



**FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009  
TOGETHER WITH  
INDEPENDENT AUDITOR'S REPORT**

**HOUSING FAMILIES INC.**

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JUNE 30, 2010 AND 2009**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Housing Families Inc.:

We have audited the accompanying statements of financial position of Housing Families Inc. (a Massachusetts corporation, not for profit) (the Agency) as of June 30, 2010 and 2009, and the related statements of activities, changes in net assets, cash flows and functional expenses for the years then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Housing Families Inc. as of June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Alexander, Aronson, Finning & Co., P.C.*

Wellesley, Massachusetts  
October 19, 2010

HOUSING FAMILIES INC.

STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2010 AND 2009

<u>ASSETS</u>	<u>2010</u>	<u>2009</u>
<b>CURRENT ASSETS:</b>		
Cash	\$ 130,308	\$ 213,914
Accounts and pledges receivable	295,809	37,912
Prepaid expenses	5,984	26,163
Current portion of due from affiliate	14,479	4,187
	<hr/>	<hr/>
Total current assets	446,580	282,176
<b>SECURITY DEPOSITS</b>	22,667	22,007
<b>PROPERTY AND EQUIPMENT, net</b>	815,835	833,694
<b>CONSTRUCTION IN PROGRESS</b>	84,643	-
<b>DUE FROM AFFILIATE, net of current portion</b>	1,276,876	1,221,367
	<hr/>	<hr/>
Total assets	<u>\$ 2,646,601</u>	<u>\$ 2,359,244</u>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
<b>CURRENT LIABILITIES:</b>		
Current portion of long-term debt	\$ 17,080	\$ 9,226
Current portion of capital lease obligations	10,280	6,834
Accounts payable	106,677	15,811
Accrued expenses	111,820	114,549
	<hr/>	<hr/>
Total current liabilities	245,857	146,420
<b>LONG-TERM LIABILITIES:</b>		
Security deposits payable	22,667	22,007
Capital lease obligations, net of current portion	19,990	16,296
Long-term debt, net of current portion	359,503	370,068
Accrued interest on long-term debt	16,000	16,000
Contingent debt	310,000	310,000
	<hr/>	<hr/>
Total long-term liabilities	728,160	734,371
Total liabilities	<hr/>	<hr/>
	974,017	880,791
<b>NET ASSETS:</b>		
Unrestricted -		
Operating	230,341	115,859
Property and equipment	147,448	105,270
Housing development	1,276,876	1,221,367
	<hr/>	<hr/>
Total unrestricted	1,654,665	1,442,496
Temporarily restricted	17,919	35,957
	<hr/>	<hr/>
Total net assets	1,672,584	1,478,453
Total liabilities and net assets	<u>\$ 2,646,601</u>	<u>\$ 2,359,244</u>

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

HOUSING FAMILIES INC.

STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
<b>CHANGES IN UNRESTRICTED NET ASSETS:</b>		
<b>OPERATING SUPPORT AND REVENUES:</b>		
Program service fees	\$ 2,994,611	\$ 2,521,019
Grants	387,432	258,600
Contributions	192,026	172,447
Donated goods and services	104,666	88,003
Rental income, net of vacancies of \$22,772 for the year ended June 30, 2009	90,393	71,173
Management fees, program income and other	39,364	33,478
Net assets released from restrictions - Satisfaction of program restrictions	8,648	56,968
	<u>3,817,140</u>	<u>3,201,688</u>
Total operating support and revenues		
<b>OPERATING EXPENSES:</b>		
Program services	3,125,484	2,627,039
General and administrative	333,869	300,187
Fundraising	226,127	174,859
	<u>3,685,480</u>	<u>3,102,085</u>
Total operating expenses		
Changes in unrestricted net assets from operations	131,660	99,603
<b>NON-OPERATING ACTIVITIES:</b>		
Deferred interest on sponsor loan	55,509	52,311
Net assets released from restrictions - Satisfaction of capital restrictions	25,000	-
	<u>212,169</u>	<u>151,914</u>
Changes in unrestricted net assets		
<b>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:</b>		
Contributions	15,610	31,164
Net assets released from restrictions	(33,648)	(56,968)
	<u>(18,038)</u>	<u>(25,804)</u>
Changes in temporarily restricted net assets		
Changes in net assets	<u>\$ 194,131</u>	<u>\$ 126,110</u>

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

HOUSING FAMILIES INC.

STATEMENTS OF CHANGES IN NET ASSETS  
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

NET ASSETS, June 30, 2008	\$ 1,352,343
Changes in net assets	<u>126,110</u>
NET ASSETS, June 30, 2009	1,478,453
Changes in net assets	<u>194,131</u>
NET ASSETS, June 30, 2010	<u><u>\$ 1,672,584</u></u>

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

HOUSING FAMILIES INC.

**STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Changes in net assets	\$ 194,131	\$ 126,110
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	61,266	57,474
Deferred interest on sponsor loan	(55,509)	(52,311)
Changes in operating assets and liabilities -		
Accounts and pledges receivable	(257,897)	9,475
Prepaid expenses	20,179	(55)
Due from affiliate	(10,292)	(2,615)
Accounts payable	70,689	(21,052)
Accrued expenses	(2,729)	12,483
Net cash provided by operating activities	<u>19,838</u>	<u>129,509</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Acquisition of property and equipment	(27,942)	-
Increase in construction in progress	(64,466)	-
Decrease in due from affiliate, net	-	57,747
Net cash provided by (used in) investing activities	<u>(92,408)</u>	<u>57,747</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES:</b>		
Proceeds from long-term debt	7,500	-
Principal payments on long-term debt	(10,211)	(11,097)
Principal payments on capital lease obligations	(8,325)	(4,968)
Net cash used in financing activities	<u>(11,036)</u>	<u>(16,065)</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>(83,606)</b>	<b>171,191</b>
<b>CASH, beginning of year</b>	<u>213,914</u>	<u>42,723</u>
<b>CASH, end of year</b>	<u>\$ 130,308</u>	<u>\$ 213,914</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION -</b>		
Cash paid for interest	<u>\$ 7,902</u>	<u>\$ 7,362</u>
<b>NON-CASH INVESTING AND FINANCING TRANSACTIONS:</b>		
Disposal of fully depreciated property and equipment	<u>\$ 46,429</u>	<u>\$ 60,617</u>
Equipment acquired under capital lease obligation	<u>\$ 15,465</u>	<u>\$ 13,190</u>
Construction in progress included in accounts payable	<u>\$ 20,177</u>	<u>\$ -</u>

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

HOUSING FAMILIES INC.

STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2010  
(With Summarized Comparative Totals for the Year Ended June 30, 2009)

	2010			2009				
	PROGRAM SERVICES			SUPPORT SERVICES				
	TRANSITIONAL HOUSING SERVICES	PERMANENT HOUSING SERVICES	TOTAL PROGRAM SERVICES	GENERAL AND ADMINISTRATIVE	FUNDRAISING	TOTAL SUPPORT SERVICES	TOTAL	
<b>PERSONNEL AND RELATED COSTS:</b>								
Salaries	\$ 1,100,164	\$ 36,942	\$ 1,137,106	\$ 165,714	\$ 129,508	\$ 295,222	\$ 1,432,328	\$ 1,246,584
Payroll taxes and benefits	214,853	6,525	221,378	29,173	19,674	48,847	270,225	260,393
Total personnel and related costs	1,315,017	43,467	1,358,484	194,887	149,182	344,069	1,702,553	1,506,977
<b>OCCUPANCY:</b>								
Rent	868,776	119,828	988,604	5,100	1,200	6,300	994,904	922,688
Utilities	78,993	21,622	100,615	817	182	999	101,614	99,367
Repairs and maintenance	37,843	12,888	50,731	6,025	273	6,298	57,029	45,690
Property depreciation	13,659	26,395	40,054	-	-	-	40,054	39,201
Taxes and insurance	8,798	6,726	15,524	-	-	-	15,524	18,884
Interest	1,783	4,492	6,275	-	-	-	6,275	5,693
Equipment	4,020	-	4,020	-	-	-	4,020	2,391
Total occupancy	1,013,872	191,951	1,205,823	11,942	1,655	13,597	1,219,420	1,133,914
<b>OTHER:</b>								
Client services	289,903	-	289,903	-	-	-	289,903	62,633
Professional services	22,658	7,496	30,154	61,311	32,505	93,816	123,970	129,300
Donated goods and services	102,695	-	102,695	-	1,971	1,971	104,666	88,003
Office supplies	7,496	70	7,566	22,062	14,361	36,423	43,989	30,671
Training and travel	21,925	728	22,653	9,087	6,192	15,279	37,932	17,148
Telephone	26,653	176	26,829	9,766	393	10,159	36,988	28,816
Program supplies	13,838	12,686	26,524	-	2,693	2,693	29,217	17,649
Printing and postage	7,569	-	7,569	4,247	12,183	16,430	23,999	16,111
Vehicle costs	16,005	5,775	21,780	73	-	73	21,853	21,996
Insurance	8,994	1,485	10,479	4,809	435	5,244	15,723	16,156
Equipment depreciation	2,948	506	3,454	11,516	590	12,106	15,560	12,624
Dues and subscriptions	395	-	395	3,437	3,503	6,940	7,335	4,952
Vehicle depreciation	5,652	-	5,652	-	-	-	5,652	5,649
Miscellaneous	3,928	186	4,114	573	406	979	5,093	7,817
Interest	1,382	28	1,410	159	58	217	1,627	1,669
Total other	532,041	29,136	561,177	127,040	75,290	202,330	763,507	461,194
Total expenses	\$ 2,860,930	\$ 264,554	\$ 3,125,484	\$ 333,869	\$ 226,127	\$ 559,996	\$ 3,685,480	\$ 3,102,085

The accompanying notes are an integral part of these statements.

HOUSING FAMILIES INC.

STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2009

	PROGRAM SERVICES			SUPPORT SERVICES			TOTAL
	TRANSITIONAL HOUSING SERVICES	PERMANENT HOUSING SERVICES	TOTAL PROGRAM SERVICES	GENERAL AND ADMINISTRATIVE	FUNDRAISING	TOTAL SUPPORT SERVICES	
<b>PERSONNEL AND RELATED COSTS:</b>							
Salaries	\$ 953,790	\$ 38,591	\$ 992,381	\$ 155,865	\$ 98,338	\$ 254,203	\$ 1,246,584
Payroll taxes and benefits	208,131	7,782	215,913	30,184	14,296	44,480	260,393
Total personnel and related costs	1,161,921	46,373	1,208,294	186,049	112,634	298,683	1,506,977
<b>OCCUPANCY:</b>							
Rent	804,164	111,651	915,815	5,625	1,248	6,873	922,688
Utilities	82,997	14,985	97,982	1,155	230	1,385	99,367
Repairs and maintenance	31,396	9,236	40,632	5,058	-	5,058	45,690
Property depreciation	13,328	25,873	39,201	-	-	-	39,201
Taxes and insurance	12,003	6,757	18,760	114	10	124	18,884
Interest	1,921	3,760	5,681	10	2	12	5,693
Equipment	2,391	-	2,391	-	-	-	2,391
Total occupancy	948,200	172,262	1,120,462	11,962	1,490	13,452	1,133,914
<b>OTHER:</b>							
Client services	62,633	-	62,633	-	-	-	62,633
Professional services	27,027	9,288	36,315	67,800	25,185	92,985	129,300
Donated goods and services	87,449	-	87,449	-	554	554	88,003
Office supplies	11,248	428	11,676	9,705	9,290	18,995	30,671
Training and travel	6,505	-	6,505	4,462	6,181	10,643	17,148
Telephone	22,380	929	23,309	3,552	1,955	5,507	28,816
Program supplies	13,052	430	13,482	-	4,167	4,167	17,649
Printing and postage	4,473	103	4,576	1,888	9,647	11,535	16,111
Vehicle costs	14,774	7,222	21,996	-	-	-	21,996
Insurance	9,351	2,035	11,386	4,473	297	4,770	16,156
Equipment depreciation	5,037	757	5,794	6,060	770	6,830	12,624
Dues and subscriptions	615	-	615	2,153	2,184	4,337	4,952
Vehicle depreciation	5,649	-	5,649	-	-	-	5,649
Miscellaneous	5,672	453	6,125	1,220	472	1,692	7,817
Interest	773	-	773	863	33	896	1,669
Total other	276,638	21,645	298,283	102,176	60,735	162,911	461,194
Total expenses	\$ 2,386,759	\$ 240,280	\$ 2,627,039	\$ 300,187	\$ 174,859	\$ 475,046	\$ 3,102,085

The accompanying notes are an integral part of these statements.

## HOUSING FAMILIES INC.

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

#### (1) OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES

##### **OPERATIONS AND NONPROFIT STATUS**

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

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

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

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

##### **SIGNIFICANT ACCOUNTING POLICIES**

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

##### Estimates

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

##### Revenue Recognition

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

HOUSING FAMILIES INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009  
(Continued)

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

**SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Fair Value Measurements

The Agency follows the *Fair Value Measurements and Disclosures* standards. These standards define fair value, establish a framework for measuring fair value under U.S. GAAP, and expand disclosures about fair value measurements. This policy establishes a fair value hierarchy that prioritizes the inputs and assumptions used to measure fair value. The Agency values its qualifying assets and liabilities using Level I inputs. Level I inputs reflect unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date. A qualifying asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement.

Description of Net Assets

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

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

**Property and equipment** - reflect the net book value of the Agency's property and equipment and construction in progress, net of related debt.

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

**Temporarily Restricted Net Assets** are those unexpended financial resources that are restricted by donors as to purpose or timing of expenditure. At June 30, 2010 and 2009, all temporarily restricted net assets are purpose restricted.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is recorded based on management's analysis of specific accounts and their estimate of amounts that may be uncollectible, if any. There is no allowance for doubtful accounts as of June 30, 2010 and 2009.

Property, Equipment and Depreciation

Property and equipment are capitalized at cost when purchased or at fair market value at the date of donation. Renewals and betterments are capitalized as additions to the related asset accounts while repairs and maintenance are expensed as incurred.

**HOUSING FAMILIES INC.**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009  
(Continued)**

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

**SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Property, Equipment and Depreciation (Continued)

Property and equipment are depreciated using the straight-line method over the following estimated useful lives and consist of the following at June 30:

	<u>Estimated Useful Lives</u>	<u>2010</u>	<u>2009</u>
Land	N/A	\$ 228,600	\$ 228,600
Buildings and improvements	40 years	879,473	879,473
Leasehold improvements	20 - 40 years or the term of the lease, whichever is less	218,648	247,037
Furniture and equipment	3 - 10 years	77,800	52,433
Vehicles	5 years	<u>28,244</u>	<u>28,244</u>
		1,432,765	1,435,787
Less – accumulated depreciation		<u>616,930</u>	<u>602,093</u>
		<u>\$ 815,835</u>	<u>\$ 833,694</u>

Substantially all property and equipment are pledged as collateral on long-term and contingent debt (see Notes 4 and 5).

The Agency currently has equipment under various capital lease agreements (see Note 6). Depreciation expense for the years ended June 30, 2010 and 2009, for the equipment was \$8,425 and \$6,878, respectively. As of June 30, 2010 and 2009, accumulated depreciation was \$20,461 and \$12,035, respectively, on these assets.

Construction in Progress

The Agency has incurred predevelopment costs as of June 30, 2010, to acquire and develop a new property and renovate two existing properties in Revere, Malden, and Medford, Massachusetts. The Revere property is expected to cost approximately \$1.3 million to renovate six units of affordable housing. The Malden and Medford properties are expected to cost approximately \$1.8 million to renovate fifteen units of affordable housing. The Agency has received funding commitments totaling \$1,455,000 in connection with these projects (see Notes 4 and 5). Construction in progress on these properties totaled \$84,643 as of June 30, 2010, and consisted of predevelopment costs.

HOUSING FAMILIES INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009  
(Continued)

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donated Goods and Services

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

	<u>2010</u>	<u>2009</u>
Contracted services	\$ 66,888	\$64,314
Program supplies	<u>37,778</u>	<u>23,689</u>
	<u>\$104,666</u>	<u>\$88,003</u>

Expense Allocation

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

Advertising

Advertising costs are expensed as incurred. Advertising expenses for the years ended June 30, 2010 and 2009, were \$4,504 and \$15,562, respectively, and are included in professional services on the accompanying statements of functional expenses.

Tax Positions

During the year ended June 30, 2010, the Agency adopted the *Accounting for Uncertainty in Income Taxes* standard which requires the Agency to report uncertain tax positions, related interest and penalties, and to adjust its assets and liabilities related to unrecognized tax benefits and accrued interest and penalties accordingly. As of June 30, 2010, the Agency determined that there are no material unrecognized tax benefits to report.

Information returns filed for the years ended June 30, 2009, 2008 and 2007, remain subject to examination by the Internal Revenue Service and the Commonwealth of Massachusetts. The Agency does not expect that the amounts of unrecognized tax benefits will change significantly within the next twelve months.

HOUSING FAMILIES INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009  
(Continued)

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

**SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Subsequent Events

The preparation of financial statements in accordance with U.S. GAAP requires management to disclose the date through which subsequent events have been evaluated for possible recognition or disclosure in the accompanying financial statements. Subsequent events are transactions or events that occur after the statement of financial position date, but before the financial statements are issued or available to be issued. The accompanying financial statements include the evaluation of subsequent events that have occurred through October 19, 2010, which is the date the financial statements were available to be issued.

(2) RELATED PARTY TRANSACTIONS

The Agency is related to the following entities:

**Cross Street Housing Limited Partnership** (the Partnership) is a Massachusetts limited partnership. The Partnership owns and operates a building located in Malden, Massachusetts consisting of nineteen units of low-income housing, one rent-free unit, and one commercial space which is rented to the Agency (the Project).

**Cross Street Realty, Inc.** (the General Partner) is a Massachusetts corporation, 79% owned by the Agency. The General Partner holds a .01% ownership interest in the Partnership. The General Partner's activity is not included in the accompanying financial statements since it is not material to the accompanying financial statements.

The Agency owns the controlling interest in the General Partner. The General Partner has insufficient equity at risk in the Partnership and, based on U.S. GAAP, the Partnership is deemed a variable interest entity. The Agency has not consolidated the Partnership into the financial statements under U.S. GAAP since the General Partner is not the primary beneficiary.

**HFI Properties, Inc.** (HFI Properties) is a Massachusetts nonprofit corporation formed in August, 2010. The purpose of HFI Properties is to hold title to real property for the benefit of the Agency. HFI Properties is organized exclusively as a title holding corporation under Section 501(c)(2) of the Internal Revenue Code.

Transactions among the entities described above and the Agency are as follows:

The Project was developed by the Agency. The Agency has an agreement with the Partnership to receive a development fee for various services rendered in connection with the development of the Project. These fees are payable from development financing, cash flow or from the proceeds of sale or refinancing or at the latest December 31, 2018. The Project did not make any development fee payments to the Agency during fiscal year 2010. The Project paid the Agency \$57,747 in development fee payments during 2009.

**HOUSING FAMILIES INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2010 AND 2009**

(Continued)

**(2) RELATED PARTY TRANSACTIONS (Continued)**

The Agency provides management services and staff to the Partnership. The Agency billed the Partnership approximately \$16,000 for these services during the years ended June 30, 2010 and 2009. These amounts are included in management fees, program income, and other on the accompanying statements of activities.

The Agency has a 5.375% note receivable from the Partnership of \$998,598, of which \$805,583 has been advanced at June 30, 2010 and 2009. Principal and interest are due annually if certain cash flow, as defined in the agreement, is achieved. There were no payments due for the years ended June 30, 2010 and 2009. All unpaid principal and deferred interest are due in full on July 23, 2033. For the years ended June 30, 2010 and 2009, deferred interest on this loan was \$55,509 and \$52,311, respectively. This note is secured by a third mortgage on the Partnership's property.

The Partnership has a lease agreement with the Agency to rent its commercial space to the Agency (see Note 6). Future annual minimum lease payments through the end of the agreement are \$30,000. The Agency also must pay its proportionate share of utilities and real estate taxes. The lease term is for fifteen years through December, 2019. The monthly rent is \$2,500 and amounted to \$30,000 for the years ended June 30, 2010 and 2009. Under the terms of the lease agreement, rent will be increased annually for increases in real estate taxes and operating expenses

Due from affiliate, net consists of the following:

	<u>2010</u>	<u>2009</u>
Sponsor loan receivable	\$ 805,583	\$ 805,583
Interest receivable on sponsor loan	286,421	230,912
Development fee receivable	184,872	184,872
Management fee	<u>14,479</u>	<u>4,187</u>
 Total due from affiliate	 1,291,355	 1,225,554
Less - current portion	<u>14,479</u>	<u>4,187</u>
 Due from affiliate, net of current portion	 <u>\$1,276,876</u>	 <u>\$1,221,367</u>

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

As part of the development of the Project, the General Partner has agreed to make operating deficit contributions to the Partnership to the extent that operating deficits exceed the funds available in the Partnership's operating reserve account.

In August, 2010, the Agency purchased a building from a bank where a Board member is the CEO and President.

**HOUSING FAMILIES INC.**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009  
(Continued)**

**(3) FUNDING**

The Agency receives a significant portion of its total unrestricted operating support and revenues (approximately 76% and 77% at June 30, 2010 and 2009, respectively) from two funding sources under unit-rate and cost reimbursable contracts. These reimbursements are subject to audit by the funding sources. In the opinion of management, the results of such audits, if any, will not have a affect on the financial position of the Agency as of June 30, 2010 and 2009, or on the changes in its net assets for the years then ended. Approximately 89% and 58% of the Agency's accounts receivable was due from these two funding sources at June 30, 2010 and 2009, respectively.

**(4) LONG-TERM DEBT**

Long-term debt consists of the following:

	<u>2010</u>	<u>2009</u>
3% interest bearing note payable with Malden Redevelopment Authority (MRA). The note matures in July, 2027. Payments of 75% of net operating income as defined in the agreement are due annually. There were payments made of \$2,104 and \$2,210 on this note during the years ended June 30, 2010 and 2009, respectively. The note is secured by property in Malden, Massachusetts.	\$152,065	\$154,169
4% interest bearing note payable to MRA. Principal and interest payments of \$597 are due monthly. The note matures in April, 2025, and is secured by property located in Malden, Massachusetts.	79,648	82,713
Note payable to MRA. Interest only payments are due annually each August of no more than 5% per annum depending on the annual net revenues of the property as defined by the agreement. The note matures in August, 2023, and is secured by property located in Malden, Massachusetts. Accrued interest on this note is \$13,000 as of June 30, 2010 and 2009. No payments of principal and/or interest have been made since inception of this loan.	65,000	65,000
3% interest bearing note payable to MRA. Principal and interest payments of \$274 are due monthly. The note matures in January, 2024, and is secured by property located in Malden, Massachusetts.	38,350	40,206

**HOUSING FAMILIES INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**  
(Continued)

(4) LONG-TERM DEBT (Continued)

	<u>2010</u>	<u>2009</u>
Note payable to MRA. Interest only payments are due annually each August of no more than 5% per annum depending on the annual net revenues of the property as defined in the agreement. The note matures in February, 2025, and is secured by property located in Malden, Massachusetts. Accrued interest on this note is \$3,000 as of June 30, 2010 and 2009. No payments of principal and/or interest have been made since inception of this loan.	15,000	15,000
3% interest bearing note payable to MRA. Principal and interest payments of \$171 are due monthly. The note matures in February, 2018, and is secured by the property located in Malden, Massachusetts.	13,913	15,522
7% interest bearing note payable to Community Economic Development Assistance Corporation (CEDAC) of up to a maximum loan amount not to exceed \$200,000. As of June 30, 2010, the maximum amount authorized by CEDAC to be drawn on the note was \$47,500. The note payable is secured by property in Malden and Medford, Massachusetts. All outstanding principal and interest will be repaid to CEDAC from of the initial disbursement of proceeds of the initial financing for the Project.	7,500	-
5% interest bearing note payable to MRA. Principal and interest payments of \$156 are due monthly. The note matures in July, 2013, and is secured by property in Malden, Massachusetts.	<u>5,107</u>	<u>6,684</u>
Subtotal - long-term debt	376,583	379,294
Less - current portion	<u>17,080</u>	<u>9,226</u>
Long-term debt, net of current portion	<u>\$359,503</u>	<u>\$370,068</u>

Aggregate maturities of long-term debt are as follows:

2011	\$ 17,080
2012	\$ 9,948
2013	\$ 10,209
2014	\$ 6,992
2015	\$ 7,251

The mortgage notes payable contain various covenants and restrictions on the Agency as described in the agreements. The Agency was in compliance with these covenants at June 30, 2010.

**HOUSING FAMILIES INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
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(5) **CONTINGENT DEBT**

Contingent debt consists of the following as of June 30, 2010 and 2009:

Non-interest bearing note payable with MRA. All outstanding principal is due during March, 2034. The note is secured by property in Malden, Massachusetts.	\$160,000
Non-interest bearing note payable to CEDAC. All outstanding principal is due in February, 2028, and the note is secured by property in Malden, Massachusetts. Payments are due annually from surplus cash as defined in the agreement.	90,000
Non-interest bearing note payable to CEDAC. All outstanding principal is due in July, 2030, and the note is secured by property in Malden, Massachusetts. Payments are due annually from surplus cash as defined in the agreement.	<u>60,000</u>
Total contingent debt	<u>\$310,000</u>

CEDAC and MRA may extend the maturity dates of the above notes for an additional forty years, if the property continues to be used for low-income housing. There were no surplus cash payments due under these agreements as of June 30, 2010 and 2009.

In May, 2010, the Agency received loan commitments totaling \$955,000 in connection with its property development in Revere, Massachusetts (see page 10). There were no amounts drawn on these loans as of June 30, 2010. In August, 2010, the Agency received an additional \$300,000 loan commitment for the Revere project.

(6) **LEASE AGREEMENTS**

The Agency leases program facilities under various operating leases expiring through May 31, 2012, that are renewable annually. Rent expense under the facility leases was approximately \$995,000 and \$923,000 for the years ended June 30, 2010 and 2009, respectively.

HOUSING FAMILIES INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009  
(Continued)

(6) LEASE AGREEMENTS (Continued)

The Agency leases certain equipment with an aggregate cost of \$50,067 and \$34,602 under capital lease agreements as of June 30, 2010 and 2009, respectively. Interest rates under these agreements range between 2.5% and 7% during the years ended June 30, 2010 and 2009. The remaining terms of these agreements are from two to five years. Future minimum lease payments under these agreements are as follows:

2011	\$11,623
2012	8,019
2013	6,535
2014	5,281
2015	<u>1,675</u>
Total future minimum payments	33,133
Less - amounts representing interest	<u>2,863</u>
Present value of future minimum lease payments	30,270
Less - current portion	<u>10,280</u>
Long-term portion, capital lease obligations	<u>\$19,990</u>

The Agency rents units to tenants under various lease agreements expiring through May, 2012. The rental income was \$90,393 and \$71,173 for the years ended June 30, 2010 and 2009, respectively.

The future rental income under these lease agreements is as follows:

2011	\$60,495
2012	\$19,762

(7) NOTE PAYABLE TO A BANK

The Agency has available up to \$175,000 under a line of credit agreement with a bank at June 30, 2010. This agreement was for \$150,000 as of June 30, 2009. Borrowings under the agreement are due on demand, and interest is payable monthly at the bank's base lending rate (3.25% at June 30, 2010 and 2009), plus 1%. As of June 30, 2010 and 2009, there were no outstanding balances under this agreement.

(8) CONCENTRATION OF CREDIT RISK

The Agency maintains its cash balances in one bank located in Everett, Massachusetts. The balances are insured by the Federal Deposit Insurance Corporation up to certain amounts. At certain times during the year, cash balances exceeded the insured amounts. The Agency has not experienced any losses in such accounts. The Agency believes it is not exposed to any significant credit risk on its cash.