

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 in the accompanying consolidating statements of activities. Non-operating activities include forgiveness of debt, deferred interest expense, and gain on termination of capital lease.

Advertising

Advertising costs are expensed as incurred.

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.

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 have determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the consolidating financial statements at June 30, 2019 and 2018. HFI and Affiliates' information and tax returns are subject to examination by Federal and state jurisdictions.

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, 2019 and 2018, Cross Street Realty, Inc. and HFI Properties, Inc. had, for Federal income tax purposes, net operating loss carryforwards of approximately \$780,000 and \$540,000, 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 \$771,000 and \$531,000 available to offset future taxable income as of June 30, 2019 and 2018, respectively.

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, 2019 and 2018, 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.

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.

HOUSING FAMILIES INC. AND AFFILIATES

Notes to Consolidating Financial Statements
June 30, 2019 and 2018

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events

Subsequent events have been evaluated through December 2, 2019, which is the date the consolidating financial statements were available to be issued. See Note 14 for an event that met the criteria for disclosure in the consolidating financial statements.

3. 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. HFI Properties' purpose 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, 2021. The Project did not make any development fee payments to HFI during fiscal years 2019 and 2018. The unpaid development and overhead fee reimbursements were \$184,872 as of June 30, 2019 and 2018, and are included in due to/from affiliate in the accompanying consolidating statements of financial position (see page 17). 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, 2019 and 2018, consisted of the following:

	<u>2019</u>	<u>2018</u>
CSLP	\$ 19,463	\$ 18,311
MM Homes	10,776	10,776
HFI Properties	<u>5,721</u>	<u>5,721</u>
	<u>\$ 35,960</u>	<u>\$ 34,808</u>

HOUSING FAMILIES INC. AND AFFILIATES

Notes to Consolidating Financial Statements
June 30, 2019 and 2018

3. RELATED PARTY TRANSACTIONS (Continued)

Consolidating Entities (Continued)

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.

Amounts due to HFI from its affiliates for management fees, general advances and the unpaid development and overhead fee reimbursements (see page 16) due from CSLP, are as follows at June 30:

	<u>2019</u>	<u>2018</u>
Due from CSLP	\$ 319,666	\$ 266,564
Due from MM Homes	<u>130,788</u>	<u>123,623</u>
	<u>\$ 450,454</u>	<u>\$ 390,187</u>

HFI owed \$35,071 and \$35,569 to HFI Properties at June 30, 2019 and 2018, respectively.

At June 30, 2019 and 2018, there was \$58,793 and \$68,586, respectively, due from HFI Properties to MM Homes for subsidy rental receipts received from HFI Properties on behalf of MM Homes. At June 30, 2019 and 2018, there was \$30,739 due from CSLP to MM Homes for an operating advance.

HFI has a 5.375% note receivable from CSLP of which \$805,583 has been advanced at June 30, 2019 and 2018. 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 2019 and 2018. Interest compounds annually. All unpaid principal and deferred interest are due in full on July 23, 2033. For fiscal years 2019 and 2018, deferred interest expense on this loan was \$89,477 and \$84,922, respectively. This note is secured by a third mortgage on CSLP's property. During fiscal years 2019 and 2018, HFI forgave the deferred interest portion that was earned during those years and, therefore, the deferred interest expense and the forgiveness of such interest have been netted in the accompanying consolidating statements of activities.

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 2019 and 2018. 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.

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 expense under this agreement was \$96,120 for fiscal years 2019 and 2018.

HOUSING FAMILIES INC. AND AFFILIATES

Notes to Consolidating Financial Statements
June 30, 2019 and 2018

3. RELATED PARTY TRANSACTIONS (Continued)

Consolidating Entities (Continued)

Notes receivable consist of the following at June 30:

	<u>2019</u>	<u>2018</u>
Interest receivable on sponsor loan	\$ 947,853	\$ 858,376
Sponsor loan receivable	<u>805,583</u>	<u>805,583</u>
Total notes receivable	1,753,436	1,663,959
Less - reserve on uncollectable amounts	<u>330,920</u>	<u>241,443</u>
Notes receivable, net	<u>\$ 1,422,516</u>	<u>\$ 1,422,516</u>

HFI has a \$300,000 line of credit agreement and had a \$150,000 short-term note payable with a bank where one of HFI's Board of Directors is an employee of the bank (see Note 6). This Board member refrains from discussions on matters relating to his employer.

4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

<u>2019</u>	<u>HFI</u>	<u>Rental Properties</u>	<u>Eliminations</u>	<u>Total</u>
Land	\$ -	\$ 1,285,700	\$ -	\$ 1,285,700
Buildings and improvements	-	9,702,169	(525,764)	9,176,405
Furniture and equipment	267,379	112,086	-	379,465
Vehicles	<u>95,520</u>	<u>-</u>	<u>-</u>	<u>95,520</u>
Total cost	362,899	11,099,955	(525,764)	10,937,090
Less - accumulated depreciation	<u>257,365</u>	<u>3,609,651</u>	<u>(457,759)</u>	<u>3,409,257</u>
	<u>\$ 105,534</u>	<u>\$ 7,490,304</u>	<u>\$ (68,005)</u>	<u>\$ 7,527,833</u>
<u>2018</u>	<u>HFI</u>	<u>Rental Properties</u>	<u>Eliminations</u>	<u>Total</u>
Land	\$ -	\$ 1,285,700	\$ -	\$ 1,285,700
Buildings and improvements	-	9,656,654	(525,764)	9,130,890
Furniture and equipment	229,179	112,086	-	341,265
Vehicles	<u>95,520</u>	<u>-</u>	<u>-</u>	<u>95,520</u>
Total cost	324,699	11,054,440	(525,764)	10,853,375
Less - accumulated depreciation	<u>266,351</u>	<u>3,290,356</u>	<u>(425,512)</u>	<u>3,131,195</u>
	<u>\$ 58,348</u>	<u>\$ 7,764,084</u>	<u>\$ (100,252)</u>	<u>\$ 7,722,180</u>

Depreciation expense during fiscal years 2019 and 2018 was \$322,411 and \$347,660, respectively. Substantially all property and equipment are pledged as collateral on long-term and contingent debt (see Notes 5 and 7).

HOUSING FAMILIES INC. AND AFFILIATES

Notes to Consolidating Financial Statements
June 30, 2019 and 2018

4. PROPERTY AND EQUIPMENT (Continued)

HFI accounts for the carrying value of its property and equipment in accordance with ASC Topic, *Property, Plant and Equipment*. As of June 30, 2019 and 2018, 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 \$113,887 and \$123,531 as of June 30, 2019 and 2018, respectively (see Note 8). Depreciation expense for fiscal years 2019 and 2018 for assets under capital lease was \$5,859 and \$22,525, respectively. As of June 30, 2019 and 2018, accumulated depreciation was \$5,859 and \$97,153, respectively, on these assets.

5. LONG-TERM DEBT

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

	<u>2019</u>	<u>2018</u>
HFI Properties		
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, there is a payment of \$4,419 due at June 30, 2019, and there was a payment of \$582 due at June 30, 2018. The required payment based on fiscal year 2018 cash flow was not made in fiscal year 2019. The total principal amount due in fiscal year 2020 is \$5,001. The note matures in November 2042, and is secured by a first mortgage on property located in Revere, Massachusetts.	\$ 539,981	\$ 539,981
Note payable to a bank with an interest rate equal 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>322,785</u>	<u>331,216</u>
Total HFI Properties	<u>862,766</u>	<u>871,197</u>
MM Homes		
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.	34,415	37,540
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.	<u>11,271</u>	<u>14,600</u>
Total MM Homes	<u>45,686</u>	<u>52,140</u>

HOUSING FAMILIES INC. AND AFFILIATES

Notes to Consolidating Financial Statements
June 30, 2019 and 2018

5. LONG-TERM DEBT (Continued)

	<u>2019</u>	<u>2018</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.	1,012,864	1,046,117
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>595,714</u>	<u>610,988</u>
Total CSLP	<u>1,608,578</u>	<u>1,657,105</u>
Total long-term debt	2,517,030	2,580,442
Plus - accrued interest to a bank	4,006	4,006
Less - current portion	71,990	64,089
Less - unamortized debt issuance costs	<u>30,348</u>	<u>35,283</u>
Total long-term debt, net of current portion	<u>\$ 2,418,698</u>	<u>\$ 2,485,076</u>

Debt issuance costs related to the various notes payable totaling \$85,993 are shown net of accumulated imputed interest of \$55,645 and \$50,710 as of June 30, 2019 and 2018, respectively. Net debt issuance costs are reported on the consolidating statements of financial position as a direct reduction of the face amount of the related long-term debt. Amortization of debt issuance costs was \$4,935 and \$4,936 for the years ended June 30, 2019 and 2018, respectively.

Aggregate maturities of long-term debt and accrued interest and amortization of debt issuance costs relating to long-term debt over the next five years are as follows:

<u>Fiscal Year</u>	<u>Principal Payments</u>	<u>Amortization of Debt Issuance Costs</u>
2020	\$ 71,990	\$ 4,935
2021	\$ 70,788	\$ 4,935
2022	\$ 365,417	\$ 4,935
2023	\$ 67,067	\$ 4,603
2024	\$ 67,831	\$ 2,541

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, 2019.

6. NOTES PAYABLE TO A BANK

HFI has 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, plus 0.5% (6% and 5.5% at June 30, 2019 and 2018, respectively). 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. There was an outstanding balance of \$250,000 and \$100,000 as of June 30, 2019 and 2018, respectively.

HOUSING FAMILIES INC. AND AFFILIATES

Notes to Consolidating Financial Statements
June 30, 2019 and 2018

6. NOTES PAYABLE TO A BANK (Continued)

In May 2018, HFI entered into a \$150,000 short-term note payable with a bank bearing interest at a fixed rate of 5.25%. The note matured on August 29, 2018, at which time the total principal and accrued interest balance was repaid. The note was secured by a security interest in all business assets. The outstanding principal balance at June 30, 2018, was \$150,000.

HFI is subject to certain covenants as described in the agreements. HFI was not in compliance with certain covenants as of June 30, 2019 and 2018, and has received a waiver from the lender.

7. CONTINGENT DEBT AND DEFERRED INTEREST

Contingent debt consists of the following at June 30:

	<u>2019</u>	<u>2018</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 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.	40,000	40,000
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 years 2019 and 2018. The note is secured by a shared second mortgage on property in Revere, Massachusetts.	<u>31,170</u>	<u>36,365</u>
Total contingent debt - HFI Properties	<u>606,170</u>	<u>611,365</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 were no payments due at June 30, 2019 and 2018. 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

HOUSING FAMILIES INC. AND AFFILIATES

Notes to Consolidating Financial Statements
June 30, 2019 and 2018

7. CONTINGENT DEBT AND DEFERRED INTEREST (Continued)

	<u>2019</u>	<u>2018</u>
MM Homes (Continued)		
Non-interest bearing note payable with DHCD under its Affordable Housing 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.	750,000	750,000
Non-interest bearing note payable with DHCD under its Non-Federal Investment Trust Fund program with a maximum outstanding amount of \$750,000. 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 with Community Economic Development Assistance Corporation (CEDAC) through its Housing Innovations Fund (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, 2019 and 2018. 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, 2019 and 2018. The note matures in February 2028 and is secured by a shared first mortgage on property in Medford, Massachusetts.	70,230	70,230
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, 2019 and 2018. All unpaid principal is due in July 2030. The note is secured by a shared first mortgage on the property in Malden, Massachusetts.	<u>46,820</u>	<u>46,820</u>
Total contingent debt - MM Homes	<u>2,637,605</u>	<u>2,637,605</u>

HOUSING FAMILIES INC. AND AFFILIATES

Notes to Consolidating Financial Statements
June 30, 2019 and 2018

7. CONTINGENT DEBT AND DEFERRED INTEREST (Continued)

CSLP	<u>2019</u>	<u>2018</u>
5.375% note payable to HFI, with interest compounded annually through June 30, 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 2019 and 2018. During fiscal years 2019 and 2018, HFI forgave the fiscal year 2019 and 2018 portions of deferred interest on this note, respectively. All unpaid principal and accrued interest are due in full in July 2023. This note is secured by a third 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. 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, 2019 and 2018. 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>1,470,911</u>	<u>1,406,139</u>
Total contingent debt and deferred interest - CSLP	<u>3,526,494</u>	<u>3,461,722</u>
Total contingent debt and deferred interest	6,770,269	6,710,692
Less - elimination	<u>1,422,516</u>	<u>1,422,516</u>
	<u>\$ 5,347,753</u>	<u>\$ 5,288,176</u>

Deferred interest consists of the following as of June 30:

	<u>2019</u>	<u>2018</u>
DHCD note (see above)	\$ 647,467	\$ 590,429
Related party note, net (see above and page 17)	616,933	616,933
MRA note (see page 20)	<u>206,511</u>	<u>198,777</u>
	<u>\$ 1,470,911</u>	<u>\$ 1,406,139</u>

CEDAC, DHCD and MRA may extend the maturity dates of the notes on pages 21 through 23 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, 2019.

HOUSING FAMILIES INC. AND AFFILIATES

Notes to Consolidating Financial Statements
June 30, 2019 and 2018

8. COMMITMENTS

Facility Leases

HFI leases administration and program facilities under various operating leases expiring through February 2021. Program facility leases are renewable annually. Rent expense under these leases was approximately \$2,630,000 and \$2,390,000 for the years ended June 30, 2019 and 2018, respectively.

Equipment Leases

HFI leases certain equipment (see Note 4) under various capital lease agreements through July 2024. Interest rates under these agreements range between 2.1% and 15% during fiscal years 2019 and 2018.

Future minimum lease payments under these agreements are as follows:

<u>Fiscal Year</u>	<u>Capital Leases</u>	<u>Operating Leases</u>
2020	\$ 23,758	\$ 2,804,614
2021	20,352	1,483,536
2022	16,740	-
2023	16,740	-
2024	<u>15,343</u>	<u>-</u>
Total future minimum payments	92,933	<u>\$ 4,288,150</u>
Less - amounts representing interest	<u>855</u>	
Present value of future minimum lease payments	92,078	
Less - current portion	<u>23,223</u>	
Long-term portion	<u>\$ 68,855</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 2019 and 2018, CSLP was required to make monthly deposits of approximately \$989 and \$951, respectively, into this account. The required monthly deposits increase by 4% per year. During fiscal years 2019 and 2018, CSLP received approval to withdraw \$50,345 and \$47,000, respectively from this account.

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, 2019 and 2018, this account was adequately funded.

MM Homes has established a reserve for replacement. MM Homes is not required to maintain a minimum balance and any deposits or withdrawals from this account are at the discretion of management.

HOUSING FAMILIES INC. AND AFFILIATES

Notes to Consolidating Financial Statements
June 30, 2019 and 2018

9. RESERVES AND DEPOSITS (Continued)

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 \$248,000 and \$229,000 as of December 31, 2018 and 2017, respectively). No amounts were withdrawn during fiscal years 2019 and 2018.

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 \$30,000 and \$31,000 as of June 30, 2019 and 2018, respectively). This account was adequately funded as of June 30, 2019 and 2018.

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.

The operating reserve and reserves for replacements balances are as follows at June 30:

	2019			
	CSLP	HFI Properties	MM Homes	Total
Operating reserves	<u>\$ 184,709</u>	<u>\$ 43,256</u>	<u>\$ 27,473</u>	<u>\$ 255,438</u>
Reserves for replacements	<u>\$ 9,090</u>	<u>\$ 73,579</u>	<u>\$ 95,244</u>	<u>\$ 177,913</u>
	2018			
	CSLP	HFI Properties	MM Homes	Total
Operating reserves	<u>\$ 184,524</u>	<u>\$ 43,132</u>	<u>\$ 27,467</u>	<u>\$ 255,123</u>
Reserves for replacements	<u>\$ 48,437</u>	<u>\$ 70,082</u>	<u>\$ 86,162</u>	<u>\$ 204,681</u>

10. FUNDING

HFI and Affiliates receive a significant portion of their total operating support and revenues without donor restrictions (approximately 76% and 74% during fiscal years 2019 and 2018, 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, 2019 and 2018, or on the changes in their net assets for the years then ended.

CSLP receives significant rental subsidies from the MHA for qualified tenants. MHA has committed to provide subsidies through May 2030. MHA provided \$259,891 and \$290,891 in rental subsidies and vacancy reimbursements to CSLP during the years ended June 30, 2019 and 2018, respectively.

HFI Properties and MM Homes 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 and MM Homes through January 2025 and March 2023, respectively. Collectively, MHA and MBHP provided \$199,511 and \$198,948 in rental subsidies to HFI Properties and MM Homes during the years ended June 30, 2019 and 2018, respectively.

HOUSING FAMILIES INC. AND AFFILIATES

Notes to Consolidating Financial Statements
June 30, 2019 and 2018

11. CONCENTRATIONS

Approximately 84% and 82% of HFI's accounts and pledges receivable were due from two sources as of June 30, 2019 and 2018, respectively.

12. PENSION PLAN

During fiscal year 2018, HFI and Affiliates implemented a voluntary defined contribution retirement plan in accordance with IRC Section 403(b). Employees may withhold contributions from their salaries on a tax-deferred basis within IRC limits. All employees are eligible for the plan. HFI and Affiliates can make discretionary matching contributions capping at \$1,000 per pay period. HFI and Affiliates made a matching contribution of \$40,802 and \$40,215 in fiscal years 2019 and 2018, respectively.

13. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

HFI and Affiliates' financial assets available for general operating use, that is, without donor or other restrictions limiting their use (see Note 2), within one year from the consolidating statement of financial position date, comprise the following at June 30, 2019:

	<u>Housing Families Inc.</u>	<u>Rental Properties</u>
Cash	\$ 409,721	\$ 99,720
Accounts and pledges receivable	490,395	4,577
Current portion of due from affiliates	<u>265,582</u>	<u>35,071</u>
	1,165,698	139,368
Less: donor restricted pledges receivable	<u>50,000</u>	<u>-</u>
	<u>\$ 1,115,698</u>	<u>\$ 139,368</u>

HFI and Affiliates regularly monitor the availability of resources required to meet the operating needs of the rental projects. For purpose of analyzing resources available to meet general obligations over a twelve-month period, HFI considers all expenditures related to the ongoing activities of operating rental housing to be general obligations, including the payment of debt service and contribution to reserves. The consolidated cash balance of the rental properties is not available to supplement HFI's operations or other projects. Each rental property's liquidity must be evaluated individually. If needed, HFI could draw on its \$300,000 line of credit (see Note 6), which had an available balance of \$50,000 at June 30, 2019.

14. SUBSEQUENT EVENT

On July 23, 2019, HFI received a loan from a nonprofit organization in the amount of \$125,000 that bears interest at the Wall Street Journal's prime rate (WSJP) (5.5% as of the date of the closing of the loan), plus 0.5%, which is fixed for the first six months. After six months, the loan bears interest at a fluctuating rate equal to the WSJP plus 0.5%. Interest only payments are required through January 23, 2021, at which time all outstanding principal and accrued interest are due. The note is secured by all of HFI's assets.

15. RECLASSIFICATION

Certain amounts in the fiscal year 2018 consolidating financial statements were reclassified to conform with the fiscal year 2019 presentation.

HOUSING FAMILIES INC. AND AFFILIATES

Statements of Financial Position - Rental Properties
June 30, 2019 and 2018

	2019					2018				
	HFI Properties, Inc.	MM Homes LLC	Cross Street Housing LP	Eliminations	Total	HFI Properties, Inc.	MM Homes LLC	Cross Street Housing LP	Eliminations	Total
Assets										
Current Assets:										
Cash	\$ 55,140	\$ 28,754	\$ 15,826	\$ -	\$ 99,720	\$ 43,457	\$ 30,183	\$ 23,040	\$ -	\$ 96,680
Accounts receivable	-	1,822	2,755	-	4,577	3,576	1,792	5,974	-	11,342
Prepaid expenses and other	-	-	5,307	-	5,307	-	-	14,509	-	14,509
Due from affiliates	35,071	89,532	-	(89,532)	35,071	35,569	99,325	-	(99,325)	35,569
Total current assets	90,211	120,108	23,888	(89,532)	144,675	82,602	131,300	43,523	(99,325)	158,100
Reserves and Deposits:										
Operating reserve	43,256	27,473	184,709	-	255,438	43,132	27,467	184,524	-	255,123
Reserves for replacements	73,579	95,244	9,090	-	177,913	70,082	86,162	48,437	-	204,681
Security deposits	5,002	7,010	19,098	-	31,110	5,002	7,010	19,333	-	31,345
Total reserves and deposits	121,837	129,727	212,897	-	464,461	118,216	120,639	252,294	-	491,149
Other Assets:										
Property and equipment, net	1,312,890	1,945,029	4,232,385	-	7,490,304	1,354,218	2,086,609	4,323,257	-	7,764,084
Total assets	\$ 1,524,938	\$ 2,194,864	\$ 4,469,170	\$ (89,532)	\$ 8,099,440	\$ 1,555,036	\$ 2,338,548	\$ 4,619,074	\$ (99,325)	\$ 8,413,333
Liabilities and Net Assets										
Current Liabilities:										
Current portion of long-term debt and accrued interest	\$ 15,108	\$ 6,699	\$ 50,183	\$ -	\$ 71,990	\$ 10,125	\$ 6,566	\$ 47,398	\$ -	\$ 64,089
Current portion due to affiliates	58,793	130,788	165,533	(89,532)	265,582	68,586	123,623	112,431	(99,325)	205,315
Accounts payable	1,753	1,954	5,310	-	9,017	316	2,039	6,197	-	8,552
Accrued expenses	-	-	8,000	-	8,000	1,588	1,819	11,250	-	14,657
Total current liabilities	75,654	139,441	229,026	(89,532)	354,589	80,615	134,047	177,276	(99,325)	292,613
Long-Term Liabilities:										
Security deposits payable	5,002	7,010	19,098	-	31,110	5,002	7,010	19,333	-	31,345
Long-term debt, accrued interest and unamortized debt issuance costs, net of current portion	847,658	17,883	1,553,157	-	2,418,698	861,072	21,929	1,602,075	-	2,485,076
Due to affiliates, net of current portion	-	-	184,872	-	184,872	-	-	184,872	-	184,872
Contingent debt and deferred interest	606,170	2,637,605	3,526,494	-	6,770,269	611,365	2,637,605	3,461,722	-	6,710,692
Total long-term liabilities	1,458,830	2,662,498	5,283,621	-	9,404,949	1,477,439	2,666,544	5,268,002	-	9,411,985
Total liabilities	1,534,484	2,801,939	5,512,647	(89,532)	9,759,538	1,558,054	2,800,591	5,445,278	(99,325)	9,704,598
Net Assets										
Net assets without donor restrictions:										
Operating	72,921	14,839	29,754	-	117,514	55,244	31,286	98,169	-	184,699
Property and equipment	(82,467)	(621,914)	(1,073,231)	-	(1,777,612)	(58,262)	(493,329)	(924,373)	-	(1,475,964)
Total net assets	(9,546)	(607,075)	(1,043,477)	-	(1,660,098)	(3,018)	(462,043)	(826,204)	-	(1,291,265)
Total liabilities and net assets	\$ 1,524,938	\$ 2,194,864	\$ 4,469,170	\$ (89,532)	\$ 8,099,440	\$ 1,555,036	\$ 2,338,548	\$ 4,619,074	\$ (99,325)	\$ 8,413,333

HOUSING FAMILIES INC. AND AFFILIATES

Statements of Activities - Rental Properties
For the Years Ended June 30, 2019 and 2018

	2019				2018			
	HFI Properties, Inc.	MM Homes LLC	Cross Street Housing LP	Total	HFI Properties, Inc.	MM Homes LLC	Cross Street Housing LP	Total
Operating Support and Revenues:								
Rental income, net of vacancies	\$ 118,488	\$ 218,760	\$ 407,567	\$ 744,815	\$ 117,535	\$ 211,859	\$ 429,475	\$ 758,869
Management fees, program income and other	242	253	1,143	1,638	936	466	1,283	2,685
Total operating support and revenues	118,730	219,013	408,710	746,453	118,471	212,325	430,758	761,554
Operating Expenses:								
Utilities	17,463	43,256	82,898	143,617	21,273	39,278	76,617	137,168
Repairs and maintenance	15,729	35,283	84,924	135,936	20,192	40,674	154,271	215,137
Resident services	-	72,589	28,000	100,589	-	77,093	28,000	105,093
Taxes and insurance	20,916	33,340	46,096	100,352	15,776	19,785	38,030	73,591
Interest	17,520	-	91,800	109,320	18,862	1,375	80,290	100,527
Salaries	8,930	23,815	28,280	61,025	9,722	25,095	30,785	65,602
Management fees	5,721	10,776	19,463	35,960	5,721	10,776	18,311	34,808
Professional fees	150	175	27,602	27,927	2,175	175	7,074	9,424
Extermination contract	-	-	7,391	7,391	-	-	3,466	3,466
Interest - amortization of debt issuance costs	-	2,541	2,394	4,935	-	2,542	2,394	4,936
Office supplies and equipment	1,751	321	2,610	4,682	2,514	1,236	455	4,205
Miscellaneous	945	369	1,034	2,348	40	254	793	1,087
Total operating expenses before depreciation and amortization	89,125	222,465	422,492	734,082	96,275	218,283	440,486	755,044
Depreciation and amortization	41,328	141,580	138,719	321,627	40,029	141,581	132,050	313,660
Total operating expenses	130,453	364,045	561,211	1,055,709	136,304	359,864	572,536	1,068,704
Changes in net assets from operations	(11,723)	(145,032)	(152,501)	(309,256)	(17,833)	(147,539)	(141,778)	(307,150)
Non-Operating Activities:								
Forgiveness of debt	5,195	-	-	5,195	5,195	-	-	5,195
Deferred interest expense	-	-	(64,772)	(64,772)	-	-	(61,522)	(61,522)
Changes in net assets	(6,528)	(145,032)	(217,273)	(368,833)	(12,638)	(147,539)	(203,300)	(363,477)
Changes in Net Assets Attributable to Non-Controlling Interest	-	-	217,273	217,273	-	-	203,300	203,300
Changes in net assets attributable to Housing Families Inc.	\$ (6,528)	\$ (145,032)	\$ -	\$ (151,560)	\$ (12,638)	\$ (147,539)	\$ -	\$ (160,177)

HOUSING FAMILIES INC. AND AFFILIATES

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2019

<u>Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Department of Housing and Urban Development:			
Direct Program:			
Continuum of Care Program	14.267	N/A	\$ 303,172
Passed-Through Heading Home, Inc.:			
Continuum of Care Program	14.267	MA0475L1T16	342,979
Continuum of Care Program	14.267	N/A	<u>230,477</u>
Total CFDA #14.267			<u>876,628</u>
Passed-Through City of Everett:			
Community Development Block Grants/Entitlement Grants (CDBG - Entitlement Grants Cluster)	14.218	N/A	19,989
Passed-Through City of Medford:			
Community Development Block Grants/Entitlement Grants (CDBG - Entitlement Grants Cluster)	14.218	N/A	12,800
Passed-Through City of Malden:			
Community Development Block Grants/Entitlement Grants (CDBG - Entitlement Grants Cluster)	14.218	N/A	<u>15,000</u>
Total CFDA #14.218			<u>47,789</u>
Total Expenditures of Federal Awards			<u><u>\$ 924,417</u></u>

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the Federal assistance activity of Housing Families Inc. 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 Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

HFI and Affiliates' 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, 2019, 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

Housing Families Inc. has elected not to use the 10% de minimis cost rate for its Federal programs.



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**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, HFI and Affiliates), which comprise the consolidating statement of financial position as of June 30, 2019, and the related consolidating statements of activities, changes in net assets, 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 2, 2019. 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 HFI and Affiliates' 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 HFI and Affiliates' internal control. Accordingly, we do not express an opinion on the effectiveness of HFI and Affiliates' 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 HFI and Affiliates' 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.

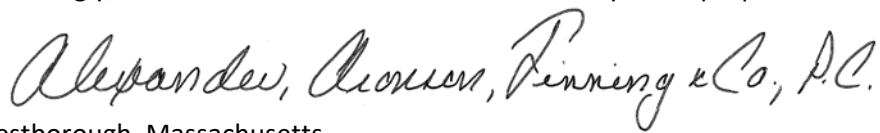
Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any 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 HFI and Affiliates' 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 HFI and Affiliates' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering HFI and Affiliates' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Alexander, Brown, Fenning & Co., P.C.".

Westborough, Massachusetts
December 2, 2019



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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, HFI and Affiliates) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on HFI and Affiliates' major Federal program for the year ended June 30, 2019. HFI and Affiliates' major Federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

HFI and Affiliates' 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, 2019. 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 HFI and Affiliates' 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 HFI and Affiliates' 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 HFI and Affiliates' compliance.

Opinion on Each Major Federal Program

In our opinion, HFI and Affiliates 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, 2019.

Report on Internal Control Over Compliance

Management of HFI and Affiliates is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to on page 32. In planning and performing our audit of compliance, we considered HFI and Affiliates' internal control over compliance with the types of requirements that could have a direct and material effect on the major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 HFI and Affiliates' 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 a 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.



Westborough, Massachusetts
December 2, 2019

HOUSING FAMILIES INC. AND AFFILIATES

Schedule of Findings and Questioned Costs
June 30, 2019

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>	<u>Federal CFDA Number</u>
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? X Yes No

HOUSING FAMILIES INC. AND AFFILIATES

Schedule of Findings and Questioned Costs
June 30, 2019

2. CONSOLIDATING FINANCIAL STATEMENT FINDINGS

None

3. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None