



AND AFFILIATES

**CONSOLIDATING FINANCIAL STATEMENTS  
JUNE 30, 2011  
TOGETHER WITH  
INDEPENDENT AUDITOR'S REPORT**

**HOUSING FAMILIES INC. AND AFFILIATES**

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JUNE 30, 2011**

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CERTIFIED PUBLIC ACCOUNTANTS  
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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidating statement of financial position of Housing Families Inc. (a Massachusetts corporation, not for profit) (HFI) and Affiliates as of June 30, 2011, and the related consolidating statements of activities, changes in entities' equity, cash flows and functional expenses for the year then ended. These consolidating financial statements are the responsibility of HFI and Affiliates' management. Our responsibility is to express an opinion on these consolidating financial statements based on our audit.

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

In our opinion, the consolidating financial statements referred to above present fairly, in all material respects, the consolidating financial position of Housing Families Inc. and Affiliates as of June 30, 2011, and the consolidating changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Wellesley, Massachusetts  
October 26, 2011

## HOUSING FAMILIES INC. AND AFFILIATES

CONSOLIDATING STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2011

<u>ASSETS</u>	<u>HOUSING FAMILIES INC.</u>	<u>HFI PROPERTIES, INC.</u>	<u>ELIMI- NATIONS</u>	<u>TOTAL</u>	<u>CROSS STREET HOUSING LP</u>	<u>ELIMI- NATIONS</u>	<u>TOTAL</u>
<b>CURRENT ASSETS:</b>							
Cash	\$ 352,185	\$ 8,175	\$ -	\$ 360,360	\$ 16,892	\$ -	\$ 377,252
Accounts and pledges receivable	364,186	-	-	364,186	3,925	-	368,111
Prepaid expenses	9,720	495	-	10,215	-	-	10,215
Current portion of due from affiliates	42,535	-	(32,201)	10,334	-	(10,334)	-
Total current assets	768,626	8,670	(32,201)	745,095	20,817	(10,334)	755,578
<b>RESERVES AND DEPOSITS:</b>							
Operating reserve	-	-	-	-	180,078	-	180,078
Reserve for replacements	-	-	-	-	51,495	-	51,495
Security deposits	21,233	-	-	21,233	17,512	-	38,745
Total reserves and deposits	21,233	-	-	21,233	249,085	-	270,318
<b>OTHER ASSETS:</b>							
Property and equipment, net	780,088	-	-	780,088	5,155,066	(247,499)	5,687,655
Construction in progress	174,514	636,902	-	811,416	-	-	811,416
Capitalized costs, net	-	-	-	-	52,757	-	52,757
Due from affiliate, net of current portion	1,336,250	-	-	1,336,250	-	(1,336,250)	-
Total other assets	2,290,852	636,902	-	2,927,754	5,207,823	(1,583,749)	6,551,828
Total assets	<u>\$ 3,080,711</u>	<u>\$ 645,572</u>	<u>\$ (32,201)</u>	<u>\$ 3,694,082</u>	<u>\$ 5,477,725</u>	<u>\$ (1,594,083)</u>	<u>\$ 7,577,724</u>
<b><u>LIABILITIES AND NET ASSETS</u></b>							
<b>CURRENT LIABILITIES:</b>							
Current portion of long-term debt	\$ 9,948	\$ -	\$ -	\$ 9,948	\$ 31,807	\$ -	\$ 41,755
Current portion of capital lease obligations	13,638	-	-	13,638	-	-	13,638
Current portion of due to affiliates	-	32,201	(32,201)	-	10,334	(10,334)	-
Current portion of accrued interest on long-term debt	-	-	-	-	7,300	-	7,300
Fiscal agent payable	196,437	-	-	196,437	-	-	196,437
Accounts payable	35,421	25,087	-	60,508	500	-	61,008
Accrued expenses	129,664	-	-	129,664	5,770	-	135,434
Total current liabilities	385,108	57,288	(32,201)	410,195	55,711	(10,334)	455,572
<b>LONG-TERM LIABILITIES:</b>							
Security deposits payable	21,233	-	-	21,233	17,512	-	38,745
Long-term debt, net of current portion	477,467	535,000	-	1,012,467	2,639,896	-	3,652,363
Capital lease obligations, net of current portion	31,923	-	-	31,923	-	-	31,923
Due to affiliates, net of current portion	16,000	-	-	16,000	990,455	(990,455)	16,000
Accrued interest on long-term debt, net of current portion	-	-	-	-	740,374	(345,795)	394,579
Contingent debt	310,000	-	-	310,000	500,000	-	810,000
Total long-term liabilities	856,623	535,000	-	1,391,623	4,888,237	(1,336,250)	4,943,610
Total liabilities	1,241,731	592,288	(32,201)	1,801,818	4,943,948	(1,346,584)	5,399,182
<b>ENTITIES' EQUITY</b>							
Unrestricted:							
Operating	393,343	-	-	393,343	184,291	-	577,634
Property and equipment	100,134	53,284	-	153,418	349,486	501,927	1,004,831
Housing development	1,336,250	-	-	1,336,250	-	(1,283,129)	53,121
Total unrestricted	1,829,727	53,284	-	1,883,011	533,777	(781,202)	1,635,586
Temporarily restricted	9,253	-	-	9,253	-	-	9,253
Total Housing Families entities' equity	1,838,980	53,284	-	1,892,264	533,777	(781,202)	1,644,839
Non-controlling interest	-	-	-	-	-	533,703	533,703
Total entities' equity	1,838,980	53,284	-	1,892,264	533,777	(247,499)	2,178,542
Total liabilities and entities' equity	<u>\$ 3,080,711</u>	<u>\$ 645,572</u>	<u>\$ (32,201)</u>	<u>\$ 3,694,082</u>	<u>\$ 5,477,725</u>	<u>\$ (1,594,083)</u>	<u>\$ 7,577,724</u>

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

HOUSING FAMILIES INC. AND AFFILIATES

CONSOLIDATING STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2011

	<u>HOUSING FAMILIES INC.</u>	<u>HFI PROPERTIES, INC.</u>	<u>TOTAL</u>	<u>CROSS STREET HOUSING LP</u>	<u>ELIMI- NATIONS</u>	<u>TOTAL</u>
<b>CHANGES IN UNRESTRICTED NET ASSETS:</b>						
<b>OPERATING SUPPORT AND REVENUES:</b>						
Program service fees	\$ 3,230,355	\$ -	\$ 3,230,355	\$ -	\$ -	\$ 3,230,355
Rental income, net of vacancies	93,422	4,000	97,422	359,489	(30,000)	426,911
Grants	374,757	-	374,757	-	-	374,757
Contributions	317,505	-	317,505	-	-	317,505
Donated goods and services	137,858	-	137,858	-	-	137,858
Management fees, program income and other	55,007	10	55,017	9,302	(16,844)	47,475
Net assets released from program restrictions	17,666	-	17,666	-	-	17,666
Total operating support and revenues	<u>4,226,570</u>	<u>4,010</u>	<u>4,230,580</u>	<u>368,791</u>	<u>(46,844)</u>	<u>4,552,527</u>
<b>OPERATING EXPENSES:</b>						
Program services	3,516,940	-	3,516,940	-	(23,571)	3,493,369
General and administrative	275,812	-	275,812	-	(4,018)	271,794
Fundraising	254,911	-	254,911	-	(2,411)	252,500
Real Estate Development	-	726	726	-	-	726
Cross Street Housing, LP	-	-	-	318,487	(16,844)	301,643
Total operating expenses before depreciation and amortization	<u>4,047,663</u>	<u>726</u>	<u>4,048,389</u>	<u>318,487</u>	<u>(46,844)</u>	<u>4,320,032</u>
Depreciation and amortization	<u>63,219</u>	<u>-</u>	<u>63,219</u>	<u>140,745</u>	<u>(30,000)</u>	<u>173,964</u>
Total operating expenses	<u>4,110,882</u>	<u>726</u>	<u>4,111,608</u>	<u>459,232</u>	<u>(76,844)</u>	<u>4,493,996</u>
Changes in unrestricted net assets from operations	115,688	3,284	118,972	(90,441)	30,000	58,531
<b>NON-OPERATING ACTIVITIES:</b>						
Capital grant	-	50,000	50,000	-	-	50,000
Deferred interest income	59,374	-	59,374	-	(59,374)	-
Deferred interest expense	-	-	-	(111,234)	59,374	(51,860)
Changes in unrestricted net assets	<u>175,062</u>	<u>53,284</u>	<u>228,346</u>	<u>(201,675)</u>	<u>30,000</u>	<u>56,671</u>
<b>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:</b>						
Contributions	9,000	-	9,000	-	-	9,000
Net assets released from restrictions	(17,666)	-	(17,666)	-	-	(17,666)
Changes in temporarily restricted net assets	<u>(8,666)</u>	<u>-</u>	<u>(8,666)</u>	<u>-</u>	<u>-</u>	<u>(8,666)</u>
Changes in net assets	166,396	53,284	219,680	(201,675)	30,000	48,005
<b>CHANGES IN NET ASSETS ATTRIBUTABLE TO NON-CONTROLLING INTEREST</b>						
	<u>-</u>	<u>-</u>	<u>-</u>	<u>201,675</u>	<u>-</u>	<u>201,675</u>
Changes in net assets attributable to Housing Families	<u>\$ 166,396</u>	<u>\$ 53,284</u>	<u>\$ 219,680</u>	<u>\$ -</u>	<u>\$ 30,000</u>	<u>\$ 249,680</u>

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

**HOUSING FAMILIES INC. AND AFFILIATES**

**CONSOLIDATING STATEMENT OF CHANGES IN ENTITIES' EQUITY  
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>HOUSING FAMILIES INC.</u>	<u>HFI PROPERTIES, INC.</u>	<u>TOTAL</u>	<u>CROSS STREET HOUSING LP</u>	<u>ELIMI- NATIONS</u>	<u>TOTAL</u>	<u>NON- CONTROLLING INTEREST</u>	<u>TOTAL</u>
<b>BALANCE, June 30, 2010</b>	\$ 1,672,584	\$ -	\$ 1,672,584	\$ -	\$ -	\$ 1,672,584	\$ -	\$ 1,672,584
Adoption of accounting principle	-	-	-	735,452	(1,012,877)	(277,425)	735,378	457,953
Changes in net assets	<u>166,396</u>	<u>53,284</u>	<u>219,680</u>	<u>(201,675)</u>	<u>231,675</u>	<u>249,680</u>	<u>(201,675)</u>	<u>48,005</u>
<b>BALANCE, June 30, 2011</b>	<u>\$ 1,838,980</u>	<u>\$ 53,284</u>	<u>\$ 1,892,264</u>	<u>\$ 533,777</u>	<u>\$ (781,202)</u>	<u>\$ 1,644,839</u>	<u>\$ 533,703</u>	<u>\$ 2,178,542</u>

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

**HOUSING FAMILIES INC. AND AFFILIATES**  
**CONSOLIDATING STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

	<u>HOUSING FAMILIES INC.</u>	<u>HFI PROPERTIES, INC.</u>	<u>CROSS STREET HOUSING LP</u>	<u>ELIMI- NATIONS</u>	<u>TOTAL</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Changes in net assets	\$ 166,396	\$ 53,284	\$ (201,675)	\$ 30,000	\$ 48,005
Adjustments to reconcile changes in net assets to net cash provided by operating activities:					
Depreciation	63,219	-	135,615	(30,000)	168,834
Amortization	-	-	5,130	-	5,130
Bad debt	-	-	4,037	-	4,037
Deferred interest	-	-	111,234	(59,374)	51,860
Loss on disposal of property and equipment	2,337	-	-	-	2,337
Changes in operating assets and liabilities:					
Accounts and pledges receivable	(68,377)	-	1,755	-	(66,622)
Prepaid expenses	(3,736)	(495)	-	-	(4,231)
Due from affiliate	(55,229)	-	(4,145)	59,374	-
Fiscal agent payable	108,805	-	-	-	108,805
Accounts payable	14,716	15,255	(7,665)	-	22,306
Accrued expenses	17,844	-	5,770	-	23,614
Net cash provided by operating activities	<u>245,975</u>	<u>68,044</u>	<u>50,056</u>	<u>-</u>	<u>364,075</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Deposits to and interest earned on operating reserve	-	-	(2,378)	-	(2,378)
Deposits to and interest earned on reserve for replacements	-	-	(9,280)	-	(9,280)
Increase in construction in progress	-	(715,281)	-	-	(715,281)
Net cash used in investing activities	<u>-</u>	<u>(715,281)</u>	<u>(11,658)</u>	<u>-</u>	<u>(726,939)</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES:</b>					
Proceeds from long-term debt	-	655,412	-	-	655,412
Principal payments on long-term debt	(9,580)	-	(30,113)	-	(39,693)
Principal payments on capital lease obligations	(14,518)	-	-	-	(14,518)
Net cash provided by (used in) financing activities	<u>(24,098)</u>	<u>655,412</u>	<u>(30,113)</u>	<u>-</u>	<u>601,201</u>
<b>NET INCREASE IN CASH</b>	221,877	8,175	8,285	-	238,337
<b>CASH, beginning of year</b>	<u>130,308</u>	<u>-</u>	<u>8,607</u>	<u>-</u>	<u>138,915</u>
<b>CASH, end of year</b>	<u>\$ 352,185</u>	<u>\$ 8,175</u>	<u>\$ 16,892</u>	<u>\$ -</u>	<u>\$ 377,252</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>					
Cash paid for interest	<u>\$ 6,494</u>	<u>\$ -</u>	<u>\$ 107,529</u>	<u>\$ -</u>	<u>\$ 114,023</u>
<b>NON-CASH INVESTING AND FINANCING TRANSACTIONS:</b>					
Disposal of fully depreciated property and equipment	<u>\$ 19,860</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,860</u>
Equipment acquired under capital lease obligation	<u>\$ 29,809</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 29,809</u>
Construction in progress included in accounts payable	<u>\$ -</u>	<u>\$ 11,492</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,492</u>

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

**HOUSING FAMILIES INC. AND AFFILIATES**  
**CONSOLIDATING STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2011**

	HOUSING FAMILIES INC.										
	PROGRAM SERVICES			SUPPORT SERVICES				HFI PROPERTIES, INC.	CROSS STREET HOUSING LP	ELIMI- NATIONS	TOTAL
	TRANSITIONAL HOUSING SERVICES	PERMANENT HOUSING SERVICES	TOTAL PROGRAM SERVICES	GENERAL AND ADMINIS- TRATIVE	FUNDRAISING	TOTAL SUPPORT SERVICES	TOTAL				
<b>PERSONNEL AND RELATED COSTS:</b>											
Salaries	\$ 1,000,080	\$ 58,220	\$ 1,058,300	\$ 140,220	\$ 150,026	\$ 290,246	\$ 1,348,546	\$ -	\$ 6,000	\$ -	\$ 1,354,546
Payroll taxes and benefits	184,579	9,554	194,133	25,244	22,460	47,704	241,837	-	-	-	241,837
Temporary help	14,150	802	14,952	1,898	-	1,898	16,850	-	-	-	16,850
Total personnel and related costs	<u>1,198,809</u>	<u>68,576</u>	<u>1,267,385</u>	<u>167,362</u>	<u>172,486</u>	<u>339,848</u>	<u>1,607,233</u>	<u>-</u>	<u>6,000</u>	<u>-</u>	<u>1,613,233</u>
<b>OCCUPANCY:</b>											
Rent	1,083,268	1,071	1,084,339	4,018	2,411	6,429	1,090,768	-	-	(30,000)	1,060,768
Utilities	80,104	22,586	102,690	2,377	241	2,618	105,308	720	62,471	-	168,499
Interest	1,512	3,288	4,800	-	-	-	4,800	-	107,529	-	112,329
Repairs and maintenance	34,378	8,125	42,503	5,992	-	5,992	48,495	-	53,421	-	101,916
Taxes and insurance	9,425	6,441	15,866	-	-	-	15,866	-	32,514	-	48,380
Non-capital equipment	42,963	-	42,963	742	-	742	43,705	-	-	-	43,705
Extermination contract	23,044	5,075	28,119	-	-	-	28,119	-	3,676	-	31,795
Total occupancy	<u>1,274,694</u>	<u>46,586</u>	<u>1,321,280</u>	<u>13,129</u>	<u>2,652</u>	<u>15,781</u>	<u>1,337,061</u>	<u>720</u>	<u>259,611</u>	<u>(30,000)</u>	<u>1,567,392</u>
<b>OTHER:</b>											
Client services	611,199	7,083	618,282	-	2,150	2,150	620,432	-	-	-	620,432
Donated goods and services	137,858	-	137,858	-	-	-	137,858	-	-	-	137,858
Professional fees	13,779	-	13,779	50,742	20,381	71,123	84,902	-	27,452	-	112,354
Office supplies	40,590	1,263	41,853	14,092	30,330	44,422	86,275	-	2,262	-	88,537
Telephone	35,682	2,236	37,918	3,537	933	4,470	42,388	-	-	-	42,388
Training and travel	17,423	4	17,427	12,077	7,453	19,530	36,957	-	-	-	36,957
Printing and postage	11,472	58	11,530	2,179	13,865	16,044	27,574	-	-	-	27,574
Vehicle costs	24,738	1,342	26,080	43	33	76	26,156	-	-	-	26,156
Insurance	7,974	1,376	9,350	4,685	-	4,685	14,035	-	-	-	14,035
Miscellaneous	4,589	112	4,701	4,832	478	5,310	10,011	6	2,256	-	12,273
Advertising	7,292	773	8,065	748	1,823	2,571	10,636	-	25	-	10,661
Dues and subscriptions	120	-	120	1,687	2,325	4,012	4,132	-	-	-	4,132
Bad debt	-	-	-	-	-	-	-	-	4,037	-	4,037
Interest	993	-	993	699	2	701	1,694	-	-	-	1,694
Program supplies	-	319	319	-	-	-	319	-	-	-	319
Management fees	-	-	-	-	-	-	-	-	16,844	(16,844)	-
Total other	<u>913,709</u>	<u>14,566</u>	<u>928,275</u>	<u>95,321</u>	<u>79,773</u>	<u>175,094</u>	<u>1,103,369</u>	<u>6</u>	<u>52,876</u>	<u>(16,844)</u>	<u>1,139,407</u>
Total expenses	<u>\$ 3,387,212</u>	<u>\$ 129,728</u>	<u>\$ 3,516,940</u>	<u>\$ 275,812</u>	<u>\$ 254,911</u>	<u>\$ 530,723</u>	<u>\$ 4,047,663</u>	<u>\$ 726</u>	<u>\$ 318,487</u>	<u>\$ (46,844)</u>	<u>\$ 4,320,032</u>

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

**HOUSING FAMILIES INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATING FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

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

**OPERATIONS AND NONPROFIT STATUS**

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

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

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

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

**SIGNIFICANT ACCOUNTING POLICIES**

HFI prepares its consolidating 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.

**Principles of Consolidation**

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

Cross Street Housing Limited Partnership (the Partnership) is considered to be a variable interest entity (VIE) within the meaning of standards pertaining to the consolidation of variable interest entities.

An entity considered to be the primary beneficiary of the VIE has both (a) the power to direct activities of the VIE that most significantly impact the VIE's economic performance and (b) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. Under previous guidance, an entity was considered to be a primary beneficiary when it had the obligation to absorb expected losses rather than potential losses.

Under this new guidance, the General Partner is considered the primary beneficiary of the Partnership. Since the General Partner is the primary beneficiary, the Partnership is consolidated with the General Partner and, therefore, included in the accompanying consolidating financial statements of HFI. The Partnership has been consolidated into the consolidating financial statements as of July 1, 2010, on the accompanying consolidating statement of changes in entities' equity on the adoption of accounting principle line.

HOUSING FAMILIES INC. AND AFFILIATES  
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS  
JUNE 30, 2011  
(Continued)

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

**SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Estimates

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

Revenue Recognition

Program service fees are recorded over the contract period or as services are provided. 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.

Fair Value Measurements

HFI and Affiliates follow the *Fair Value Measurements and Disclosures* standards. These standards define fair value, establish a framework for measuring fair value under U.S. GAAP, and mandate disclosures about fair value measurements. This policy establishes a fair value hierarchy that prioritizes the inputs and assumptions used to measure fair value. HFI and Affiliates value their 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 HFI and Affiliates. HFI and Affiliates have grouped their unrestricted net assets into the following categories:

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

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

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

**Temporarily Restricted Net Assets** are those unexpended financial resources that are restricted by donors as to purpose or timing of expenditure. At June 30, 2011, all temporarily restricted net assets are purpose restricted.

**HOUSING FAMILIES INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATING FINANCIAL STATEMENTS**  
**JUNE 30, 2011**  
(Continued)

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

**SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Allowance for Doubtful Accounts

The allowance for doubtful accounts is recorded based on management's analysis of specific accounts and their estimate of amounts that may be uncollectible, if any. There was no allowance for doubtful accounts as of June 30, 2011.

Tenant Security Deposits

Tenant security deposits consist of deposits collected upon move-in. Interest is paid annually to the tenants based on the current interest rate of the bank where the Partnership holds the deposits.

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. Property and equipment are depreciated using the straight-line method over the following estimated useful lives:

Buildings and improvements	40 years
Leasehold improvements	20 - 40 years or the term of the lease, whichever is less
Furniture and equipment	3 - 10 years
Vehicles	5 years

Property and equipment consist of the following:

	<u>Housing Families Inc.</u>	<u>Cross Street Housing LP</u>	<u>Total</u>
Land	\$ 228,600	\$ 963,600	\$1,192,200
Buildings and improvements	879,473	5,033,084	5,912,557
Leasehold improvements	211,920	-	211,920
Furniture and equipment	92,231	49,845	142,076
Vehicles	28,244	-	28,244
Less - eliminations	<u>-</u>	<u>-</u>	<u>247,499</u>
Total cost, net of eliminations	1,440,468	6,046,529	7,239,498
Less - accumulated depreciation	<u>660,380</u>	<u>891,463</u>	<u>1,551,843</u>
	<u>\$ 780,088</u>	<u>\$5,155,066</u>	<u>\$5,687,655</u>

Substantially all property and equipment are pledged as collateral on long-term and contingent debt (see Notes 4 and 6).

HFI currently has equipment under various capital lease agreements (see Note 7). Depreciation expense for the year ended June 30, 2011, for the equipment was \$9,950. As of June 30, 2011, accumulated depreciation was \$17,369 on these assets.

## HOUSING FAMILIES INC. AND AFFILIATES

### NOTES TO CONSOLIDATING FINANCIAL STATEMENTS

JUNE 30, 2011

(Continued)

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

(Continued)

##### SIGNIFICANT ACCOUNTING POLICIES (Continued)

###### Construction in Progress

HFI and Affiliates have incurred predevelopment costs as of June 30, 2011, 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. HFI has received funding commitments totaling \$1,455,000 in connection with these projects (see Notes 4 and 6). Construction in progress on these properties totaled \$811,416 as of June 30, 2011, and consisted of predevelopment costs on these properties.

###### Capitalized Costs and Amortization

Capitalized costs consist of the following:

Mortgage financing fees	\$47,870
Low-income housing tax credit application fees	<u>35,000</u>
	82,870
Less - accumulated amortization	<u>30,113</u>
	<u>\$52,757</u>

Mortgage financing fees are being amortized over the term of the mortgages (twenty years) (see Note 4), and the low-income housing tax credit application fees are being amortized over the tax credit compliance period of fifteen years.

###### Donated Goods and Services

HFI receives donated goods and services from various organizations for use in its programs. These goods and services are reflected in the accompanying consolidating financial statements at fair market value, determined by HFI, as follows for the year ended June 30, 2011:

Contracted services	\$ 89,575
Program supplies	<u>48,283</u>
	<u>\$137,858</u>

###### Expense Allocation

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

###### Fiscal Agent Payable

Fiscal agent payable consists of amounts received by HFI to make rental payments on behalf of tenants in need.

**HOUSING FAMILIES INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATING FINANCIAL STATEMENTS**  
**JUNE 30, 2011**  
(Continued)

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

**SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Advertising

Advertising costs are expensed as incurred. Advertising expenses for the year ended June 30, 2011, were \$10,661.

Tax Positions

HFI and Affiliates follow the *Accounting for Uncertainty in Income Taxes* standard which requires HFI and Affiliates to report uncertain tax positions, related interest and penalties, and to adjust their assets and liabilities related to unrecognized tax benefits and accrued interest and penalties accordingly. As of June 30, 2011, HFI and Affiliates determined that there are no material unrecognized tax benefits to report.

Information returns filed for the prior three years remain subject to examination by the Internal Revenue Service and the Commonwealth of Massachusetts. HFI and Affiliates do not expect that the amounts of unrecognized tax benefits will change significantly within the next twelve months.

Subsequent Events

Subsequent events have been evaluated through October 26, 2011, which is the date the consolidating financial statements were available to be issued. There were no events that met the criteria for recognition or disclosure in the consolidating financial statements.

(2) **RELATED PARTY TRANSACTIONS**

Consolidating Entities

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

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

**Malden Medford Homes LLC** (MM Homes) is a single member limited liability company formed in January, 2011. MM Homes was formed to acquire, develop and operate certain properties in Malden and Medford, Massachusetts.

**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 HFI. HFI Properties is a wholly-owned subsidiary of HFI. HFI Properties is organized exclusively as a title holding corporation under Section 501(c)(2) of the Internal Revenue Code.

**HOUSING FAMILIES INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATING FINANCIAL STATEMENTS**  
**JUNE 30, 2011**  
(Continued)

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

Consolidating Entities (Continued)

**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 HFI (the Project). Massachusetts Housing Equity Fund 2002 LLC. (MHEF) holds a 99.99% interest in the capital, income, losses, and cash flow of the Partnership (see Note 9). Accordingly, MHEF holds the non-controlling interest in the Partnership.

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

The Project was developed by HFI. HFI 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 HFI during fiscal year 2011. The unpaid development and overhead fee reimbursements were \$184,872 as of June 30, 2011, and are reflected as due to affiliate in the accompanying statement of financial position. Interest expense on this note was \$59,374 for the year ended June 30, 2011. This note is secured by a third mortgage on the property.

HFI provides management services and staff to the Partnership. HFI billed the Partnership approximately \$16,844 for these services during the year ended June 30, 2011. These amounts are included in management fees, program income, and other and management fee expense in the accompanying consolidating financial statements.

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

HFI has a 5.375% note receivable from the Partnership of \$998,598, of which \$805,583 has been advanced at June 30, 2011. Principal and interest are due annually if certain cash flow, as defined in the agreement, is achieved. There were no payments due for the year ended June 30, 2011. Interest compounds annually. All unpaid principal and deferred interest are due in full on July 23, 2033. For the year ended June 30, 2011, deferred interest on this loan was \$59,374. This note is secured by a third mortgage on the Partnership's property.

The Partnership has a lease agreement with HFI to rent its commercial space to HFI (see Note 7). Future minimum lease payments through the end of the agreement are \$30,000 per year. HFI is also responsible for its proportionate share of utilities and real estate taxes. The lease term is for fifteen years through December, 2019. Rent was \$30,000 for the year ended June 30, 2011. Under the terms of the lease agreement, rent will increase annually for increases in real estate taxes and operating expenses.

As part of the development of the Project, the General Partner has agreed to make contributions to fund operating deficits to the Partnership to the extent that operating deficits exceed the funds available in the operating reserve accounts (see Note 8).

The Partnership pays certain expenses of the General Partner. As of June 30, 2011, the General partner owed the Partnership \$1,855.

**HOUSING FAMILIES INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATING FINANCIAL STATEMENTS**  
**JUNE 30, 2011**  
(Continued)

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

Consolidating Entities (Continued)

Due from affiliate, net consists of the following at June 30, 2011:

Sponsor loan receivable	\$ 805,583
Interest receivable on sponsor loan	345,795
Development fee receivable	184,872
Miscellaneous	32,201
Management fee	<u>10,334</u>
 Total due from affiliate	 1,378,785
Less - current portion	<u>42,535</u>
 Due from affiliate, net of current portion	 <u>\$1,336,250</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. All of the due from affiliate amounts have been eliminated in the accompanying consolidating financial statements.

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.

**(3) FUNDING**

HFI and Affiliates receive a significant portion of their total unrestricted operating support and revenues (approximately 71% during fiscal year 2011) 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 material effect on the consolidating financial position of HFI and Affiliates as of June 30, 2011, or on the changes in their net assets for the year then ended.

The Partnership receives significant rental subsidies from the Malden Housing Authority (MHA) for qualified tenants. MHA has committed to provide subsidies through May, 2015. MHA provided \$262,381 in rental subsidies and vacancy reimbursements to the Partnership during the year ended June 30, 2011.

**(4) LONG-TERM DEBT**

Long-term debt consists of the following at June 30, 2011:

HFI

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 no payments made on this note during the year ended June 30, 2011. The note is secured by property in Malden, Massachusetts. \$ 152,065

**HOUSING FAMILIES INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATING FINANCIAL STATEMENTS**  
**JUNE 30, 2011**  
(Continued)

**(4) LONG-TERM DEBT** (Continued)

HFI (Continued)

HFI has a 7% interest bearing note payable to Community Economic Development Assistance Corporation (CEDAC) of up to a maximum loan amount of \$200,000. The note payable is secured by property in Malden and Medford, Massachusetts. All outstanding principal and interest will be repaid to CEDAC from the initial disbursement of proceeds of the permanent financing for the MM Homes Project.	127,912
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.	75,559
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 was \$13,000 as of June 30, 2011. No payments of principal and/or interest have been made since inception of this loan.	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.	36,173
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 was \$3,000 as of June 30, 2011. No payments of principal and/or interest have been made since inception of this loan.	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 property located in Malden, Massachusetts.	12,256
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>3,450</u>
Total Housing Families Inc.	<u>487,415</u>

The mortgage notes payable contain various covenants and restrictions on HFI as described in the agreements. HFI was in compliance with these covenants at June 30, 2011.

**HOUSING FAMILIES INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATING FINANCIAL STATEMENTS**  
**JUNE 30, 2011**  
(Continued)

**(4) LONG-TERM DEBT** (Continued)

HFI Properties

HFI Properties has a 3% interest bearing note payable to the Commonwealth of Massachusetts, Department of Housing and Community Development (DHCD). The note is due 120 days after completion of construction.

There were no payments made on this note during the year ended June 30, 2011. The note is secured by property in Malden and Medford, Massachusetts.

535,000

The mortgage note payable contains various covenants and restrictions on HFI Properties as described in the agreements. HFI Properties was in compliance with these covenants at June 30, 2011.

The Partnership

7% note payable to a bank, due in monthly principal and interest installments of \$8,786, using a thirty-year amortization schedule. There is a balloon payment of approximately \$760,000 due on June 15, 2025. This note is secured by a first mortgage on the property.

1,223,941

4.17% note payable to DHCD, compounded annually. All unpaid principal and deferred interest are due in full in August, 2033. This note is secured by a shared second mortgage on the property.

750,000

4.17% note payable to MRA. The Partnership makes monthly principal and interest payments of \$2,686, with interest at 3%. The difference between the interest rate of 4.17% and the monthly payments using the 3% rate are deferred and are due at maturity. This note matures in July, 2045. This note is secured by a shared second mortgage on the property.

697,762

Total Cross Street Housing Limited Partnership

2,671,703

Total long-term debt

3,694,118

Less - current portion

41,755

Total long-term debt, net of current portion

\$3,652,363

Accrued interest payable on long-term debt consists of the following:

Related party note payable (see Note 2)	\$345,192
DHCD note payable (see above)	256,445
MRA note payable (see above)	138,737
Note payable to a bank (see above)	<u>7,300</u>
	747,674
Less - current portion	7,300
Less - elimination	<u>345,795</u>
	<u>\$740,374</u>

**HOUSING FAMILIES INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATING FINANCIAL STATEMENTS**  
**JUNE 30, 2011**  
(Continued)

**(4) LONG-TERM DEBT** (Continued)

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

<u>Fiscal Year</u>	
2012	\$ 41,755
2013	\$578,837
2014	\$ 44,373
2015	\$ 46,750
2016	\$ 49,273

The mortgage notes payable contain various covenants and restrictions on HFI and Affiliates as described in the agreements. HFI and Affiliates were in compliance with these covenants at June 30, 2011.

**(5) NOTE PAYABLE TO A BANK**

HFI has available up to \$175,000 under a line of credit agreement with a bank at June 30, 2011. 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, 2011), plus 1%. As of June 30, 2011, there was no outstanding balance under this agreement.

**(6) CONTINGENT DEBT**

Contingent debt consists of the following:

HFI

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, 2011.

In May, 2010, HFI 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, 2011. In August, 2010, HFI received an additional \$300,000 loan commitment for the Revere project.

**HOUSING FAMILIES INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATING FINANCIAL STATEMENTS**  
**JUNE 30, 2011**  
(Continued)

(6) **CONTINGENT DEBT** (Continued)

The Partnership

Non-interest bearing note payable to CEDAC in the amount of \$500,000. All principal is due on December 31, 2033. Payments are due February 15<sup>th</sup> of each year if gross cash receipts for the year exceed 105% of gross cash expenditures for the year as defined in the agreement. This note is secured by a shared second mortgage on the property.

\$500,000

CEDAC may extend the maturity date of the above note for one or more additional periods of up to ten years each, 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, 2011.

(7) **LEASE AGREEMENTS**

HFI leases program facilities under various operating leases expiring through May 31, 2012, that are renewable annually. Rent expense under the facility leases was approximately \$1,091,000 for the year ended June 30, 2011.

HFI leases certain equipment with an aggregate cost of \$64,288 under various capital lease agreements. Interest rates under these agreements range between 2.5% and 7% during the year ended June 30, 2011. The remaining terms of these agreements are from one to six years. Future minimum lease payments under these agreements are as follows:

<u>Fiscal Year</u>	
2012	\$15,087
2013	10,473
2014	10,307
2015	7,729
2016	4,812
Thereafter	<u>706</u>
Total future minimum payments	49,114
Less - amounts representing interest	<u>3,553</u>
Present value of future minimum lease payments	45,561
Less - current portion	<u>13,638</u>
Long-term portion	<u>\$31,923</u>

HFI rents units to tenants under various lease agreements expiring through May, 2012. The rental income was \$93,422 for the year ended June 30, 2011. The future rental income for fiscal year 2012 under these lease agreements is \$19,762.

**HOUSING FAMILIES INC. AND AFFILIATES**

**NOTES TO CONSOLIDATING FINANCIAL STATEMENTS**

**JUNE 30, 2011**

(Continued)

**(8) RESERVES AND DEPOSITS**

Reserve for Replacements

The Partnership was required to establish and fund a reserve for replacements. The reserve for replacements is to be used to fund capital improvements and is held with Eagle Bank. In fiscal year 2011, the Partnership was required to make monthly deposits of approximately \$752 into this account. The required monthly deposits increase by 4% per year. As of June 30, 2011, this account was adequately funded.

Operating Reserve

The Partnership was also required to establish and fund an operating reserve. The operating reserve is to be used to fund operating deficits, if any, and is held with Eagle Bank. The Partnership is required to deposit the lesser of 2% of project expenses or net cash flow annually into the operating reserve until the operating reserve reaches a balance equal to 50% of project expenses, as defined in the Partnership agreement (approximately \$182,000 as of June 30, 2011). There is no deposit due to the operating reserve in fiscal year 2012 based on 2011 cash flows.

The following is a summary of the reserves with deposits and withdrawals for June 30, 2011:

	<u>Beginning Balance</u>	<u>Additions and Interest</u>	<u>Withdrawals and Transfers</u>	<u>Ending Balance</u>
Operating reserve	<u>\$177,700</u>	<u>\$2,378</u>	<u>\$ -</u>	<u>\$180,078</u>
Reserve for replacements	<u>\$ 42,215</u>	<u>\$9,280</u>	<u>\$ -</u>	<u>\$ 51,495</u>

**(9) PARTNERSHIP PROFITS, LOSSES AND ALLOCATIONS**

All profits, losses and credits are allocated 99.99% to MHEF and .01% to the General Partner.

Income and gains from sale or refinancing are to be allocated as follows:

- 1) To any partners having negative capital account balances, in proportion to and to the extent of negative balances.
- 2) 99.99% to MHEF and .01% to the General Partner until the balance in MHEF's capital account equals the amount necessary to achieve for MHEF the internal rate of return as projected in the financial forecasts of the Partnership.
- 3) To the General Partner in an amount up to the excess, if any, of the amount of loss and deduction previously allocated to the General Partner for any operating deficit contributions made.
- 4) The balance, if any, 50% to MHEF and 50% to the General Partner.

**HOUSING FAMILIES INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATING FINANCIAL STATEMENTS**  
**JUNE 30, 2011**  
(Continued)

**(9) PARTNERSHIP PROFITS, LOSSES AND ALLOCATIONS** (Continued)

Losses from sale or refinancing are to be allocated as follows:

- 1) To any partners having positive capital account balances, in proportion to and to the extent of positive balances.
- 2) The balance, if any, 99.99% to MHEF and .01% to the General Partner

Net cash flow shall be distributed 120 days after calendar year end as follows:

- 1) Required deposits into the operating reserve as described in Note 8.
- 2) Payments on the development fees payable described in Note 2.
- 3) If the General Partner has made operating deficit capital contributions, cash flows shall be distributed to the General Partner up to the amount of these contributions.
- 4) The balance, if any, 99.99% to MHEF and .01% to the General Partner.

The Partnership did not generate net cash flow for calendar year 2010.

**(10) CONCENTRATION OF CREDIT RISK**

HFI and Affiliates maintains its cash balances in various banks in Massachusetts and are insured within the limits of Federal Deposit Insurance Corporation (FDIC). HFI and Affiliates has not experienced any losses in such accounts. HFI and Affiliates believes it is not exposed to any significant credit risk on their cash.