

Harborlight Community Partners, Inc. and Subsidiaries

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

December 31, 2019



Harborlight Community Partners, Inc. and Subsidiaries

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Independent Auditor's Report

To the Board of Directors
Harborlight Community Partners, Inc. and Subsidiaries

Report on the Consolidated and Combined Financial Statements

We have audited the accompanying consolidated and combined financial statements of Harborlight Community Partners, Inc. and Subsidiaries, which comprise the consolidated and combined statement of financial position as of December 31, 2019, and the related consolidated and combined statements of activities, changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the consolidated and combined financial statements.

Management's Responsibility for the Consolidated and Combined Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated and combined 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 consolidated and combined 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 consolidated and combined financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated and combined financial statements are free from material misstatement. The financial statements of certain subsidiaries of Harborlight Community Partners, Inc. and Subsidiaries were not audited in accordance with *Government Auditing Standards* as discussed at Note 1 in the Notes to Schedule of Expenditures of Federal Awards.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated and combined 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 consolidated and combined 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 consolidated and combined 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 consolidated and combined financial statements referred to above present fairly, in all material respects, the financial position of Harborlight Community Partners, Inc. and Subsidiaries as of December 31, 2019, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information on pages 31 to 33 is presented for purposes of additional analysis and is not a required part of the consolidated and combined financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* 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 consolidated and combined 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 consolidated and combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated and combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated and combined financial statements or to the consolidated and combined 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 consolidated and combined 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 July 17, 2020, on our consideration of Harborlight Community Partners, Inc. and Subsidiaries' 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 Harborlight Community Partners, Inc. and Subsidiaries' 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 Harborlight Community Partners, Inc. and Subsidiaries' internal control over financial reporting and compliance.



Boston, Massachusetts
July 17, 2020

Harborlight Community Partners, Inc. and Subsidiaries
Consolidated and Combined Statement of Financial Position
December 31, 2019

Assets

Current assets	
Cash - operations	\$ 1,618,225
Cash - development	261,337
Restricted deposits and funded reserves	3,012,472
Unrestricted investments	2,000,062
Tenant security deposits	114,647
Accounts receivable - residents	12,482
Accounts receivable - related party	67,008
Accounts receivable - other	115,661
Prepaid expenses	95,916
Unconditional promise to give, current portion	<u>77,200</u>
Total current assets	<u>7,375,010</u>
Property and equipment	
Land and site improvements	8,194,204
Buildings and improvements	41,072,820
Furniture and equipment	945,080
Motor vehicles	<u>100,848</u>
Total	50,312,952
Less accumulated depreciation	<u>7,308,746</u>
Total property and equipment	<u>43,004,206</u>
Other assets	
Tax credit fees, net of accumulated amortization of \$14,919	34,861
Real estate project development costs	3,097,716
Unconditional promise to give, less current portion	<u>73,968</u>
Total other assets	<u>3,206,545</u>
Total assets	<u><u>\$ 53,585,761</u></u>

Harborlight Community Partners, Inc. and Subsidiaries
Consolidated and Combined Statement of Financial Position
December 31, 2019

Liabilities and Net Assets

Current liabilities	
Accounts payable	\$ 115,885
Accounts payable - construction	433,664
Accrued expenses	133,437
Accrued interest	241,482
Tenant security deposits	109,423
Prepaid rent	23,498
Other liabilities	81,047
Current portion of long-term debt	<u>907,747</u>
Total current liabilities	<u>2,046,183</u>
Long-term liabilities	
Long-term debt, net of unamortized debt issuance costs	38,758,332
Deferred interest	44,997
Development advance	<u>150,000</u>
Total long-term liabilities	<u>38,953,329</u>
Total liabilities	<u>40,999,512</u>
Without donor restrictions - controlling	5,965,252
Without donor restrictions - non-controlling	6,485,863
Without donor restrictions - combined entities	(107,496)
With donor restrictions	<u>242,630</u>
Total net assets	<u>12,586,249</u>
Total liabilities and net assets	<u>\$ 53,585,761</u>

See Notes to Consolidated and Combined Financial Statements.

Harborlight Community Partners, Inc. and Subsidiaries

**Consolidated and Combined Statement of Activities
Year Ended December 31, 2019**

	Net assets without donor restrictions	Net assets with donor restrictions	Total
	<u> </u>	<u> </u>	<u> </u>
Revenue and support			
Grants and contributions	\$ 649,635	\$ 93,774	\$ 743,409
Rental	4,423,175	-	4,423,175
Contracts	38,526	-	38,526
Site support	3,261	-	3,261
Program service fees	94,624	-	94,624
Investment return, net	394,118	-	394,118
Management fees	83,700	-	83,700
Other	176,825	-	176,825
Net assets released from restriction	<u>72,114</u>	<u>(72,114)</u>	<u>-</u>
 Total revenue	 <u>5,935,978</u>	 <u>21,660</u>	 <u>5,957,638</u>
 Expenses			
Rental property operations	4,818,709	-	4,818,709
Real estate development	314,544	-	314,544
Advocacy and services	<u>197,733</u>	<u>-</u>	<u>197,733</u>
 Total program services	 5,330,986	 -	 5,330,986
 Management and general Fundraising	 181,839 <u>276,877</u>	 - <u>-</u>	 181,839 <u>276,877</u>
 Total expenses	 <u>5,789,702</u>	 <u>-</u>	 <u>5,789,702</u>
 Changes in net assets	 <u>\$ 146,276</u>	 <u>\$ 21,660</u>	 <u>\$ 167,936</u>

See Notes to Consolidated and Combined Financial Statements.

Harborlight Community Partners, Inc. and Subsidiaries
Consolidated and Combined Statement of Changes in Net Assets
Year Ended December 31, 2019

	Net assets without donor restrictions			Total	Net assets with donor restrictions	Total net assets
	Controlling	Non-controlling	Combined entities			
Net assets, beginning of year	\$ 5,637,655	\$ 5,673,687	\$ (64,148)	\$ 11,247,194	\$ 220,970	\$ 11,468,164
Changes in net assets	327,597	(137,973)	(43,348)	146,276	21,660	167,936
Capital contributions	-	968,516	-	968,516	-	968,516
Distributions	-	(18,367)	-	(18,367)	-	(18,367)
Net assets, end of year	<u>\$ 5,965,252</u>	<u>\$ 6,485,863</u>	<u>\$ (107,496)</u>	<u>\$ 12,343,619</u>	<u>\$ 242,630</u>	<u>\$ 12,586,249</u>

See Notes to Consolidated and Combined Financial Statements.

Harborlight Community Partners, Inc. and Subsidiaries

**Consolidated and Combined Statement of Functional Expenses
Year Ended December 31, 2019**

	Program Services				Management and general	Fundraising	Total
	Rental property operations	Real estate development	Advocacy and services	Total program services			
Employee compensation, payroll taxes and benefits	\$ 1,076,390	\$ 268,651	\$ 108,340	\$ 1,453,381	\$ 156,072	\$ 165,330	\$ 1,774,783
Operating and maintenance expenses	443,780	-	-	443,780	3,316	-	447,096
Utilities	417,340	1,237	1,547	420,124	385	1,083	421,592
Taxes and insurance	433,366	4,797	5,996	444,159	1,139	4,197	449,495
Administrative	265,371	30,180	77,360	372,911	3,811	48,327	425,049
Development costs	-	4,648	-	4,648	-	-	4,648
Professional fees	115,408	2,522	3,152	121,082	7,881	2,207	131,170
Fundraising event expense	-	-	-	-	-	54,796	54,796
Financial services expense	50,572	-	-	50,572	-	-	50,572
Social service expenses	75,495	-	-	75,495	-	-	75,495
Interest expense	736,428	2,509	1,338	740,275	3,345	937	744,557
Other financial expenses	4,663	-	-	4,663	-	-	4,663
Depreciation and amortization	1,199,896	-	-	1,199,896	5,890	-	1,205,786
Total	\$ 4,818,709	\$ 314,544	\$ 197,733	\$ 5,330,986	\$ 181,839	\$ 276,877	\$ 5,789,702
Percentage	83.23%	5.43%	3.42%	92.08%	3.14%	4.78%	100.00%

See Notes to Consolidated and Combined Financial Statements.

Harborlight Community Partners, Inc. and Subsidiaries

Consolidated and Combined Statement of Cash Flows Year Ended December 31, 2019

Cash flows from operating activities	
Changes in net assets	\$ 167,936
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	1,202,466
Amortization of debt issuance costs	18,670
Amortization of tax credit monitoring fees	3,320
Gain on investments	(329,917)
Forgiveness of debt	(60,000)
Changes in	
Accounts receivable - residents	(2,412)
Accounts receivable - related party	8,656
Accounts receivable - other	(67,955)
Prepaid expenses	(18,081)
Donations receivable	58,490
Accounts payable	(40,734)
Accrued expenses	(14,824)
Accrued interest	21,559
Tenant security deposits liability	5,420
Prepaid rent	3,498
Other liabilities	40,112
	<hr/>
Net cash provided by operating activities	996,204
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Cash flows from investing activities	
Purchases of property and equipment	(239,655)
Payments for real estate project development costs	(1,058,326)
Proceeds from sales of investments	666,280
Purchases of investments	(669,093)
Payments for tax credit fees	(9,890)
	<hr/>
Net cash used in investing activities	(1,310,684)
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Cash flows from financing activities	
Long-term debt proceeds	1,458,864
Principal payments on mortgages and notes payable	(3,071,905)
Capital contributions	968,516
Distributions	(18,367)
Payments of debt issuance costs	(5,000)
	<hr/>
Net cash used in financing activities	(667,892)
	<hr/>
Net decrease in cash and restricted cash	(982,372)
Cash and restricted cash, beginning	5,989,053
	<hr/>
Cash and restricted cash, ending	\$ 5,006,681
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Harborlight Community Partners, Inc. and Subsidiaries

**Consolidated and Combined Statement of Cash Flows
Year Ended December 31, 2019**

Supplemental disclosure of cash flow information	
Cash paid for interest, net of interest capitalized	<u>\$ 704,328</u>
Supplemental disclosure of non-cash investing and financing activities	
Property and equipment additions	\$ 209,308
Property and equipment additions included in accounts payable - construction at beginning of year	<u>30,347</u>
Cash paid for purchases of property and equipment	<u>\$ 239,655</u>
Real estate project development costs incurred during the year	\$ 1,332,350
Real estate project development costs included in accounts payable - construction at beginning of year	159,640
Real estate project development costs included in accounts payable - construction at beginning of year	<u>(433,664)</u>
Payments for real estate project development costs	<u>\$ 1,058,326</u>

See Notes to Consolidated and Combined Financial Statements.

Harborlight Community Partners, Inc. and Subsidiaries

Notes to Consolidated and Combined Financial Statements December 31, 2019

Note 1 - Organization and summary of significant accounting policies

Harborlight Community Partners, Inc. ("HCP" or the "Organization") was formed as a non-profit corporation in the Commonwealth of Massachusetts in January 2009, which was the result of a merger of several smaller non-profit organizations that had a shared mission in providing affordable housing rental units to the local community. HCP has ties dating back to the 1960s when the First Baptist Church of Beverly opened Harborlight House to provide affordable housing units to low-income seniors. Today, HCP is a community development corporation that manages, develops, preserves, and operates affordable housing on the North Shore of Massachusetts.

HCP currently owns and/or manages 21 properties in nine communities and a community land trust. These properties offer a total combined 392 housing units, which is comprised of a combination of affordable senior housing with supportive services, affordable senior supportive living, family housing for low and very low-income families, affordable housing for individuals with disabilities, and supportive permanent housing for formerly homeless individuals. HCP has also established partnerships with other non-profit organizations to further develop affordable housing units on the North Shore of Massachusetts.

Principles of consolidation and combination

HCP consolidates its wholly owned subsidiaries, as well as for-profit limited liability companies in which HCP is the managing member and is deemed to have control. The consolidated financial statements include the accounts of the Organization, its wholly-owned subsidiaries, and for-profit limited liability companies which meet the requirements for consolidation.

HCP is the sole member of Whipple Annex Housing LLC, Maple Woods Housing LLC, Granite Street Crossing LLC, Anchor Point LLC, and Hardy Street LLC. Turtle Creek Housing MM LLC is the managing member in Turtle Creek Housing LLC, which HCP has a controlling interest. Harborlight House MM LLC is the managing member in Harborlight House LLC, which HCP has a controlling interest. Boston Street Crossing MM LLC is the managing member in Boston Street Crossing LLC, which HCP has a controlling interest. Pigeon Cove Ledges is a residential project owned by HCP and is not a separate legal entity.

HCP also combines other not-for-profit organizations which do not meet the requirements for consolidation under the Financial Accounting Standard Board ("FASB") Accounting Standards Codification ("ASC"). The combined entities included are as follows: Firehouse Place, Inc., Rockport Affordable Housing, Inc., and Marblehead Community Housing Corporation; not-for-profit entities related through common board members and management.

HCP, its subsidiaries, and for-profit limited liability companies in which HCP has a controlling interest are collectively referred to hereinafter as the Organization unless context dictates otherwise.

All significant intercompany balances and transactions have been eliminated in consolidation and combination.

Non-controlling interest in affiliates

The non-controlling interest represents the 99.99% investor member interests in Turtle Creek Housing LLC, Harborlight House LLC, and Boston Street Crossing LLC, which are reported as a component of net assets without donor restrictions on the consolidated statement of financial position and as a separate component of the change in net assets on the consolidated and combined statement of activities.

Harborlight Community Partners, Inc. and Subsidiaries

Notes to Consolidated and Combined Financial Statements December 31, 2019

Nature of activities

HCP provides programs and activities that raise the economic, housing, educational and social levels of low and moderate-income for the residents of or on the North Shore of Massachusetts. The following program activities are listed in order of total program expenditures.

Rental property operations

The rental property program consists of rental activities related to 21 residential properties in the North Shore area of Massachusetts, the majority of which are subject to long-term affordable housing restrictions. The residential properties contain 392 units in total, are subjected to affordability restrictions, some of which are attached to the related land, and are rented to families of low to moderate incomes. All leases between the Organization and its tenants are operating leases.

Real estate development

The real estate development program uses funds obtained from various governmental entities, foundations, financial institutions, nonprofit organizations and individuals to acquire and develop properties.

Advocacy and services

The advocacy and services program provides support to the individuals and local communities which relate to HCP's mission.

Use of estimates

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

Financial statement presentation

HCP presents its consolidated and combined financial statements in accordance with the accounting guidance for nonprofit entities. Under this guidance, the organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. All the net assets of the Organization are net assets without donor restrictions with the exception of those that are subject to explicit or implicit donor-imposed restrictions. Furthermore, information is required to segregate program service expenses from management and general expenses.

HCP conforms to accounting guidance on revenue recognition for nonprofit entities. Under this guidance, contributions received, if any, are recorded as support without or with donor restrictions depending on the existence and/or nature of any donor restrictions.

Cash and cash equivalents

The Organization considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Harborlight Community Partners, Inc. and Subsidiaries

Notes to Consolidated and Combined Financial Statements December 31, 2019

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are recorded at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statement of activities.

Accounts receivable - residents

Tenant rents receivable are stated at the amount management expects to collect on balances outstanding at year-end. Management has closely monitored outstanding balances and writes-off as of year-end all balances that it deems uncollectible based upon such factors as tenant payment history, the results of collection efforts, and the commencement of tenant eviction proceedings. Accounting principles generally accepted in the United States of America require the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different than the results that would have been obtained under the allowance method.

Accounts receivable - related party, other

Receivables from grants and contributions are stated at the amounts management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to net assets and a credit to a valuation allowance based on historical collection experience, its assessment of current economic conditions, review and assessment of estimated funding sources and financial condition of the debtor. Balances which are still outstanding after management has used reasonable collection efforts are written off through a charge to valuation allowance and a credit to accounts receivable.

Fixed assets and depreciation

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

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

Buildings and improvements	20 - 40 years
Leasehold improvements	3 - 27 years
Furniture and fixtures	3 - 7 years
Equipment	3 - 7 years

Real estate project development costs

Real estate project development costs include pre-acquisition, acquisition, construction costs and capitalized interest, and associated general and administrative costs related to properties the Organization intends on using in its programs. Real estate project development costs are recorded at cost. Management believes these developments could take anywhere from 2-5 years to completely develop, sell and/or rent. At times, planned developments are abandoned. Real estate project development costs are written off when it is determined by Management that such projects will no longer be pursued. All developments are located in the North Shore of Massachusetts.

Harborlight Community Partners, Inc. and Subsidiaries

Notes to Consolidated and Combined Financial Statements December 31, 2019

Impairment of long-lived assets

The Organization reviews its investment in real estate, real estate development costs, and property held for sale (real estate), for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted cash flows expected to be generated by the property and any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the real estate exceeds the fair value of such property. There were no impairment losses recognized in 2019.

Tax credit fees and amortization

Tax credit fees of \$49,780 are being amortized over the respective tax credit compliance periods using the straight-line method. Amortization expense for the year ended December 31, 2019 was \$3,320. Accumulated amortization was \$14,919 at December 31, 2019. Estimated annual amortization expense for each year through December 31, 2024 is \$3,319.

Debt issuance costs

Debt issuance costs, net of accumulated amortization, are reported as a direct deduction from the face amount of the mortgage loan payable to which such costs relate. Amortization of debt issuance costs is reported as a component of interest expense and is computed using an imputed interest rate on the related loan.

Net assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net assets with donor restrictions - Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Contributions which are limited to the use of various HCP programs are reflected as net assets without donor restrictions if these funds are received and spent during the same year and if they support the activities of HCP within the limits of HCP's Articles of Organization.

Revenue recognition

The Organization recognizes its revenue as follows:

Housing management and related fees, consulting and housing development fees

Fees for property management, accounting and data processing, central office, and consulting services are recognized when earned. Development fees for housing development services are recognized when earned, based on the terms of the related agreements.

Harborlight Community Partners, Inc. and Subsidiaries

Notes to Consolidated and Combined Financial Statements December 31, 2019

Rental revenue

Rental revenue is primarily derived from residential tenant rents. Rental revenue is recognized as occupancy is provided. Rental payments received in advance are deferred until earned. All leases between the Organization and its tenants are considered operating leases. Rental income from commercial space is recognized using the straight-line method over the lease term.

Contributed services

During the year ended December 31, 2019, the value of contributed services meeting the requirements for recognition in the consolidated and combined financial statements under guidance issued by the FASB was not material and has therefore not been disclosed in these consolidated and combined financial statements. In addition, individuals volunteer their time and perform a variety of tasks that assist the Organization, but these services do not meet the criteria for recognition as contributed services.

Contributions

Contributions are recorded upon receipt or pledge when it is determined that the resource provider has not received equal commensurate value in return for the resources transferred or promised to the Organization. Contributions are classified as either conditional or unconditional depending on the existence and/or nature of any donor-imposed conditions or stipulations. All contributions are considered to be unconditional unless they specifically carry donor-imposed stipulations which represent barriers that must be overcome by the Organization before being entitled to the assets transferred or promised by the resource provider. Additionally, a conditional contribution also requires that any failure by the Organization to overcome such barriers gives the resource provider a right of return of the assets it has transferred or provides the promisor a right of release from obligation to transfer its assets. Unconditional contributions are recognized as contribution revenue immediately and are classified as either net assets with donor restrictions or net assets without donor restrictions depending upon the existence of any donor-imposed restrictions. Donor-imposed restrictions, if any, are dictated by the resource provider with the sole purpose of limiting the Organization's use of the contribution for a specific purpose or a specified period of time. Conditional contributions received are accounted for as a liability initially, that is, until the barriers to entitlement are overcome by the Organization, at which time the transaction is recognized as unconditional and classified as either net assets with donor restrictions or net assets without donor restrictions.

Unconditional promises to give are reported at net realizable value if at the time the promise is made collection is expected to be received in one year or less. Unconditional promises to give that are expected to be collected in more than one year are initially recorded at fair value using present value techniques and a discount rate determined by management of HCP. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. Unconditional promises to give are recorded as receivables and revenue when earned. HCP distinguishes between contributions received for each net asset category in accordance with donor-imposed restrictions. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. Contributions in the form of property and equipment and other assets are recorded at fair value on the date the donation is received.

Harborlight Community Partners, Inc. and Subsidiaries

Notes to Consolidated and Combined Financial Statements December 31, 2019

Included in contributions receivable are the following unconditional promises to give at December 31, 2019:

Unconditional promises to give	\$	158,800
Less unamortized discount (Effective rate of 5%)		<u>(7,632)</u>
Net unconditional promises to give	\$	<u>151,168</u>
Amounts due in		
Less than one year	\$	77,200
One to five years		<u>81,600</u>
	\$	<u>158,800</u>

Grants

HCP receives grant revenue from various agencies in accordance with its mission. Grant revenue is earned and recognized by the Organization when the services are provided. HCP also receives grant awards that are passed through to other recipients. These pass-through awards amounted to \$25,000 for the year ended December 31, 2019 and the related expense is included in operating and maintenance expense on the accompanying consolidated and combined statement of functional expenses.

Contracts

The Organization receives contract revenue from various public and private organizations. Contract revenue is recognized over the period covered by the contract as services are provided and costs are incurred.

Event revenue

Event revenue is recorded when the event takes place. Amounts received in advance are deferred until earned.

Donated materials

Donated materials are recorded at their estimated fair value at the time of receipt.

Functional allocation of expenses

The cost of providing the various programs and activities has been summarized on a functional basis in the consolidated and combined statement of activities. The consolidated and combined statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Such costs have been allocated on the basis of estimates of time and effort.

Income taxes

Harborlight Community Partners, Inc., Firehouse Place, Inc., Rockport Affordable Housing, Inc. and Marblehead Community Housing Corporation are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code ("IRC"). However, income from certain activities not directly related to each entity's tax-exempt purpose is subject to taxation as unrelated business income. The entities had no unrelated business income for the year ended December 31, 2019. In addition, the Organizations qualify for the charitable contribution deduction under Section 170(b)(1)(A) and have been classified as organizations other than private foundations under Section 509(a)(2).

Harborlight Community Partners, Inc. and Subsidiaries

Notes to Consolidated and Combined Financial Statements December 31, 2019

The individual members of Turtle Creek Housing LLC, Harborlight House LLC, and Boston Street Crossing LLC are responsible for any federal and state income taxes, and therefore any such taxes are not included in the consolidated and combined financial statements of the Organization.

Whipple Annex Housing LLC, Maple Woods Housing, LLC, Granite Street Crossing, LLC, Anchor Point LLC, and Hardy Street LLC, as single-member entities, are disregarded entities for tax purposes.

The tax returns of each entity incorporate the interpretation of the Internal Revenue Code and applicable state regulations as determined by the management of each entity. These interpretations are subject to review and adjustment by the Internal Revenue Service and taxing authorities.

Management has evaluated significant tax positions against the criteria established by professional standards and believes there are no such tax positions requiring accounting recognition in the consolidated and combined financial statements. Management does not believe its evaluation of tax positions will significantly change within 12 months of December 31, 2019. Any changes in tax positions will be recorded when the ultimate outcome becomes known. Each entity's income tax returns are subject to examination by the IRS for a period of three years. While no income tax returns are currently being examined by the IRS, tax years since 2016 remain open.

Adoption of new accounting principles

In November 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-18, *Statement of Cash Flows (Topic 230) - Restricted Cash* ("ASU 2016-18"), to address diversity in practice with respect to the cash flows presentation of changes in amounts described as restricted cash and cash equivalents. ASU 2016-18 requires a reporting entity to include amounts described as either restricted cash or restricted cash and cash equivalents (collectively referred to as "restricted cash" herein) when reconciling beginning and ending balances in its statement of cash flows. The update also amends Topic 230 to require disclosures about the nature of restricted cash and provide a reconciliation of cash, cash equivalents and restricted cash between the statement of financial position and the statement of cash flows. ASU 2016-18 was adopted by the Organization retrospectively during the year ended December 31, 2019. Consequently, ending cash and restricted cash as of December 31, 2019 was increased from \$3,106,511 to \$5,989,053.

On June 21, 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 impacts all organizations that receive or make contributions of cash or other assets and includes specific criteria to consider when determining whether a contract or agreement should be accounted for as a contribution or as an exchange transaction. It also provides a framework for determining whether a contribution is conditional or unconditional which impacts the timing of revenue recognition. It is expected that ASU 2018-08 will result in more grants and contracts being accounted for as either unconditional or conditional contributions, instead of exchange transactions. ASU 2018-08 was adopted by the Organization on a modified prospective basis, which requires application to all agreements that have not been completed as of the January 1, 2019 (the "effective date"), and those that have been entered into after the effective date.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* ("ASU 2016-01"). ASU 2016-01 makes several modifications to Subtopic 825-10, including the elimination of the available-for-sale classification of equity investments, and it requires equity investments with readily determinable fair values to be measured at fair value with changes in fair value to be recognized in

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operations. ASU 2016-01 is effective for fiscal years beginning after December 15, 2018. The Organization adopted the requirements of the new guidance as of January 1, 2019. The Organization has historically recognized such changes in fair values on its equity investments through operations, and therefore, no cumulative-effect adjustment to net assets was required as of January 1, 2019.

Recent accounting pronouncements

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09") effective for reporting periods beginning after December 15, 2018. Adoption of the provisions of ASU 2014-09 will be applied to contracts with customers using available practical expedients only for contracts with customers. This approach may result in a cumulative adjustment to opening net assets for the Organization as it relates to contracts with customers. In June 2020, the FASB issued ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*. This update allows for the deferral, for one year, the required effective date of Topic 606 for certain entities that have not yet issued their financial statements or made financial statements available for issuance as of June 3, 2020. The Organization has elected to defer implementation of ASU 2014-09 provided for under ASU 2020-05 for the year ended December 31, 2019.

Note 2 - Liquidity and availability

The Organization has \$2,210,539 of financial assets available within one year of the statement of financial position date to meet cash needs for general expenditures consisting of cash of \$1,618,225, accounts receivable of \$195,151, prepaid expenses of \$95,916, and restricted deposits and funded reserves of \$301,247. Only amounts related to restricted deposits and funded reserves anticipated to be used more than one year after the statement of financial position date have been excluded from the above amounts. Financial assets of the Organization are intended to be sufficient to meet its general expenditures, liabilities and other obligations as they become due.

Note 3 - Restricted deposits and funded reserves

Mortgage escrow deposits

The Organization is required to establish and maintain real estate taxes and insurance escrows in connection with loan agreements related to the Organization's rental operations. As of December 31, 2019, the escrow balances totaled \$51,508. All required deposits were made during the year.

Replacement reserves

In accordance with various operating and loan agreements in connection with the Organization's rental operations, the Organization is required to establish and maintain replacement reserve accounts for significant repairs and replacements. Withdrawals are subject to approval as defined in the Organization's various operating and loan agreements. The replacement reserve funds are held with certain lenders. As of December 31, 2019, the replacement reserve balances totaled \$1,436,567. All deposits and disbursements were made in accordance with the Organization's operating and loan agreements.

Residual receipts reserve

In connection with the acquisition of the Project, residual receipts of \$47,745 were transferred from the seller to the Organization. The use of residual receipts is restricted by the Regulatory Agreement and funds may only be withdrawn with the permission of HUD. As of December 31, 2019, the balance of the residual receipts reserve was \$48,043.

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Operating reserves

In accordance with various operating agreements in connection with the Organization's rental operations, the Organization maintains operating reserves for operating shortfalls. Withdrawals may only be made with prior approval as specified in the related operating agreements. Additionally, operating reserve accounts may have a minimum balance requirement equal to three months' debt service for notes payable. The operating reserve funds are held in financial institutions in Massachusetts and with certain lenders. As of December 31, 2019, the operating reserve balances totaled \$1,268,211.

Equity escrow

The first mortgage lender established an equity escrow to deposit equity contributions until needed to fund development costs and other required payments. During 2019, the balance of the equity escrow was released to pay for development costs.

Bond reserve

As of December 31, 2019, the bond reserve balances totaled \$16,104.

Other reserves

As of December 31, 2019, the other reserves balances totaled \$150,992.

Yes In My Back Yard ("YIMBY") program

The Organization acts as a fiscal agent for participants in the YIMBY program. Under the terms of the agreement, the Organization is to distribute funds only upon YIMBY's approval. The Organization has no variance power over the funds and has included amounts held on behalf of the participants in restricted deposits and funded reserves on the accompanying consolidated and combined statement of financial position. The funds held by the Organization on behalf of the participants amounted to \$41,047 as of December 31, 2019. A related liability for expenses incurred for the YIMBY program of \$41,047 as of December 31, 2019 is reflected as other liabilities on the accompanying consolidated and combined statement of financial position.

Note 4 - Investments

The Organization's investments are comprised of the following as of December 31, 2019:

	Unrestricted	
	Cost	Fair value
Money market funds	\$ 46,573	\$ 46,573
Equity securities	534,980	710,038
Corporate bonds	650,032	671,647
Mutual funds	454,358	514,647
Exchange traded products	50,043	50,558
Accrued interest	6,599	6,599
	<u>\$ 1,742,585</u>	<u>\$ 2,000,062</u>

Realized and unrealized gains (losses) on investments are shown net in the consolidated and combined statement of activities. For the year ended December 31, 2019, net realized and unrealized gains on investments amounted to \$303,848, which is included in investment return, net in the accompanying consolidated and combined statement of activities.

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Note 5 - Fair value measurements

FASB's guidance on fair value measurements established a framework for measuring fair value of assets and liabilities and expanded related disclosures. FASB's guidance requires fair value to be determined based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for an asset or liability in an orderly transaction between market participants. The guidance established a three-level valuation hierarchy based upon observable and non-observable inputs.

Fair value is the price the Organization would receive to sell an asset or pay to transfer a liability in an orderly transaction with a market participant at the measurement date. In the absence of active markets for the identical assets or liabilities, such measurements involve developing assumptions based on market observable data and, in the absence of such data, internal information that is consistent with what market participants would use in a hypothetical transaction that occurs at the measurement date.

Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Organization's market assumptions. Preference is given to observable inputs.

The fair value hierarchy under the guidance is as follows:

- Level 1: Quoted prices in active markets that are unadjusted and accessible at the measurement date for identical, unrestricted assets or liabilities;
- Level 2: Quoted prices for identical assets and liabilities in markets that are not active, quoted prices for similar assets and liabilities in active markets or financial instruments for which significant inputs are observable, either directly or indirectly; and
- Level 3: Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

FASB's guidance requires the use of observable data if such data is available without undue costs and effort.

When available, the Organization uses unadjusted quoted market prices to measure the fair value and classifies such items within Level 1. Level 1 securities primarily include publicly-traded equity securities and mutual funds.

When quoted market prices are unobservable, the Organization uses quotes from independent pricing vendors based on recent trading activity and other relevant information including market interest rate curves, referenced credit spreads and estimated prepayment rates where applicable.

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Investments consist of corporate stocks, mutual funds, corporate bonds, and money markets with readily determinable fair values which are carried at fair value based on quoted prices in active markets. The fair value of assets measured on a recurring basis at December 31, 2019 is as follows:

Description	Level 1	Level 2	Level 3	Total
Stocks				
Information technology	\$ 193,580	\$ -	\$ -	\$ 193,580
Health care	110,997	-	-	110,997
Consumer discretionary	73,297	-	-	73,297
Consumer staples	52,171	-	-	52,171
Industrial	69,264	-	-	69,264
Financial	135,595	-	-	135,595
Materials	18,799	-	-	18,799
Energy	56,335	-	-	56,335
Total common stock	710,038	-	-	710,038
Corporate bonds - domestic	671,647	-	-	671,647
Mutual funds				
Foreign	366,529	-	-	366,529
Domestic	148,118	-	-	148,118
Total mutual funds	514,647	-	-	514,647
Money market	46,573	-	-	46,573
Exchange funded products	50,558	-	-	50,558
Accrued interest	6,599	-	-	6,599
Total assets measured at fair value	\$ 2,000,062	\$ -	\$ -	\$ 2,000,062

Note 6 - Consolidated and combined statement of cash flows

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

Cash	\$ 1,879,562
Tenant security deposits	114,647
Restricted deposits and funded reserves	
Replacement reserves	1,436,567
Operating reserves	1,257,973
Other reserves and escrows	317,932
Total cash and restricted cash shown in the consolidated and combined statement of cash flows	\$ 5,006,681

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Amounts included in restricted cash are comprised of security deposits held in trust for the future benefit of tenants upon moving out of the property, replacement reserves, operating reserves, and other reserves and escrows as required by regulatory authority and by operating agreements.

Note 7 - Land use restrictions

Whipple Annex Housing LLC leases the land upon which the residential units are situated from the Town of Ipswich under a ninety-nine year lease. The lease provides that the Organization shall be required to pay \$1 during the term of the lease, plus expenses, such as taxes and assessments, incidental to the use of the land.

Rockport Affordable Housing, Inc. was assigned a land lease upon which the residential units are situated from the Town of Rockport, under a sixty-five year lease. The lease provides that the Organization shall be required to pay \$1 during the term of the lease, plus expenses, such as taxes and assessments, incidental to the use of the land.

Hardy Street LLC leases the land upon which an affordable housing project is being developed in Beverly, Massachusetts from Harborlight Community Partners, Inc. under a ninety-nine year lease. The lease provides that the Organization pay base rent of \$30,000 per annum during the term of the lease, plus expenses, such as taxes and assessments, incidental to the use of the land. Payments of base rent are expected to commence in 2021 and are payable to the extent of the project's available cash flow (see Note 12).

Note 8 - Long-term debt

Bond note payable

The Organization entered into a promissory note, dated August 3, 2011, in the amount of \$1,724,506 (the "Bond Note Payable"), issued by Boston Private Bank & Trust Company. The Bond Note Payable provides for interest at a rate of 3.75% per annum. The note is secured by the real estate and personal property (various HCP property locations). The note requires monthly principal and interest payments of \$8,038. The note matures on August 3, 2021.

As of December 31, 2019, the outstanding principal balance of the mortgage loan was \$1,422,024.

Line of credit

The Organization has a \$500,000 revolving line of credit with the Life Insurance Community Investment Initiative, LLC ("Life Initiative"), which bears interest at 6%. The line of credit is secured by substantially all assets of HCP. The line of credit was modified in 2019 to extend the maturity date to June 1, 2022, at which time all unpaid principal and interest shall become due. As of December 31, 2019, the outstanding balance on the line of credit was \$450,998.

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Debt related to various rental property and equipment consisted of the following:

Loan from	Priority	Stated interest rate	Note date	Maturity date	Original principal balance	Outstanding principal balance as of 12/31/19
HCP						
Pigeon Cove Ledges						
USDA, Rural Development	Shared First	3.25%	December 1, 2011	January 2042	\$ 2,427,318	2,250,384
USDA, Rural Development	Shared First	3.25%	December 1, 2011	January 2042	1,337,069	1,239,607
North Shore HOME Consortium	Shared Second	0.00%	January 30, 2012	January 2042	150,000	150,000
Town of Rockport	Shared Second	0.00%	January 30, 2012	January 2042	72,764	72,764
Dodge Street						
North Shore Bank	First	4.25%	January 12, 2017	January 2037	135,000	125,539
CEDAC	Shared Second	0.00%	March 26, 2008	March 2038	238,026	238,026
North Shore HOME Consortium	Shared Second	0.00%	August 21, 2009	August 2039	150,000	150,000
City of Beverly	Third	0.00%	August 21, 2009	(a)	100,000	100,000
Home Street						
North Shore HOME Consortium	First	0.00%	September 18, 2003	July 2023	140,000	140,000
Pleasant Street						
Boston Private Bank & Trust	First	6.07%	August 3, 2011	August 2021	65,000	56,799
North Shore HOME Consortium	Second	0.00%	October 14, 2011	October 2041	90,000	90,000
Chase Street						
North Shore HOME Consortium	First	0.00%	December 15, 2010	December 2040	78,100	78,100
Union Street						
North Shore HOME Consortium	First	0.00%	December 13, 2010	December 2040	101,000	101,000
River Street						
North Shore HOME Consortium	First	0.00%	August 31, 2001	August 2031	65,000	65,000
Beckford Street						
North Shore HOME Consortium	First	0.00%	December 1, 2008	December 2023	25,000	25,000
Anchor Point LLC						
CEDAC	First	7.00%	December 22, 2017	(b)	1,070,280 (1)	786,321
Granite Street Crossing LLC						
CEDAC	First	7.00%	July 7, 2017	(b)	196,648	116,640
Firehouse Place, Inc.						
First Baptist Church of Beverly	First	6.00%	February 18, 2011	February 2031	140,000	97,780
DHCD	Shared Second	0.00%	June 6, 2011	October 2041	200,000	200,000
CEDAC	Shared Second	0.00%	May 20, 2011	October 2041	200,000	200,000
CEDAC	Shared Second	0.00%	May 20, 2011	October 2041	107,000	107,000
North Shore HOME Consortium	Shared Second	0.00%	May 20, 2011	October 2041	220,000	220,000
Town of Hamilton	Shared Second	0.00%	May 20, 2011	October 2041	65,720	65,720
Marblehead Community Housing Corp.						
National Grand Bank	First	5.25%	April 29, 2014	April 2034	114,376	106,304
MHP Fund Board	Second	0.00%	October 22, 2004	October 2054	260,000	260,000
North Shore HOME Consortium	Third	0.00%	September 6, 2013	September 2023	100,000	100,000
FHLB of Boston	Fourth	0.00%	April 29, 2014	February 2030	84,000	84,000
Rockport Affordable Housing, Inc.						
USDA, Rural Development	First	3.75%	December 1, 2013	January 2044	874,875	834,821
Cape Ann Savings Bank	Second	4.50%	December 2, 2013	December 2043	200,000	179,124
DHCD	Shared Third	0.00%	December 12, 1996	December 2043	500,000	450,000
Town of Rockport	Shared Third	0.50%	December 12, 1996	December 2046	390,400	390,400
North Shore HOME Consortium	Shared Third	0.00%	November 26, 2013	December 2043	300,000	300,000
North Shore HOME Consortium	Shared Third	0.00%	January 30, 2012	January 2042	200,000	200,000
North Shore HOME Consortium	Shared Third	0.00%	November 26, 2013	November 2043	35,300	35,300
Whipple Annex LLC						
North Shore Bank	Shared First	3.00%	March 16, 2016	May 2027	650,000	288,021
North Shore Bank	Shared First	4.22%	December 28, 2015	March 2026	140,000	37,676
DHCD	Shared Second	0.00%	July 7, 2006	March 2036	500,000	500,000
DHCD	Shared Second	0.00%	March 16, 2016	March 2056	500,000	500,000
FHLB of Boston	Shared Second	0.00%	March 16, 2016	May 2022	300,000	300,000
CEDAC	Shared Second	0.00%	May 8, 2007	May 2037	201,993	201,993
Town of Ipswich	Shared Third	0.00%	March 16, 2016	March 2105	115,000	115,000
North Shore HOME Consortium	Shared Third	0.00%	March 16, 2016	March 2105	75,000	75,000
Turtle Creek Housing LLC						
Red Capital Mortgage LLC	First	4.05%	May 1, 2016	June 2051	10,313,300	9,810,321
First Church of Beverly	Second	3.37%	November 19, 2013	November 2063	2,704,613	2,589,766
First Church of Beverly	Third	0.00%	November 19, 2013	November 2063	439,710	439,710
North Shore HOME Consortium	Fourth	0.00%	November 19, 2013	November 2048	64,724	64,724
Kelly Ford, Inc.	N/A - Vehicle	7.74%	August 2, 2017	August 2022	40,033	21,604

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Loan from	Priority	Stated interest rate	Note date	Maturity date	Original principal balance	Outstanding principal balance as of 12/31/19
Harborlight House LLC						
DHCD	Shared First	2.74%	August 10, 2016	August 2046	400,000	400,000
MHP Fund Board	Shared First	0.00%	August 10, 2016	August 2066	1,010,000	1,005,000
CEDAC	Shared First	2.00%	August 10, 2016	August 2056	250,000	187,171
CEDAC	Shared First	0.00%	August 10, 2016	August 2046	1,000,000	1,000,000
CEDAC	Shared First	0.00%	August 10, 2016	August 2056	1,000,000	1,000,000
North Shore HOME Consortium	Shared Third	2.82%	August 31, 2016	August 2045	150,000	150,000
City of Beverly	Shared Third	2.82%	August 31, 2016	August 2045	50,000	50,000
Boston Street Crossing LLC						
Boston Private Bank & Trust	Shared First	2.71%	August 8, 2017	August 2049	150,000	149,178
DHCD	Shared Second	0.00%	August 8, 2017	August 2048	1,482,408	1,482,408
DHCD	Shared Second	0.00%	August 8, 2017	August 2048	430,000	430,000
CEDAC	Shared Second	0.00%	August 8, 2017	August 2048	1,400,000	1,400,000
CEDAC	Shared Second	0.00%	August 8, 2017	August 2048	592,000	592,000
MHP Fund Board	Shared Second	0.00%	August 8, 2017	August 2068	1,000,000	993,193
North Shore HOME Consortium	Shared Second	0.00%	August 8, 2017	August 2048	185,000	185,000
City of Peabody	Shared Second	0.00%	August 8, 2017	August 2048	300,000	300,000
Granite Street Crossing LLC						
CEDAC	Shared First	6.00%	July 28, 2016	July 2020	376,000	376,000
CEDAC	Shared First	4.00%	July 28, 2016	July 2020	400,000 ⁽²⁾	188,000
Anchor Point LLC						
CEDAC	First	3.50%	January 29, 2018	January 2021*	3,000,000	3,000,000
Hardy Street LLC						
North Shore Bank	First	4.50%	October 31, 2019	October 2021	1,350,000	401,608
DHCD	Shared Second	0.00%	October 31, 2019	October 2049	190,000	183,928
DHCD	Shared Second	0.00%	October 31, 2019	July 2070	450,000	-
North Shore HOME Consortium	Shared Second	0.00%	October 31, 2019	July 2050	75,000	-
City of Beverly	Shared Second	0.00%	October 31, 2019	July 2050	130,112	-
City of Beverly	Shared Second	0.00%	October 31, 2019	July 2050	200,000	-
MHP Fund Board	Shared Second	0.00%	October 31, 2019	July 2070	450,000	-
Total					<u>\$ 42,497,769</u>	<u>\$ 38,032,930</u>

(a) Maturity will occur upon the default of the loan, or sale, transfer or refinancing of the property.

(b) Maturity will occur upon the construction and permanent loan closing.

(1) On May 19, 2020, the promissory note was modified to increase the loan amount to \$1,070,280.

(2) On May 20, 2020, the promissory note was modified to increase the loan amount to \$400,000.

* On January 8, 2020, the maturity date of the loan was extended to January 29, 2021.

Unless otherwise indicated, the above debt is secured by an interest in the related project, including an assignment of leases and rents.

Debt issuance costs, net of accumulated amortization, totaled \$239,873 as of December 31, 2019 and are related to the mortgages for HCP and various properties. Debt issuance costs on the mortgages are being amortized using imputed interest rates ranging from 3.87% to 5.80%. As of December 31, 2019, the outstanding principal balance on the loans and mortgages, net of unamortized debt issuance costs, is \$39,666,079.

Interest costs incurred and expensed on all debt for the year ended December 31, 2019 amounted to \$744,557, including amortization of debt issuance costs of \$18,670. As of December 31, 2019, accrued interest expensed and currently payable amounted to \$241,482. Accrued interest on all debt not currently payable totals \$44,997 at December 31, 2019. Interest costs incurred and capitalized on real estate projects in development for the year ended December 31, 2019 were \$179,868.

During 2019, the Boston Private Bank & Trust loan on Boston Street Crossing LLC, with a principal balance of \$2,736,036 was paid off in full from the proceeds of the permanent loan and capital contributions.

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During 2019, the City of Beverly loan with HCP for Chase Street with a principal balance of \$60,000 was forgiven at its maturity date in September 2019.

Debt covenants

Certain notes payable require the Organization to maintain a minimum loan to value ratios and debt service coverage ratios. As of the date of the auditor's report, management has determined that the Organization was in compliance with these ratios as of December 31, 2019 or obtained waivers for any noncompliance.

Estimated annual principal payments due during each of the next five years and thereafter on the above-mentioned debt are as follows:

December 31, 2020	\$	907,747
2021		5,117,911
2022		741,184
2023		460,582
2024		307,225
Thereafter		<u>32,371,303</u>
Total	\$	<u>39,905,952</u>

Note 9 - Development advances

During both 2014 and 2016, the Organization received advances of \$75,000 from a local donor to support pre-development costs on future development projects. All funds will be repaid at a time that is mutually agreeable to both parties. As of December 31, 2019, development advances totaling \$150,000 remained outstanding.

Note 10 - Net assets with donor restrictions

Net assets with donor restrictions consist of resources available to meet future obligations, but only in compliance with the restrictions specified by donors. Donor restrictions limit the use of the resources within the particular purposes listed below.

	Net assets with donor restrictions December 31, 2018	Increases during 2019	Releases during 2019	Net assets with donor restrictions December 31, 2019
Harborlight House	\$ 111,090	\$ 25,416	\$ -	\$ 136,506
Properties in development	-	29,682	-	29,682
Housing renovations	107,500	24,432	(59,380)	72,552
Tenant support	2,380	2,299	(789)	3,890
Events donations	-	11,945	(11,945)	-
	<u>\$ 220,970</u>	<u>\$ 93,774</u>	<u>\$ (72,114)</u>	<u>\$ 242,630</u>

Harborlight Community Partners, Inc. and Subsidiaries

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Note 11 - Related party transactions

Intercompany loans

HCP and its consolidated subsidiaries have entered into various notes whereby HCP has provided funding to the subsidiary in the form of Sponsor loans or advances. The notes and accrued interest generally are paid from the Project's cash flow or a sale or refinancing. Additionally, HCP assesses the collectability of the notes and interest receivable and records an allowance for uncollectability based on the expected payments to be received. The loans and advances, accrued interest, interest earnings and expense, as well as any bad debt allowance and bad debt expense are eliminated in consolidation and combination.

Development fees

HCP provides development services to its consolidated and combined subsidiaries and earns a development fee in accordance with the terms of each agreement. Development fees of \$115,576 were earned during the year ended December 31, 2019. Any development fees receivable and payable, earned and incurred are eliminated consolidation and combination.

Management fees

For providing certain administrative, oversight services and property management services to its consolidated subsidiaries, HCP earns management fees from the Projects. Such fees are generally payable only from net cash flows of the Projects. Fees receivable and payable, earned and incurred are eliminated in consolidation and combination.

Note 12 - Operating leases

HCP entered into operating leases with a third party tenant to rent two rental units, which will be used as office space in support of providing support services to elderly tenants at the property. The leases commenced on July 1, 2015 for a term of three years through June 30, 2018. The leases call for rent of \$56,400 per year. HCP extended the leases with the tenants for a term of three years through June 30, 2021. HCP terminated the lease with one of the units in February 2020. Minimum future rent payments are \$36,039 for 2020 and \$15,707 for 2021.

HCP entered into an operating lease with a third party tenant for commercial space at a rental property, which will be operated as a food pantry to serve the community. The lease has a term of fifteen years with and a mutual option to extend the lease for successive periods of ten years each.

Minimum future payments due over the next five years and thereafter are as follows:

December 31, 2020	\$	10,182
2021		10,688
2022		11,219
2023		11,780
2024		12,369
Thereafter		<u>28,123</u>
Total	\$	<u>84,361</u>

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HCP entered into an operating lease with an unrelated third party for office space, which is used to operate HCP's central office. The leases commenced in January 2012 for a term of five years through January 2017, with up to five one year options to renew available. The lease was renewed through December 2018, with monthly payments of \$2,741. In January 2019, the lease was renewed through December 2020 with monthly payments of \$2,851. Minimum future payment is \$34,212 for 2020.

HCP entered into a ground lease agreement, dated October 31, 2019, with Hardy Street LLC. The lease commenced on October 31, 2019 and will terminate 99 years thereafter on October 31, 2118. In accordance with the lease agreement, annual rental payments are payable to the extent of the project's available cash flow and will begin in the year following the one year anniversary of the project's certificate of occupancy. Management estimates that the annual rental payments will commence in 2021.

Minimum future payments due over the next five years and thereafter are as follows:

December 31, 2020	\$	-
2021		30,000
2022		30,000
2023		30,000
2024		30,000
Thereafter		<u>2,820,000</u>
Total	\$	<u><u>2,940,000</u></u>

Note 13 - Housing assistance payments

Some of the rental properties have entered into housing assistance payments contracts to receive Section 8 Project-Based Voucher Payments for qualifying tenants. Two of the rental properties have entered into rental assistance agreements with U.S. Department of Agriculture, Rural Development to receive rental assistance for qualifying tenants. Additionally, some of the rental properties are provided rental subsidies from the Massachusetts Rental Voucher Program. Also, certain tenants in the rental properties receive rental assistance from local housing agencies. Subsidies earned from these rental assistance providers for the year ended December 31, 2019 were \$2,769,289.

Note 14 - Employee benefits plan

The Organization has a 403(b) retirement plan through its affiliation with the First Baptist Church in Beverly which covers employees who met the eligibility requirements. The Organization matches up to 3% of the eligible employees' annual compensation. The Organization's contributions under this plan amounted to \$27,465 for the year ended December 31, 2019.

Note 15 - Concentrations of credit risk

The Organization maintains its cash balances at several financial institutions located in Massachusetts. The cash balances are insured by the Federal Deposit Insurance Corporation up to \$250,000 at each bank. At times, these balances may exceed the federal insurance limits; however, the Organization has not experienced any losses with respect to its bank balances in excess of government provided insurance. Management believes that no significant concentration of credit risk exists with respect to these cash balances as of December 31, 2019.

Harborlight Community Partners, Inc. and Subsidiaries
Notes to Consolidated and Combined Financial Statements
December 31, 2019

Note 16 - Contingencies

Harborlight House LLC and Boston Street Crossing LLC's low-income housing credits are contingent on its ability to maintain compliance with applicable sections of Section 42. Failure to maintain compliance with occupant eligibility, and/or unit gross rent, or to correct noncompliance within a specified time period could result in recapture of previously taken tax credits plus interest. In addition, such potential noncompliance may require an adjustment to the contributed capital by the investor member.

Note 17 - Commitments

Hardy Street LLC entered into a construction contract with Tiro Design & Construction LLC to perform general contractor services in conjunction with the construction of the project. As of December 31, 2019, the total contract amounts to \$1,603,679. As of December 31, 2019, \$458,416 has been incurred and is included in real estate project development costs on the consolidated and combined statement of financial position. At December 31, 2019, \$194,619 remains payable and is included in accounts payable - construction.

Note 18 - Economic concentration

The Organization operates several apartment complexes located in the North Shore of Massachusetts. Future operations could be affected by changes in economic or other conditions in that geographical area or by changes in federal and state low-income housing subsidies or demand for such housing.

Note 19 - Risks and uncertainties

The Organization maintains an investment portfolio consisting of a combination of U.S. Treasury securities and other government obligations, corporate bonds, and mutual funds that are invested in equity securities, bonds, money market and other investment securities. Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the value of these investments will occur in the near term and such changes could materially affect the Organization's investment account balances.

Note 20 - Subsequent events

Events that occur after the consolidated and combined statement of financial position date but before the consolidated and combined financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the consolidated and combined statement of financial position date are recognized in the accompanying consolidated and combined financial statements. Subsequent events which provide evidence about the conditions that existed after the consolidated and combined statement of financial position date require disclosure in the accompanying notes. Management evaluated the activity of the Organization through July 17, 2020 (the date the consolidated and combined financial statements were available to be issued) and concluded that other than the subsequent events discussed below and in Note 8 that no subsequent events have occurred that would require recognition in the consolidated and combined financial statements or disclosure in the notes to the consolidated and combined financial statements.

Harborlight Community Partners, Inc. and Subsidiaries

Notes to Consolidated and Combined Financial Statements December 31, 2019

In early 2020, an outbreak of a novel strain of coronavirus ("COVID-19") emerged globally. As a result, events have occurred including mandates from federal, state and local authorities leading to an overall decline in economic activity which could result in a loss of lease revenue and other material adverse effects to the Organization's financial position, results of operations, and cash flows. The Organization is not able to reliably estimate the length or severity of this outbreak and the related financial impact.

On April 20, 2020, the Organization was granted a loan (the "Loan") from Cape Ann Savings Bank in the aggregate amount of \$183,000, pursuant to the Paycheck Protection Program ("PPP") administered by the Small Business Administration. The PPP, established as part of the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The Loan is forgivable after eight weeks as long as the Organization uses the proceeds for eligible purposes in accordance with the CARES Act, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the Organization terminates employees or reduces salaries during the eight-week period. The unforgiven portion of the Loan is payable over two years at an interest rate of 1%, with a deferral of payments for the first six months. It is the Organization's intent to use the Loan proceeds for purposes consistent with the PPP. While the Organization believes that its use of the Loan proceeds will meet the conditions for forgiveness under the CARES Act, the Organization cannot assure that the Loan will be eligible for forgiveness in whole or in part.

Supplementary Information

Harborlight Community Partners, Inc. and Subsidiaries

Consolidating and Combining Statement of Financial Position December 31, 2019

	Operating	Residential							Development					Eliminations	Total	
	Harborlight Community Partners, Inc.	Whipple Annex Housing, LLC	Turtle Creek Housing, LLC	Harborlight House LLC	Boston Street Crossing LLC	Firehouse Place, Inc.	Marblehead Community Housing Corp.	Rockport Affordable Housing, Inc.	Subtotal	Maple Woods Housing LLC	Granite Street Crossing LLC	Anchor Point LLC	Hardy Street LLC			Subtotal
Assets																
Current assets																
Cash - operations	\$ 675,582	\$ 9,802	\$ 732,965	\$ 75,048	\$ 77,954	\$ 7,992	\$ 2,904	\$ 22,445	\$ 929,110	\$ -	\$ 25	\$ 12,251	\$ 1,257	\$ 13,533	\$ -	\$ 1,618,225
Cash - developments	37,523	-	-	-	20,216	-	-	-	20,216	39	6,985	192,163	4,411	203,598	-	261,337
Restricted deposits and funded reserves	524,714	54,063	1,331,110	446,325	233,119	49,196	-	373,945	2,487,758	-	-	-	-	-	-	3,012,472
Unrestricted investments	2,000,062	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,000,062
Tenant security deposits	29,321	4,987	50,413	-	5,938	1,291	4,654	18,043	85,326	-	-	-	-	-	-	114,647
Accounts receivable - tenants	4,440	48	758	645	462	26	5,675	428	8,042	-	-	-	-	-	-	12,482
Accounts receivable - related party	99,725	-	-	-	-	-	-	-	-	566	-	-	-	566	(33,283)	67,008
Accounts receivable - other	85,314	-	12,177	12,292	4,501	-	-	1,377	30,347	-	-	-	-	-	-	115,661
Prepaid expenses	18,498	1,230	61,479	4,358	2,760	1,390	824	5,377	77,418	-	-	-	-	-	-	95,916
Donation receivable - current portion	77,200	-	-	-	-	-	-	-	-	-	-	-	-	-	-	77,200
Total current assets	3,552,379	70,130	2,188,902	538,668	344,950	59,895	14,057	421,615	3,638,217	39	7,576	204,414	5,668	217,697	(33,283)	7,375,010
Property and equipment																
Land and site improvements	1,987,921	-	1,397,831	353,825	519,240	135,000	252,252	5,635	2,663,783	42,500	470,000	3,030,000	-	3,542,500	-	8,194,204
Buildings and improvements	6,422,366	2,655,353	15,030,448	7,171,328	6,531,562	1,011,872	378,443	2,486,945	35,265,951	-	-	-	-	-	(615,497)	41,072,820
Furniture and equipment	290,700	16,527	397,096	54,366	150,113	12,916	2,717	20,645	654,380	-	-	-	-	-	-	945,080
Motor vehicles	60,815	-	40,033	-	-	-	-	-	40,033	-	-	-	-	-	-	100,848
Total	8,761,802	2,671,880	16,865,408	7,579,519	7,200,915	1,159,788	633,412	2,513,225	38,624,147	42,500	470,000	3,030,000	-	3,542,500	(615,497)	50,312,952
Less accumulated depreciation	2,090,356	856,921	2,737,415	664,586	296,670	196,281	161,475	355,052	5,268,400	-	-	-	-	-	(50,010)	7,308,746
Total property and equipment	6,671,446	1,814,959	14,127,993	6,914,933	6,904,245	963,507	471,937	2,158,173	33,355,747	42,500	470,000	3,030,000	-	3,542,500	(565,487)	43,004,206
Other assets																
Investments in affiliates	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Tax credit fees, net	-	-	13,662	12,536	8,663	-	-	-	34,861	-	-	-	-	-	-	34,861
Notes receivable, less current maturities	4,092,847	-	-	-	-	-	-	-	-	-	-	-	-	-	(4,092,847)	-
Development fee receivable	469,006	-	-	-	-	-	-	-	-	-	-	-	-	-	(469,006)	-
Real estate project development costs	105,923	-	-	-	-	-	-	-	-	987,853	453,470	880,522	785,524	3,107,369	(115,576)	3,097,716
Donation receivable, net of current portion	73,968	-	-	-	-	-	-	-	-	-	-	-	-	-	-	73,968
Total other assets	4,741,744	-	13,662	12,536	8,663	-	-	-	34,861	987,853	453,470	880,522	785,524	3,107,369	(4,677,429)	3,206,545
Total assets	\$ 14,965,569	\$ 1,885,089	\$ 16,330,557	\$ 7,466,137	\$ 7,257,858	\$ 1,023,402	\$ 485,994	\$ 2,579,788	\$ 37,028,825	\$ 1,030,392	\$ 931,046	\$ 4,114,936	\$ 791,192	\$ 6,867,566	\$ (5,276,199)	\$ 53,585,761

Harborlight Community Partners, Inc. and Subsidiaries
Consolidating and Combining Statement of Financial Position
December 31, 2019

	Operating	Residential								Development				Eliminations	Total	
	Harborlight Community Partners, Inc.	Whipple Annex Housing, LLC	Turtle Creek Housing, LLC	Harborlight House LLC	Boston Street Crossing LLC	Firehouse Place, Inc.	Marblehead Community Housing Corp.	Rockport Affordable Housing, Inc.	Subtotal	Maple Woods Housing LLC	Granite Street Crossing LLC	Anchor Point LLC	Hardy Street LLC			Subtotal
Liabilities and Net Assets																
Current liabilities																
Accounts payable	\$ 29,614	\$ 3,478	\$ 41,739	\$ 12,923	\$ 4,776	\$ 587	\$ 246	\$ 2,521	\$ 66,270	\$ 220	\$ 36,907	\$ -	\$ 5,368	\$ 42,495	\$ (22,494)	\$ 115,885
Accounts payable - related party	-	4,278	-	-	-	960	1,639	3,347	10,224	998,319	330,130	841,114	-	2,169,563	(2,179,787)	-
Accounts payable - construction	79	-	-	-	-	-	-	-	-	-	238,966	194,619	-	433,585	-	433,664
Accrued expenses	76,020	282	15,314	8,500	11,111	2,839	3,261	16,110	57,417	-	-	-	-	-	-	133,437
Accrued interest	10,014	406	134,789	176,435	1,137	205	3,395	1,926	318,293	31,912	-	12,755	-	44,667	(131,492)	241,462
Tenant security deposits	26,785	4,655	48,621	-	5,739	1,289	4,608	17,726	82,638	-	-	-	-	-	-	109,423
Prepaid rent	9,282	196	1,911	4,343	-	7,666	55	44	14,216	-	-	-	-	-	-	23,498
Other liabilities	81,047	-	-	-	-	-	-	-	-	-	-	-	-	-	-	81,047
Current portion of long-term debt	87,326	40,569	190,195	-	2,538	6,342	4,958	11,819	256,421	-	564,000	-	-	564,000	-	907,747
Total current liabilities	320,167	53,864	432,569	202,201	32,967	12,277	18,108	53,493	805,479	1,030,451	931,037	1,092,835	199,987	3,254,310	(2,333,773)	2,046,183
Long-term liabilities																
Long-term debt, net of unamortized debt issuance costs	7,491,937	1,977,121	12,664,813	5,245,028	5,518,449	884,158	565,793	2,617,854	29,473,216	-	-	3,000,000	585,536	3,585,536	(1,792,357)	38,758,332
Development fee payable	-	-	-	469,006	-	-	-	-	469,006	-	-	-	-	-	(469,006)	-
Deferred interest	-	-	-	-	-	-	-	44,997	44,997	-	-	-	-	-	-	44,997
Development advance	150,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	150,000
Total long-term liabilities	7,641,937	1,977,121	12,664,813	5,714,034	5,518,449	884,158	565,793	2,662,851	29,987,219	-	-	3,000,000	585,536	3,585,536	(2,261,363)	38,953,329
Total liabilities	7,962,104	2,030,985	13,097,382	5,916,235	5,551,416	896,435	583,901	2,716,344	30,792,698	1,030,451	931,037	4,092,835	785,523	6,839,846	(4,595,136)	40,999,512
Net assets																
Without donor restrictions - controlling	6,760,835	(145,896)	(159)	3,752	63	-	-	-	(142,240)	(59)	9	22,101	5,669	27,720	(681,063)	5,965,252
Without donor restrictions - non-controlling	-	-	3,233,334	1,546,150	1,706,379	-	-	-	6,485,863	-	-	-	-	-	-	6,485,863
Without donor restrictions - combined entities	-	-	-	-	-	126,967	(97,907)	(136,556)	(107,496)	-	-	-	-	-	-	(107,496)
With donor restrictions	242,630	-	-	-	-	-	-	-	-	-	-	-	-	-	-	242,630
Total net assets	7,003,465	(145,896)	3,233,175	1,549,902	1,706,442	126,967	(97,907)	(136,556)	6,236,127	(59)	9	22,101	5,669	27,720	(681,063)	12,586,249
Total liabilities and net assets	\$ 14,965,569	\$ 1,885,089	\$ 16,330,557	\$ 7,466,137	\$ 7,257,858	\$ 1,023,402	\$ 485,994	\$ 2,579,788	\$ 37,028,825	\$ 1,030,392	\$ 931,046	\$ 4,114,936	\$ 791,192	\$ 6,867,566	\$ (5,278,199)	\$ 53,585,761

See Independent Auditor's Report.

Harborlight Community Partners, Inc. and Subsidiaries

Consolidating and Combining Statement of Activities and Changes in Net Assets Year Ended December 31, 2019

	Operating	Residential							Development					Eliminations	Total	
	Harborlight Community Partners, Inc.	Whipple Annex Housing, LLC	Turtle Creek Housing, LLC	Harborlight House LLC	Boston Street Crossing LLC	Firehouse Place, Inc.	Marblehead Community Housing Corp.	Rockport Affordable Housing, Inc.	Subtotal	Maple Woods Housing LLC	Granite Street Crossing LLC	Anchor Point LLC	Hardy Street LLC			Subtotal
Revenue and support																
Grants and contributions	\$ 737,727	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,682	\$ 5,682	\$ -	\$ 743,409
Rental	771,307	162,829	2,291,035	370,042	375,758	70,296	58,754	323,154	3,651,868	-	-	-	-	-	-	4,423,175
Contracts	38,526	-	-	-	-	-	-	-	-	-	-	-	-	-	-	38,526
Site support	3,261	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,261
Program service fees	4,000	-	-	72,499	18,125	-	-	-	90,624	-	-	-	-	-	-	94,624
Investment return, net	392,716	118	19,078	2,711	568	55	-	2,830	25,360	3	7	19	29	(23,987)	394,118	
Developer fee	115,576	-	-	-	-	-	-	-	-	-	-	-	-	-	(115,576)	-
Management fees	502,222	-	-	-	-	-	-	-	-	-	-	-	-	-	(418,522)	83,700
Other	153,538	125	320	-	-	-	590	-	1,035	-	-	22,250	2	22,252	-	176,825
Total revenue and support	2,718,873	163,072	2,310,433	445,252	394,451	70,351	59,344	325,984	3,768,887	3	7	22,269	5,684	27,963	(558,085)	5,957,638
Expenses																
Employee compensation, payroll taxes and benefits	1,188,745	27,084	237,730	116,429	100,824	20,606	11,266	72,099	586,038	-	-	-	-	-	-	1,774,783
Operating and maintenance expenses	147,466	21,486	107,299	75,373	33,198	7,844	11,631	42,799	299,630	-	-	-	-	-	-	447,096
Utilities	69,250	14,545	194,420	54,975	32,928	6,784	4,224	44,466	352,342	-	-	-	-	-	-	421,592
Taxes and insurance	104,750	14,765	206,870	40,593	35,034	11,659	3,708	32,116	344,745	-	-	-	-	-	-	449,495
Administrative	254,670	9,329	101,749	25,210	16,272	4,036	3,137	14,526	174,259	-	-	-	-	-	(3,880)	425,049
Development costs	4,648	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,648
Professional fees	45,890	13,685	17,623	9,050	23,928	6,125	4,629	10,075	85,115	-	-	165	165	-	-	131,170
Fundraising event expense	54,796	-	-	-	-	-	-	-	-	-	-	-	-	-	-	54,796
Financial services expense	12,696	5,800	-	17,040	9,888	3,456	1,692	-	37,876	-	-	-	-	-	-	50,572
Management fees	52,566	9,761	266,102	25,226	23,609	5,266	3,522	32,470	365,956	-	-	-	-	-	(418,522)	-
Social service expenses	-	-	24,470	1,625	49,400	-	-	-	75,495	-	-	-	-	-	-	75,495
Interest expense	127,763	11,012	516,209	51,695	22,627	6,050	7,662	25,526	640,781	-	-	-	-	-	(23,987)	744,557
Other financial expenses	4,648	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,663
Depreciation and amortization	200,657	68,137	476,939	186,361	187,427	23,864	13,108	64,681	1,020,517	-	-	15	15	15	(15,388)	1,205,786
Total expenses	2,268,545	195,604	2,149,411	603,577	535,135	95,690	64,579	338,758	3,982,754	-	-	165	15	180	(461,777)	5,789,702
Changes in net assets	450,328	(32,532)	161,022	(158,325)	(140,684)	(25,339)	(5,235)	(12,774)	(213,867)	3	7	22,104	5,669	27,783	(96,308)	167,936
Distributions	-	-	(18,369)	-	-	-	-	-	(18,369)	-	-	-	-	-	2	(18,367)
Capital contributions	-	-	-	-	968,616	-	-	-	968,616	-	-	-	-	-	(100)	968,516
Other changes in net assets	-	-	(18,369)	-	968,616	-	-	-	950,247	-	-	-	-	-	(98)	950,149
Total changes in net assets	450,328	(32,532)	142,653	(158,325)	827,932	(25,339)	(5,235)	(12,774)	736,380	3	7	22,104	5,669	27,783	(96,406)	1,118,085
Net assets (deficit), beginning of year	6,553,137	(113,364)	3,090,522	1,708,227	878,510	152,306	(92,672)	(123,782)	5,499,747	(62)	2	(3)	-	(63)	(584,657)	11,468,164
Net assets (deficit), end of year	\$ 7,003,465	\$ (145,896)	\$ 3,233,175	\$ 1,549,902	\$ 1,706,442	\$ 126,967	\$ (97,907)	\$ (136,556)	\$ 6,236,127	\$ (59)	\$ 9	\$ 22,101	\$ 5,669	\$ 27,720	\$ (681,063)	\$ 12,586,249

See Independent Auditor's Report.

Harborlight Community Partners, Inc. and Subsidiaries

**Schedule of Expenditures of Federal Awards
Year Ended December 31, 2019**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA number	Pass-through entity identifying number	Passed through to subrecipients	Federal expenditures
Major Programs				
U.S. Department of Agriculture				
Rural Rental Housing Loans	10.415	N/A	N/A	\$ 3,528,311
Rural Rental Housing Interest Subsidy	10.415	N/A	N/A	<u>56,720</u>
Total U.S. Department of Agriculture				<u>3,585,031</u>
Total Major Programs				<u>3,585,031</u>
Non Major Programs				
U.S. Department of Housing and Urban Development				
Passed through North Shore Home Consortium				
HOME Investment Partnerships Program	14.239	N/A	N/A	799,100
Passed through Town of Rockport				
HOME Investment Partnerships Program	14.239	N/A	N/A	<u>72,764</u>
Total U.S. Department of Housing and Urban Development				<u>871,864</u>
U.S. Department of Agriculture				
Rural Rental Assistance Payments	10.427	N/A	N/A	<u>212,871</u>
Total U.S. Department of Agriculture				<u>212,871</u>
U.S. Department of Housing and Urban Development				
Passed through City of Beverly				
Community Development Block Grants / Entitlement Grants	14.218	N/A	N/A	<u>160,000</u>
Total U.S. Department of Housing and Urban Development				<u>160,000</u>
Total Non Major Programs				<u>1,244,735</u>
Total Expenditures of Federal Awards				<u><u>\$ 4,829,766</u></u>

See Notes to Schedule of Expenditures of Federal Awards.

Harborlight Community Partners, Inc. and Subsidiaries

**Notes to Schedule of Expenditures of Federal Awards
Year Ended December 31, 2019**

Note 1 - General

The Schedule of Expenditures of Federal Awards (the "Schedule") presents the activity of all federal financial assistance programs of Harborlight Community Partners, Inc., including federal awards passed through other government agencies. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance").

The financial statements of certain subsidiaries included in the consolidated and combined financial statements were not audited in accordance with *Government Audit Standards* as they are not subject to the requirements under the *Uniform Guidance, "Audits of State, Local Governments, and Non-Profit Organizations."* The Schedule includes federal awards received directly by Harborlight Community Partners, Inc. from federal agencies as well as federal awards passed through to Harborlight Community Partners, Inc. by state or local government agencies or other nonprofit organizations. Because the Schedule presents only a selected portion of the operations of Harborlight Community Partners, Inc. and Subsidiaries, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Harborlight Community Partners, Inc. and Subsidiaries.

Note 2 - Basis of presentation

The Schedule of Expenditures of Federal Awards has been prepared on the following basis:

The awards are classified by program in accordance with the Uniform Guidance. Funds expended under the same catalog of federal domestic assistance number are classified as a program.

Expenditures are recognized using the accrual basis of accounting and the cost accounting principles contained in OMB Circular A-122, "Cost Principles for Nonprofit Organizations" and the cost principles contained in the Uniform Guidance. Under these cost principles, certain types of expenditures are not allowable or are limited as to reimbursement. Expenditures for loan disbursements are recognized when paid. Harborlight Community Partners, Inc. and Subsidiaries have not elected to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

Note 3 - U.S. Department of Agriculture, Rural Development loan program

Harborlight Community Partners, Inc. and Subsidiaries have received a Rural Development loan under Section 515 of the National Housing Act. The loan balance outstanding at the beginning of the year is included in the federal expenditures presented in the Schedule. Harborlight Community Partners, Inc. and Subsidiaries received no additional loans during the year. The balance of the loan outstanding at December 31, 2019 consists of:

Federal CFDA Number	Program name	Outstanding loan balance at December 31, 2019
10.415	Rural Rental Housing Loans	\$ 3,489,991

Harborlight Community Partners, Inc. and Subsidiaries

**Notes to Schedule of Expenditures of Federal Awards
Year Ended December 31, 2019**

Note 4 - Home Investment Partnerships loan program

Harborlight Community Partners, Inc. and Subsidiaries have received the following loans under the Home Investment Partnerships Program from the federal agency U.S. Department of Housing and Urban Development passed through the North Shore HOME Consortium and the Town of Rockport:

<u>Federal CFDA Number</u>	<u>Entity receiving award</u>	<u>Outstanding loan balance at December 31, 2019</u>
14.239	Harborlight Community Partners, Inc.	\$ 871,864

There were no expenditures or receipts on the loans during the year ended December 31, 2019.

Note 5 - Community Development Block Grants / Entitlement Grants loan program

Harborlight Community Partners, Inc. and Subsidiaries have received the following loan under the Community Development Block Grants / Entitlement Grants loan program from the federal agency U.S. Department of Housing and Urban Development passed through the City of Beverly:

<u>CFDA Number</u>	<u>Entity receiving award</u>	<u>Outstanding loan December 31, 2019</u>
14.218	Harborlight Community Partners, Inc.	\$ 100,000

During 2019, \$60,000 of the outstanding loan program balance was discharged and forgiven by the City of Beverly.

Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Consolidated and Combined Financial Statements
Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
Harborlight Community Partners, Inc. and Subsidiaries

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 consolidated and combined financial statements of Harborlight Community Partners, Inc. and Subsidiaries, which comprise the consolidated and combined statement of financial position as of December 31, 2019, and the related consolidated and combined statements of activities, changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the consolidated and combined financial statements, and have issued our report thereon dated July 17, 2020. The financial statements of certain subsidiaries were not audited in accordance with *Government Auditing Standards* (see Note 1 to the Schedule of Expenditures of Federal Awards), and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance with these certain subsidiaries.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated and combined financial statements, we considered Harborlight Community Partners, Inc. and Subsidiaries' 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 consolidated and combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of Harborlight Community Partners, Inc. and Subsidiaries' internal control. Accordingly, we do not express an opinion on the effectiveness of the Harborlight Community Partners, Inc. and Subsidiaries' 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's consolidated and combined financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a *material weakness*, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

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



Boston, Massachusetts
July 17, 2020

Independent Auditor's Report on Compliance for the Major Program and on
Internal Control over Compliance Required by the Uniform Guidance

To the Board of Directors
Harborlight Community Partners, Inc. and Subsidiaries

Report on Compliance for the Major Federal Program

We have audited Harborlight Community Partners, Inc. and Subsidiaries' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Harborlight Community Partners, Inc. and Subsidiaries' major federal program for the year ended December 31, 2019. Harborlight Community Partners, Inc. and Subsidiaries' major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

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 Harborlight Community Partners, Inc. and Subsidiaries' major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of 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 Harborlight Community Partners, Inc. and Subsidiaries' 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 Harborlight Community Partners, Inc. and Subsidiaries' compliance.

Opinion on the Major Federal Program

In our opinion, Harborlight Community Partners, Inc. and Subsidiaries 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 December 31, 2019.

Report on Internal Control over Compliance

Management of Harborlight Community Partners, Inc. and Subsidiaries is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Harborlight Community Partners, Inc. and Subsidiaries' 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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Harborlight Community Partners, Inc. and Subsidiaries' internal control over compliance.

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

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

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



Boston, Massachusetts
July 17, 2020

Harborlight Community Partners, Inc. and Subsidiaries

**Schedule of Findings and Questioned Costs
December 31, 2019**

A. Summary of Auditor's Results

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with generally accepted accounting principles: Unmodified

Internal control over financial reporting:

*Material weakness(es) identified? Yes X No

*Significant deficiency(ies) identified? Yes X None reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major federal programs:

*Material weakness(es) identified? Yes X No

*Significant deficiency(ies) identified? Yes X None reported

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

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

Identification of major federal programs:

<u>CFDA Numbers(s)</u>	<u>Name of Federal Program or Cluster</u>
10.415	Rural Rental Housing Loans

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

Auditee qualified as low-risk auditee Yes X No

B. Findings - Financial Statements Audit

None

C. Findings and Questioned Costs - Major Federal Award Programs Audit

None



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