



AND AFFILIATES

**CONSOLIDATING FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011  
TOGETHER WITH  
INDEPENDENT AUDITOR'S REPORT**

**HOUSING FAMILIES INC. AND AFFILIATES**

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JUNE 30, 2012 AND 2011**

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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 statements of financial position of Housing Families Inc. (a Massachusetts corporation, not for profit) (HFI) and Affiliates as of June 30, 2012 and 2011, and the related consolidating statements of activities, changes in entities' equity, cash flows and functional expenses for the years 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 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 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 audits provide 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, 2012 and 2011, and the consolidating changes in their entities' equity and their 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

November 13, 2012, except for Note 6, as to which the date is January 9, 2013

**HOUSING FAMILIES INC. AND AFFILIATES**  
**CONSOLIDATING STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2012**

<u>ASSETS</u>	<b>HFI PROPERTIES, INC. AND AFFILIATE</b>			<b>TOTAL</b>	<b>CROSS STREET HOUSING LP</b>		<b>TOTAL</b>
	<b>HOUSING FAMILIES INC.</b>	<b>(EXHIBIT A)</b>	<b>ELIMI- NATIONS</b>		<b>ELIMI- NATIONS</b>	<b>TOTAL</b>	
<b>CURRENT ASSETS:</b>							
Cash	\$ 388,462	\$ 162,626	\$ -	\$ 551,088	\$ 18,998	\$ -	\$ 570,086
Accounts and pledges receivable	235,220	-	-	235,220	4,897	-	240,117
Prepaid expenses	62,576	-	-	62,576	-	-	62,576
Current portion of due from affiliates	84,191	2,101	(77,443)	8,849	-	(8,849)	-
Total current assets	770,449	164,727	(77,443)	857,733	23,895	(8,849)	872,779
<b>RESERVES AND DEPOSITS:</b>							
Operating reserve	-	-	-	-	179,616	-	179,616
Reserve for replacements	-	-	-	-	61,542	-	61,542
Security deposits	23,508	4,100	-	27,608	12,024	-	39,632
Total reserves and deposits	23,508	4,100	-	27,608	253,182	-	280,790
<b>OTHER ASSETS:</b>							
Property and equipment, net	33,455	718,024	-	751,479	5,021,104	(217,499)	5,555,084
Construction in progress, net	-	2,766,089	(40,000)	2,726,089	-	-	2,726,089
Capitalized costs, net	-	-	-	-	48,029	-	48,029
Due from affiliate, net of current portion	1,404,151	-	-	1,404,151	-	(1,404,151)	-
Total other assets	1,437,606	3,484,113	(40,000)	4,881,719	5,069,133	(1,621,650)	8,329,202
Total assets	<u>\$ 2,231,563</u>	<u>\$ 3,652,940</u>	<u>\$(117,443)</u>	<u>\$ 5,767,060</u>	<u>\$ 5,346,210</u>	<u>\$( 1,630,499)</u>	<u>\$ 9,482,771</u>
<b>LIABILITIES AND ENTITIES' EQUITY</b>							
<b>CURRENT LIABILITIES:</b>							
Current portion of long-term debt	\$ -	\$ 554,825	\$ -	\$ 554,825	\$ 33,628	\$ -	\$ 588,453
Current portion of capital lease obligations	9,429	-	-	9,429	-	-	9,429
Current portion of due to affiliates	-	77,443	(77,443)	-	8,849	(8,849)	-
Current portion of accrued interest on long-term debt	-	-	-	-	7,300	-	7,300
Fiscal agent payable	34,680	-	-	34,680	-	-	34,680
Deferred revenue	103,170	3,370	-	106,540	153	-	106,693
Accounts payable	7,954	718,722	-	726,676	4,142	-	730,818
Accrued expenses	128,389	-	-	128,389	6,450	-	134,839
Total current liabilities	283,622	1,354,360	(77,443)	1,560,539	60,522	(8,849)	1,612,212
<b>LONG-TERM LIABILITIES:</b>							
Security deposits payable	23,508	4,100	-	27,608	12,024	-	39,632
Long-term debt, net of current portion	-	361,568	-	361,568	1,856,251	-	2,217,819
Capital lease obligations, net of current portion	22,278	-	-	22,278	-	-	22,278
Due to affiliates, net of current portion	-	-	-	-	996,466	(996,466)	-
Accrued interest on long-term debt, net of current portion	-	-	-	-	555,039	(407,685)	147,354
Contingent debt and deferred interest	-	1,739,585	-	1,739,585	1,549,035	-	3,288,620
Total long-term liabilities	45,786	2,105,253	-	2,151,039	4,968,815	(1,404,151)	5,715,703
Total liabilities	329,408	3,459,613	(77,443)	3,711,578	5,029,337	(1,413,000)	7,327,915
<b>ENTITIES' EQUITY</b>							
<b>Unrestricted:</b>							
Operating	453,148	(1,269)	-	451,879	183,917	-	635,796
Property and equipment	1,748	194,596	(40,000)	156,344	132,956	869,853	1,159,153
Housing development	1,404,151	-	-	1,404,151	-	(1,404,151)	-
Total unrestricted	1,859,047	193,327	(40,000)	2,012,374	316,873	(534,298)	1,794,949
Temporarily restricted	43,108	-	-	43,108	-	-	43,108
Total Housing Families entities' equity	1,902,155	193,327	(40,000)	2,055,482	316,873	(534,298)	1,838,057
Non-controlling interest	-	-	-	-	-	316,799	316,799
Total entities' equity	1,902,155	193,327	(40,000)	2,055,482	316,873	(217,499)	2,154,856
Total liabilities and entities' equity	<u>\$ 2,231,563</u>	<u>\$ 3,652,940</u>	<u>\$(117,443)</u>	<u>\$ 5,767,060</u>	<u>\$ 5,346,210</u>	<u>\$( 1,630,499)</u>	<u>\$ 9,482,771</u>

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

**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	<u>768,626</u>	<u>8,670</u>	<u>(32,201)</u>	<u>745,095</u>	<u>20,817</u>	<u>(10,334)</u>	<u>755,578</u>
<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	<u>21,233</u>	<u>-</u>	<u>-</u>	<u>21,233</u>	<u>249,085</u>	<u>-</u>	<u>270,318</u>
<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	<u>2,290,852</u>	<u>636,902</u>	<u>-</u>	<u>2,927,754</u>	<u>5,207,823</u>	<u>(1,583,749)</u>	<u>6,551,828</u>
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 ENTITIES' EQUITY</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	<u>385,108</u>	<u>57,288</u>	<u>(32,201)</u>	<u>410,195</u>	<u>55,711</u>	<u>(10,334)</u>	<u>455,572</u>
<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	1,889,896	-	2,902,363
Capital lease obligations, net of current portion	31,923	-	-	31,923	-	-	31,923
Due to affiliates, net of current portion	-	-	-	-	990,455	(990,455)	-
Accrued interest on long-term debt, net of current portion	16,000	-	-	16,000	484,532	(345,795)	154,737
Contingent debt and deferred interest	310,000	-	-	310,000	1,505,842	-	1,815,842
Total long-term liabilities	<u>856,623</u>	<u>535,000</u>	<u>-</u>	<u>1,391,623</u>	<u>4,888,237</u>	<u>(1,336,250)</u>	<u>4,943,610</u>
Total liabilities	<u>1,241,731</u>	<u>592,288</u>	<u>(32,201)</u>	<u>1,801,818</u>	<u>4,943,948</u>	<u>(1,346,584)</u>	<u>5,399,182</u>
<b>ENTITIES' EQUITY</b>							
Unrestricted:							
Operating	409,343	-	-	409,343	184,291	-	593,634
Property and equipment	84,134	53,284	-	137,418	349,486	501,927	988,831
Housing development	1,336,250	-	-	1,336,250	-	(1,283,129)	53,121
Total unrestricted	<u>1,829,727</u>	<u>53,284</u>	<u>-</u>	<u>1,883,011</u>	<u>533,777</u>	<u>(781,202)</u>	<u>1,635,586</u>
Temporarily restricted	<u>9,253</u>	<u>-</u>	<u>-</u>	<u>9,253</u>	<u>-</u>	<u>-</u>	<u>9,253</u>
Total Housing Families entities' equity	<u>1,838,980</u>	<u>53,284</u>	<u>-</u>	<u>1,892,264</u>	<u>533,777</u>	<u>(781,202)</u>	<u>1,644,839</u>
Non-controlling interest	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>533,703</u>	<u>533,703</u>
Total entities' equity	<u>1,838,980</u>	<u>53,284</u>	<u>-</u>	<u>1,892,264</u>	<u>533,777</u>	<u>(247,499)</u>	<u>2,178,542</u>
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, 2012**

	<b>HFI HOUSING FAMILIES INC.</b>	<b>PROPERTY, INC. AND AFFILIATE (EXHIBIT B)</b>	<b>ELIMI- NATIONS</b>	<b>TOTAL</b>	<b>CROSS STREET HOUSING LP</b>	<b>ELIMI- NATIONS</b>	<b>TOTAL</b>
<b>CHANGES IN UNRESTRICTED NET ASSETS:</b>							
<b>OPERATING SUPPORT AND REVENUES:</b>							
Program service fees	\$ 2,560,263	\$ -	\$ -	\$ 2,560,263	\$ -	\$ -	\$ 2,560,263
Grants	482,248	-	-	482,248	-	-	482,248
Rental income, net of vacancies	16,923	9,048	-	25,971	339,195	(30,000)	335,166
Contributions	235,423	-	-	235,423	-	-	235,423
Donated goods and services	186,548	-	-	186,548	-	-	186,548
Management fees, program income and other	96,214	7,736	(40,000)	63,950	2,655	(15,941)	50,664
Net assets released from program restrictions	9,253	-	-	9,253	-	-	9,253
	<u>3,586,872</u>	<u>16,784</u>	<u>(40,000)</u>	<u>3,563,656</u>	<u>341,850</u>	<u>(45,941)</u>	<u>3,859,565</u>
<b>OPERATING EXPENSES:</b>							
Program services	2,907,710	-	-	2,907,710	-	(22,571)	2,885,139
General and administrative	278,686	-	-	278,686	-	(4,483)	274,203
Fundraising	368,283	-	-	368,283	-	(2,946)	365,337
Real Estate Development	-	2,630	-	2,630	-	-	2,630
Cross Street Housing, LP	-	-	-	-	306,364	(15,941)	290,423
Total operating expenses before depreciation and amortization	<u>3,554,679</u>	<u>2,630</u>	<u>-</u>	<u>3,557,309</u>	<u>306,364</u>	<u>(45,941)</u>	<u>3,817,732</u>
Depreciation and amortization	23,700	-	-	23,700	138,690	(30,000)	132,390
Total operating expenses	<u>3,578,379</u>	<u>2,630</u>	<u>-</u>	<u>3,581,009</u>	<u>445,054</u>	<u>(75,941)</u>	<u>3,950,122</u>
Changes in unrestricted net assets from operations	8,493	14,154	(40,000)	(17,353)	(103,204)	30,000	(90,557)
<b>NON-OPERATING ACTIVITIES:</b>							
Capital grants	-	90,916	-	90,916	-	-	90,916
Deferred interest income	61,890	-	-	61,890	-	(61,890)	-
Loss on disposal of property and equipment	(6,090)	-	-	(6,090)	-	-	(6,090)
Deferred interest expense	-	-	-	-	(113,700)	61,890	(51,810)
Changes in unrestricted net assets	<u>64,293</u>	<u>105,070</u>	<u>(40,000)</u>	<u>129,363</u>	<u>(216,904)</u>	<u>30,000</u>	<u>(57,541)</u>
<b>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:</b>							
Contributions	43,108	-	-	43,108	-	-	43,108
Net assets released from program restrictions	(9,253)	-	-	(9,253)	-	-	(9,253)
Changes in temporarily restricted net assets	<u>33,855</u>	<u>-</u>	<u>-</u>	<u>33,855</u>	<u>-</u>	<u>-</u>	<u>33,855</u>
Changes in net assets	98,148	105,070	(40,000)	163,218	(216,904)	30,000	(23,686)
<b>CHANGES IN NET ASSETS ATTRIBUTABLE TO NON-CONTROLLING INTEREST</b>							
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>216,904</u>	<u>-</u>	<u>216,904</u>
Changes in net assets attributable to Housing Families	<u>\$ 98,148</u>	<u>\$ 105,070</u>	<u>\$ (40,000)</u>	<u>\$ 163,218</u>	<u>\$ -</u>	<u>\$ 30,000</u>	<u>\$ 193,218</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

	HOUSING FAMILIES INC.	HFI PROPERTIES, INC.	ELIMI- NATIONS	TOTAL	CROSS STREET HOUSING LP	ELIMI- NATIONS	TOTAL
<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
Grants	374,757	-	-	374,757	-	-	374,757
Rental income, net of vacancies	93,422	4,000	-	97,422	359,489	(30,000)	426,911
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>-</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>-</u>	<u>4,048,389</u>	<u>318,487</u>	<u>(46,844)</u>	<u>4,320,032</u>
Depreciation and amortization	63,219	-	-	63,219	140,745	(30,000)	173,964
Total operating expenses	<u>4,110,882</u>	<u>726</u>	<u>-</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>-</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 program restrictions	(17,666)	-	-	(17,666)	-	-	(17,666)
Changes in temporarily restricted net assets	<u>(8,666)</u>	<u>-</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>-</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>\$ -</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 STATEMENTS OF CHANGES IN ENTITIES' EQUITY  
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

	<u>HOUSING FAMILIES INC.</u>	<u>HFI PROPERTIES, INC. AND AFFILIATE</u>	<u>ELIMI- NATIONS</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>-</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>	1,838,980	53,284	-	1,892,264	533,777	(781,202)	1,644,839	533,703	2,178,542
Changes in net assets	98,148	105,070	(40,000)	163,218	(216,904)	246,904	193,218	(216,904)	(23,686)
Net asset transfers	<u>(34,973)</u>	<u>34,973</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>BALANCE, June 30, 2012</b>	<u>\$ 1,902,155</u>	<u>\$ 193,327</u>	<u>\$ (40,000)</u>	<u>\$ 2,055,482</u>	<u>\$ 316,873</u>	<u>\$ (534,298)</u>	<u>\$ 1,838,057</u>	<u>\$ 316,799</u>	<u>\$ 2,154,856</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, 2012**

	<u>HOUSING FAMILIES INC.</u>	<u>HFI PROPERTIES, INC. AND AFFILIATE</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	\$ 98,148	\$ 105,070	\$ (216,904)	\$ (10,000)	\$ (23,686)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:					
Depreciation	23,700	-	133,962	(30,000)	127,662
Amortization	-	-	4,728	-	4,728
Deferred interest	-	-	113,700	(61,890)	51,810
Loss on disposal of property and equipment	6,090	-	-	-	6,090
Changes in operating assets and liabilities:					
Accounts and pledges receivable	128,966	-	(972)	-	127,994
Prepaid expenses	(52,856)	495	-	-	(52,361)
Due from affiliates	(64,136)	43,141	4,526	61,890	45,421
Fiscal agent payable	(161,757)	-	-	-	(161,757)
Deferred revenue	103,170	3,370	153	-	106,693
Accounts payable	(27,467)	-	3,642	-	(23,825)
Security deposits	-	-	-	-	-
Accrued expenses	(1,275)	-	680	-	(595)
Net cash provided by (used in) operating activities	<u>52,583</u>	<u>152,076</u>	<u>43,515</u>	<u>(40,000)</u>	<u>208,174</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Net withdrawals from operating reserve	-	-	462	-	462
Deposits to and interest earned on reserve for replacements	-	-	(10,047)	-	(10,047)
Increase in construction in progress	-	(1,435,552)	-	40,000	(1,395,552)
Net cash provided by (used in) investing activities	<u>-</u>	<u>(1,435,552)</u>	<u>(9,585)</u>	<u>40,000</u>	<u>(1,405,137)</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES:</b>					
Proceeds from contingent debt	-	1,429,585	-	-	1,429,585
Proceeds from long-term debt	-	173,385	-	-	173,385
Principal payments on long-term debt	(2,452)	(165,043)	(31,824)	-	(199,319)
Principal payments on capital lease obligations	(13,854)	-	-	-	(13,854)
Net cash provided by (used in) financing activities	<u>(16,306)</u>	<u>1,437,927</u>	<u>(31,824)</u>	<u>-</u>	<u>1,389,797</u>
<b>NET INCREASE IN CASH</b>	<b>36,277</b>	<b>154,451</b>	<b>2,106</b>	<b>-</b>	<b>192,834</b>
<b>CASH, beginning of year</b>	<b>352,185</b>	<b>8,175</b>	<b>16,892</b>	<b>-</b>	<b>377,252</b>
<b>CASH, end of year</b>	<b><u>\$ 388,462</u></b>	<b><u>\$ 162,626</u></b>	<b><u>\$ 18,998</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 570,086</u></b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>					
Cash paid for interest	<u>\$ 2,210</u>	<u>\$ -</u>	<u>\$ 105,818</u>	<u>\$ -</u>	<u>\$ 108,028</u>
<b>NON-CASH INVESTING AND FINANCING TRANSACTIONS:</b>					
Disposal of fully depreciated property and equipment	<u>\$ 9,582</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,582</u>
Increase in construction in progress financed by accounts payable	<u>\$ -</u>	<u>\$ 693,635</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 693,635</u>
Net book value of property and equipment transferred	<u>\$ (718,024)</u>	<u>\$ 718,024</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Transfer of long-term debt and accrued interest	<u>\$ (373,051)</u>	<u>\$ 373,051</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Transfer of contingent debt	<u>\$ (310,000)</u>	<u>\$ 310,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Cost basis of transferred construction in progress financed through long-term debt	<u>\$ (127,912)</u>	<u>\$ 127,912</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Cost basis of transferred construction in progress financed through due to/from affiliate	<u>\$ (46,602)</u>	<u>\$ 46,602</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</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**

	<b>HOUSING FAMILIES INC.</b>	<b>HFI PROPERTIES, INC.</b>	<b>CROSS STREET HOUSING LP</b>	<b>ELIMI- NATIONS</b>	<b>TOTAL</b>
<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 affiliates	(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>	<b>221,877</b>	<b>8,175</b>	<b>8,285</b>	<b>-</b>	<b>238,337</b>
<b>CASH, beginning of year</b>	<b>130,308</b>	<b>-</b>	<b>8,607</b>	<b>-</b>	<b>138,915</b>
<b>CASH, end of year</b>	<b><u>\$ 352,185</u></b>	<b><u>\$ 8,175</u></b>	<b><u>\$ 16,892</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 377,252</u></b>
<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>
Increase in construction in progress financed by 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, 2012  
(With Summarized Comparative Totals for the Year Ended June 30, 2011)

	2012							2011				
	HOUSING FAMILIES INC.											
	PROGRAM SERVICES			SUPPORT SERVICES								
	TRANSITIONAL HOUSING SERVICES	PERMANENT HOUSING SERVICES	TOTAL PROGRAM SERVICES	GENERAL AND ADMINISTRATIVE	FUNDRAISING	TOTAL SUPPORT SERVICES	TOTAL	HFI PROPERTIES, INC. AND AFFILIATE (EXHIBIT B)	CROSS STREET HOUSING LP	ELIMINATIONS	TOTAL	TOTAL
<b>PERSONNEL AND RELATED COSTS:</b>												
Salaries	\$ 1,020,153	\$ 7,128	\$ 1,027,281	\$ 126,420	\$ 253,567	\$ 379,987	\$ 1,407,268	\$ -	\$ -	\$ -	\$ 1,407,268	\$ 1,354,546
Payroll taxes and benefits	207,259	1,228	208,487	27,921	35,062	62,983	271,470	-	-	-	271,470	241,837
Temporary help	17,901	-	17,901	198	359	557	18,458	-	-	-	18,458	16,850
Total personnel and related costs	1,245,313	8,356	1,253,669	154,539	288,988	443,527	1,697,196	-	-	-	1,697,196	1,613,233
<b>OCCUPANCY:</b>												
Rent	1,141,332	179	1,141,511	4,483	2,946	7,429	1,148,940	-	-	(30,000)	1,118,940	1,060,768
Utilities	56,717	1,272	57,989	2,371	212	2,583	60,572	202	55,912	-	116,686	168,499
Interest	241	524	765	-	-	-	765	-	105,818	-	106,583	112,329
Repairs and maintenance	15,513	488	16,001	4,880	12	4,892	20,893	593	53,108	-	74,594	101,916
Taxes and insurance	6,849	3,819	10,668	-	-	-	10,668	1,835	33,343	-	45,846	48,380
Extermination contract	7,685	67	7,752	-	-	-	7,752	-	6,851	-	14,603	31,795
Non-capital equipment	2,915	-	2,915	-	-	-	2,915	-	-	-	2,915	43,705
Total occupancy	1,231,252	6,349	1,237,601	11,734	3,170	14,904	1,252,505	2,630	255,032	(30,000)	1,480,167	1,567,392
<b>OTHER:</b>												
Donated goods and services	181,133	-	181,133	-	5,415	5,415	186,548	-	-	-	186,548	137,858
Consultants	24,446	-	24,446	20,678	8,945	29,623	54,069	-	25,649	-	79,718	54,933
Office supplies	38,572	4	38,576	16,481	15,063	31,544	70,120	-	457	-	70,577	88,537
Professional fees	10,879	-	10,879	53,395	-	53,395	64,274	-	-	-	64,274	57,421
Telephone	39,973	96	40,069	4,044	2,342	6,386	46,455	-	422	-	46,877	42,388
Training and travel	24,203	24	24,227	5,284	4,190	9,474	33,701	-	-	-	33,701	36,957
Printing and postage	9,146	-	9,146	2,224	19,171	21,395	30,541	-	-	-	30,541	27,574
Vehicle costs	28,096	74	28,170	33	33	66	28,236	-	-	-	28,236	26,156
Grant expense	24,223	-	24,223	-	-	-	24,223	-	-	-	24,223	-
Miscellaneous	2,829	14	2,843	4,415	6,397	10,812	13,655	-	8,863	-	22,518	12,273
Insurance	11,895	1,470	13,365	3,728	364	4,092	17,457	-	-	-	17,457	14,035
Client pass-through grants	11,900	-	11,900	-	3,524	3,524	15,424	-	-	-	15,424	620,432
Dues and subscriptions	255	-	255	1,660	9,123	10,783	11,038	-	-	-	11,038	4,132
Advertising	6,234	-	6,234	-	1,558	1,558	7,792	-	-	-	7,792	10,661
Interest	974	-	974	471	-	471	1,445	-	-	-	1,445	1,694
Bad debt	-	-	-	-	-	-	-	-	-	-	-	4,037
Program supplies	-	-	-	-	-	-	-	-	-	-	-	319
Management fees	-	-	-	-	-	-	-	-	15,941	(15,941)	-	-
Total other	414,758	1,682	416,440	112,413	76,125	188,538	604,978	-	51,332	(15,941)	640,369	1,139,407
Total expenses before depreciation and amortization	2,891,323	16,387	2,907,710	278,686	368,283	646,969	3,554,679	2,630	306,364	(45,941)	3,817,732	4,320,032
<b>DEPRECIATION AND AMORTIZATION</b>	13,798	4,230	18,028	5,672	-	5,672	23,700	-	138,690	(30,000)	132,390	173,964
Total expenses	\$ 2,905,121	\$ 20,617	\$ 2,925,738	\$ 284,358	\$ 368,283	\$ 652,641	\$ 3,578,379	\$ 2,630	\$ 445,054	\$ (75,941)	\$ 3,950,122	\$ 4,493,996

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
Extermination contract	23,044	5,075	28,119	-	-	-	28,119	-	3,676	-	31,795
Non-capital equipment	42,963	-	42,963	742	-	742	43,705	-	-	-	43,705
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>											
Donated goods and services	137,858	-	137,858	-	-	-	137,858	-	-	-	137,858
Consultants	7,100	-	7,100	-	20,381	20,381	27,481	-	27,452	-	54,933
Office supplies	40,590	1,263	41,853	14,092	30,330	44,422	86,275	-	2,262	-	88,537
Professional fees	6,679	-	6,679	50,742	-	50,742	57,421	-	-	-	57,421
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
Miscellaneous	4,589	112	4,701	4,832	478	5,310	10,011	6	2,256	-	12,273
Insurance	7,974	1,376	9,350	4,685	-	4,685	14,035	-	-	-	14,035
Client pass-through grants	611,199	7,083	618,282	-	2,150	2,150	620,432	-	-	-	620,432
Dues and subscriptions	120	-	120	1,687	2,325	4,012	4,132	-	-	-	4,132
Advertising	7,292	773	8,065	748	1,823	2,571	10,636	-	25	-	10,661
Interest	993	-	993	699	2	701	1,694	-	-	-	1,694
Bad debt	-	-	-	-	-	-	-	-	4,037	-	4,037
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 before depreciation and amortization	3,387,212	129,728	3,516,940	275,812	254,911	530,723	4,047,663	726	318,487	(46,844)	4,320,032
<b>DEPRECIATION AND AMORTIZATION</b>	<u>29,425</u>	<u>26,023</u>	<u>55,448</u>	<u>7,771</u>	<u>-</u>	<u>7,771</u>	<u>63,219</u>	<u>-</u>	<u>140,745</u>	<u>(30,000)</u>	<u>173,964</u>
Total expenses	<u>\$ 3,416,637</u>	<u>\$ 155,751</u>	<u>\$ 3,572,388</u>	<u>\$ 283,583</u>	<u>\$ 254,911</u>	<u>\$ 538,494</u>	<u>\$ 4,110,882</u>	<u>\$ 726</u>	<u>\$ 459,232</u>	<u>\$ (76,844)</u>	<u>\$ 4,493,996</u>

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

**HOUSING FAMILIES INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATING FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 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 (IRC). HFI is also exempt from state income taxes. Donors may deduct contributions made to HFI within IRC 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 (MM Homes), and Cross Street Housing Limited Partnership (CSLP) (collectively, HFI and Affiliates) (see Note 2). All significant intercompany transactions have been eliminated.

CSLP 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.

The General Partner is considered the primary beneficiary of CSLP. Since the General Partner is the primary beneficiary, CSLP is consolidated with the General Partner and, therefore, included in the accompanying consolidating financial statements of HFI. CSLP 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, 2012 AND 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. Rental income of \$137,402 received by HFI Properties, Inc. and Affiliate during rehabilitation of rental units is used to offset capitalized relocation costs, which are included in construction in progress in the accompanying consolidating statement of financial position. All other revenue is recognized as earned. Payments received in advance of services being provided are recorded as deferred revenue.

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, construction in progress and reserve for replacements, net of related debt.

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

**HOUSING FAMILIES INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATING FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**  
(Continued)

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

**SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Description of Net Assets (Continued)

**Temporarily restricted net assets** are those unexpended financial resources that are restricted by donors as to purpose or timing of expenditure. At June 30, 2012 and 2011, 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 was no allowance for doubtful accounts as of June 30, 2012 and 2011.

Security Deposits

Security deposits consist of tenant deposits collected upon move-in. Interest is paid annually to the tenants based on the current interest rate of the bank where CSLP 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 at June 30:

<u>2012</u>	<u>HFI</u>	<u>HFI Properties, Inc. and Affiliate</u>	<u>CSLP</u>	<u>Elimi- nations</u>	<u>Total</u>
Land	\$ -	\$ 228,600	\$ 963,600	\$ -	\$1,192,200
Buildings and improvements	-	1,091,393	5,033,084	(217,499)	5,906,978
Furniture and equipment	76,559	-	49,845	-	126,404
Vehicles	28,244	-	-	-	28,244
Total cost, net of eliminations	104,803	1,319,993	6,046,529	(217,499)	7,253,826
Less - accumulated depreciation	71,348	601,969	1,025,425	-	1,698,742
	<u>\$ 33,455</u>	<u>\$ 718,024</u>	<u>\$5,021,104</u>	<u>\$(217,499)</u>	<u>\$5,555,084</u>

**HOUSING FAMILIES INC. AND AFFILIATES**

**NOTES TO CONSOLIDATING FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011  
(Continued)**

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

**SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Property, Equipment and Depreciation (Continued)

	<u>2011</u>	<u>HFI</u>	<u>CSLP</u>	<u>Elimi- nations</u>	<u>Total</u>
Land	\$ 228,600	\$ 963,600	\$ -	\$ -	\$1,192,200
Buildings and improvements	879,473	5,033,084	(247,499)	-	5,665,058
Leasehold improvements	211,920	-	-	-	211,920
Furniture and equipment	92,231	49,845	-	-	142,076
Vehicles	28,244	-	-	-	28,244
Total cost, net of eliminations	1,440,468	6,046,529	(247,499)	-	7,239,498
Less - accumulated depreciation	660,380	891,463	-	-	1,551,843
	<u>\$ 780,088</u>	<u>\$5,155,066</u>	<u>\$(247,499)</u>	<u>\$ -</u>	<u>\$5,687,655</u>

Depreciation expense during fiscal years 2012 and 2011 was \$127,662 and \$168,834, respectively. 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 with a total cost of \$48,617 and \$64,288 as of June 30, 2012 and 2011, respectively (see Note 7). Depreciation expense for fiscal years 2012 and 2011 for equipment under capital lease was \$10,642 and \$9,950, respectively. As of June 30, 2012 and 2011, accumulated depreciation was \$19,831 and \$17,369, respectively, on these assets.

Construction in Progress

HFI and Affiliates have incurred predevelopment costs as of June 30, 2012 and 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 and MM Homes have received funding commitments totaling \$2,737,000 and \$1,455,000 as of June 30, 2012 and 2011, respectively, in connection with these projects (see Notes 4 and 6). Construction in progress on these properties totaled \$2,726,089 and \$811,416 as of June 30, 2012 and 2011, respectively, and consisted of predevelopment costs on these properties, net of \$137,402 of rental income received by MM Homes during 2012 used to offset capitalized relocation costs (see page 12).

**HOUSING FAMILIES INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATING FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**  
(Continued)

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

**SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Capitalized Costs and Amortization

Capitalized costs consist of the following at June 30:

	<u>2012</u>	<u>2011</u>
Mortgage financing fees	\$47,870	\$47,870
Low-income housing tax credit application fees	<u>35,000</u>	<u>35,000</u>
	82,870	82,870
Less - accumulated amortization	<u>34,841</u>	<u>30,113</u>
	<u>\$48,029</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. Amortization expense for fiscal years 2012 and 2011 was \$4,728 and \$5,130, respectively.

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 years ended June 30:

	<u>2012</u>	<u>2011</u>
Contracted services	\$127,793	\$ 89,575
Program supplies	<u>58,755</u>	<u>48,283</u>
	<u>\$186,548</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.

Advertising

Advertising costs are expensed as incurred.

**HOUSING FAMILIES INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATING FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**  
(Continued)

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

**SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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, 2012, 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 November 13, 2012, which is the date the consolidating financial statements were available to be issued. Events that met the criteria for disclosure in the consolidating financial statements are disclosed in Note 4.

**(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 CSLP.

**Malden Medford Homes LLC** (MM Homes) is a single member limited liability company formed in January, 2011, with HFI as its sole member. 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 shares common Board of Director membership with HFI. HFI Properties is organized exclusively as a title holding corporation under Section 501(c)(2) of the IRC.

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

**HOUSING FAMILIES INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATING FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**  
(Continued)

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

Consolidating Entities (Continued)

Transactions among the entities described on page 16 and HFI are as follows:

The Project was developed by HFI. HFI has an agreement with CSLP to receive a development fee for various services rendered in connection with the development of the Project. These fees are payable from development financing, cash flow or from the proceeds of sale or refinancing or at the latest December 31, 2018. The Project did not make any development fee payments to HFI during fiscal years 2012 and 2011. The unpaid development and overhead fee reimbursements were \$184,872 as of June 30, 2012 and 2011, and are included in due to affiliate in the accompanying consolidating statements of financial position. This note is secured by a third mortgage on the property.

HFI provides management services and staff to CSLP. HFI billed CSLP \$15,941 and \$16,844 for these services during fiscal years 2012 and 2011, respectively. These amounts are included in management fees, program income and other and management fee expense in the accompanying consolidating financial statements.

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

HFI has a 5.375% note receivable from CSLP of \$998,598, of which \$805,583 has been advanced at June 30, 2012 and 2011. Principal and interest are due annually if certain cash flow, as defined in the agreement, is achieved. There were no payments due for fiscal years 2012 and 2011. Interest compounds annually. All unpaid principal and deferred interest are due in full on July 23, 2033. For fiscal years 2012 and 2011, deferred interest expense on this loan was \$61,890 and \$59,374, respectively. This note is secured by a third mortgage on CSLP's property.

CSLP 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 fiscal years 2012 and 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 CSLP to the extent that operating deficits exceed the funds available in the operating reserve accounts (see Note 8).

CSLP pays certain expenses of the General Partner. As of June 30, 2012 and 2011, the General Partner owed CSLP \$3,376 and \$1,855, respectively.

During fiscal year 2012, HFI transferred property with a net book value of \$718,024 and construction in progress with a cost basis of \$174,514 to MM Homes in order to renovate the property. In addition to the transfer of property and construction in progress, HFI transferred the related long-term debt, accrued interest and contingent debt totaling \$810,963 (see Notes 4 and 6).

**HOUSING FAMILIES INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATING FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**  
(Continued)

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

Consolidating Entities (Continued)

HFI has an agreement with MM Homes and HFI Properties to receive a development fee for various services rendered in connection with the development of the property of MM Homes and HFI Properties. For the year ended June 30, 2012, the total amount of developer fee paid in connection with these developments was \$40,000 and is included in management fees, program income and other in the accompanying consolidating statement of activities for the year ended June 30, 2012.

Due from affiliate consists of the following at June 30:

	<u>2012</u>	<u>2011</u>
Sponsor loan receivable	\$ 805,583	\$ 805,583
Interest receivable on sponsor loan	407,685	345,795
Development fee receivable	184,872	184,872
Miscellaneous	75,342	32,201
Management fee	<u>14,860</u>	<u>10,334</u>
Total due from affiliate	1,488,342	1,378,785
Less - current portion	<u>84,191</u>	<u>42,535</u>
Due from affiliate, net of current portion	<u>\$1,404,151</u>	<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 CSLP to the extent that operating deficits exceed the funds available in CSLP's operating reserve account. There were no operating deficit contributions made during fiscal years 2012 and 2011.

**(3) FUNDING**

HFI and Affiliates receive a significant portion of their total unrestricted operating support and revenues (approximately 62% and 71% during fiscal years 2012 and 2011, 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 material effect on the consolidating financial position of HFI and Affiliates as of June 30, 2012, or on the changes in their net assets for the year then ended.

CSLP receives significant rental subsidies from the Malden Housing Authority (MHA) for qualified tenants. MHA has committed to provide subsidies through May, 2015. MHA provided \$246,029 and \$262,381 in rental subsidies and vacancy reimbursements to CSLP during the years ended June 30, 2012 and 2011, respectively.

**HOUSING FAMILIES INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATING FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**  
(Continued)

**(4) LONG-TERM DEBT**

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

<u>HFI</u>	<u>2012</u>	<u>2011</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 no payments made on this note during the year ended June 30, 2011. The note is secured by property in Malden, Massachusetts.	\$ -	\$ 152,065
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

**HOUSING FAMILIES INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATING FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**  
(Continued)

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

<b><u>HFI</u></b> (Continued)	<b><u>2012</u></b>	<b><u>2011</u></b>
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.	-	3,450
Total Housing Families Inc.	-	487,415

The above notes were transferred to MM Homes effective August 5, 2011.

**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 which is anticipated in fiscal year 2013. There were no payments made on this note during the year ended June 30, 2012. The note is secured by property in Malden and Medford, Massachusetts.	535,000	535,000
Note payable to MRA. Interest only payments are due annually each December of no more than 25% of cash flows of the property as defined in the agreement. The note matures in November, 2041, and is secured by property located in Malden, Massachusetts. No payments of principal and/or interest have been made since inception of this loan.	219,137	-
5.75% interest bearing note payable to a financial institution. Interest only payments are due through November, 2012. Commencing December, 2012, principal and interest payments of \$2,359 are due monthly. This note matures in November, 2021, and is secured by property located in Malden, Massachusetts.	50,000	-
Non-interest bearing note payable with the Department of Housing and Urban Development (HUD). All outstanding principal is due on demand if there is a default under the loan agreement or the property is transferred. The note is secured by property in Malden, Massachusetts.	40,000	-
Total HFI Properties	844,137	535,000

**HOUSING FAMILIES INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATING FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**  
(Continued)

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

	<u>2012</u>	<u>2011</u>
<b><u>MM Homes</u></b>		
2% interest bearing note payable to MRA. Principal and interest payments of \$1,158 are due quarterly. The note matures in April, 2027, and is secured by property located in Malden, Massachusetts.	60,000	-
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.	10,548	-
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>1,708</u>	<u>-</u>
Total MM Homes	<u>72,256</u>	<u>-</u>
The above notes were transferred from HFI effective August 5, 2011.		
<b><u>CSLP</u></b>		
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.	1,203,534	1,223,941
4.17% note payable to MRA. CSLP makes monthly principal and interest payments of \$2,686, with interest at 3%. The difference between the interest rate of 4.17% and the monthly payments using the 3% rate are deferred and are due at maturity. This note matures in July, 2045. This note is secured by a shared second mortgage on the property.	<u>686,345</u>	<u>697,762</u>
Total CSLP	<u>1,889,879</u>	<u>1,921,703</u>
Total long-term debt	2,806,272	2,944,118
Less - current portion	<u>588,453</u>	<u>41,755</u>
Total long-term debt, net of current portion	<u>\$2,217,819</u>	<u>\$2,902,363</u>

**HOUSING FAMILIES INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATING FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**  
(Continued)

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

Accrued interest payable on long-term debt consists of the following at June 30:

	<u>2012</u>	<u>2011</u>
Related party note payable (see Note 2)	\$407,685	\$345,795
MRA notes payable (see pages 19 - 21)	147,354	154,737
Note payable to a bank (see page 21)	<u>7,300</u>	<u>7,300</u>
	562,339	507,832
Less - current portion	7,300	7,300
Less - elimination	<u>407,685</u>	<u>345,795</u>
	<u>\$147,354</u>	<u>\$154,737</u>

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

**Fiscal Year**

2013	\$588,453
2014	\$ 67,923
2015	\$ 53,217
2016	\$ 45,434
2017	\$ 47,908

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 as of June 30, 2012 and 2011.

Subsequent to June 30, 2012, MM Homes entered into two note payable agreements with the same lender totaling \$68,267 to further develop the project (see Note 2).

**(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, 2012 and 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, 2012 and 2011), plus 1% or a minimum interest rate of 5%, whichever is greater. Collateral for borrowing on the line of credit is a security interest in all business assets. As of June 30, 2012 and 2011, there was no outstanding balance under this agreement. This agreement renews annually.

**HOUSING FAMILIES INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATING FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**  
(Continued)

**(6) CONTINGENT DEBT**

Contingent debt consists of the following at June 30:

<u>HFI</u>	<u>2012</u>	<u>2011</u>
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>-</u>	<u>60,000</u>
Total contingent debt – HFI	<u>-</u>	<u>310,000</u>

The above notes were transferred to MM Homes (see below).

**MM Homes**

Non-interest bearing note payable to MRA. Payments of 25% of net cash flow, as defined in the agreement, are due annually each December. The note matures in August, 2041, and is secured by property located in Malden, Massachusetts. No payments have been made since inception of this loan.	839,585	-
Non-interest bearing note payable with the Affordable Housing Trust Fund (AHTF). All outstanding principal is due in August, 2042. The note is secured by property in Malden, Massachusetts.	750,000	-
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>	<u>-</u>
Total contingent debt - MM Homes	<u>1,739,585</u>	<u>-</u>

**HOUSING FAMILIES INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATING FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**  
(Continued)

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

<u>CSLP</u>	<u>2012</u>	<u>2011</u>
4.17% note payable to DHCD, with interest expense compounded annually. All unpaid principal and deferred interest are due in full in August, 2033. Deferred interest on this note was \$304,638 and \$256,445 as of June 30, 2012 and 2011, respectively. This note is secured by a shared second mortgage on the property.	1,049,035	1,000,842
Non-interest bearing note payable to CEDAC in the amount of \$500,000. All principal is due on December 31, 2033. Payments are due on February 15 <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. There were no payments due as of June 30, 2012 and 2011. This note is secured by a shared second mortgage on the property.	<u>500,000</u>	<u>500,000</u>
Total contingent debt – CSLP	<u>1,549,035</u>	<u>1,500,842</u>
Total contingent debt and accrued interest	<u>\$3,288,620</u>	<u>\$1,815,842</u>

CEDAC, DHCD, AHTF 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, 2012 and 2011.

The contingent notes payable to CEDAC contain certain covenants with which HFI and Affiliates must comply. HFI and Affiliates was not in compliance with some of CEDAC's covenants at June 30, 2012. HFI and Affiliates has obtained a waiver from CEDAC of these requirements as of June 30, 2012 in January, 2013.

The remaining contingent debt agreements contain various covenants and restrictions on HFI and Affiliates as described in the agreements. HFI and Affiliates were in compliance with these covenants at June 30, 2012 and 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 \$1,119,000 and \$1,061,000 for the years ended June 30, 2012 and 2011, respectively.

HFI leases certain equipment (see Note 1) as of June 30, 2012 and 2011, under various capital lease agreements. Interest rates under these agreements range between 2.5% and 7% during fiscal years June 30, 2012 and 2011. The remaining terms of these agreements are from one to six years.

**HOUSING FAMILIES INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATING FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**  
(Continued)

(7) **LEASE AGREEMENTS** (Continued)

Future minimum lease payments under these agreements are as follows:

<u>Fiscal Year</u>	
2013	\$10,473
2014	10,307
2015	7,729
2016	4,812
2017	<u>488</u>
Total future minimum payments	33,809
Less - amounts representing interest	<u>2,102</u>
Present value of future minimum lease payments	31,707
Less - current portion	<u>9,429</u>
Long-term portion	<u>\$22,278</u>

HFI rented units to tenants under various lease agreements expiring through May, 2012. The rental income was \$16,923 and \$93,422 for fiscal years 2012 and 2011, respectively.

(8) **RESERVES AND DEPOSITS**

Reserve for Replacements

CSLP was required to establish and fund a reserve for replacements. The reserve for replacements is to be used to fund capital improvements and is held with Eagle Bank. In fiscal years 2012 and 2011, CSLP was required to make monthly deposits of approximately \$782 and \$752, respectively, into this account. The required monthly deposits increase by 4% per year. CSLP was required to make an additional deposit of \$1,546 during fiscal year 2012 to this account. As of June 30, 2012 and 2011, this account was adequately funded.

Operating Reserve

CSLP 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. CSLP is required to deposit the lesser of 2% of project expenses or net cash flow annually into the operating reserve until the operating reserve reaches a balance equal to 50% of project expenses, as defined in CSLP agreement (approximately \$176,000 and \$182,000 as of June 30, 2012 and 2011, respectively). There is no deposit due to the operating reserve in fiscal year 2013 based on 2012 cash flows.

The following is a summary of the activity in reserves and deposits as of June 30:

	<b>2012</b>			
	<b>Beginning Balance</b>	<b>Additions and Interest</b>	<b>Withdrawals and Transfers</b>	<b>Ending Balance</b>
Operating reserve	<u>\$180,078</u>	<u>\$ 290</u>	<u>\$ 752</u>	<u>\$179,616</u>
Reserve for replacements	<u>\$ 51,495</u>	<u>\$10,047</u>	<u>\$ -</u>	<u>\$ 61,542</u>

**HOUSING FAMILIES INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATING FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**  
(Continued)

(8) **RESERVES AND DEPOSITS** (Continued)

	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) **CONCENTRATIONS**

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

Approximately 92% and 62% of HFI's accounts and pledges receivable were due from two and one funding source, respectively, as of June 30, 2012 and 2011, respectively.

(10) **RECLASSIFICATION**

Certain amounts in the June 30, 2011 consolidating financial statements have been reclassified to conform with the June 30, 2012 consolidating financial statement presentation.