



AND AFFILIATES

**CONSOLIDATING FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012
TOGETHER WITH
INDEPENDENT AUDITOR'S REPORT**

HOUSING FAMILIES INC. AND AFFILIATES

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JUNE 30, 2013 AND 2012**

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Consolidating Financial Statements

We have audited the accompanying consolidating financial statements of Housing Families Inc. (a Massachusetts corporation, not for profit) and its Affiliates, which comprise the consolidating statements of financial position as of June 30, 2013 and 2012, and the related consolidating statements of activities, changes in entities' equity, cash flows and functional expenses for the years then ended, and the related notes to the consolidating financial statements.

Management's Responsibility for the Consolidating Financial Statements

Management is responsible for the preparation and fair presentation of these consolidating financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidating financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidating financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidating financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidating financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidating financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidating financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidating financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

In our opinion, the consolidating financial statements referred to on page one present fairly, in all material respects, the consolidating financial position of Housing Families Inc. and Affiliates as of June 30, 2013 and 2012, and the changes in their entities' equity and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

Boston, Massachusetts
November 4, 2013

HOUSING FAMILIES INC. AND AFFILIATES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2013

<u>ASSETS</u>	HFI PROPERTIES, INC.			<u>TOTAL</u>	<u>CROSS STREET HOUSING LP</u>	<u>ELIMI- NATIONS</u>	<u>TOTAL</u>
	<u>HOUSING FAMILIES INC.</u>	<u>AND AFFILIATE (EXHIBIT A)</u>	<u>ELIMI- NATIONS</u>				
CURRENT ASSETS:							
Cash	\$ 191,993	\$ 286,482	\$ -	\$ 478,475	\$ 29,537	\$ -	\$ 508,012
Accounts and pledges receivable	347,827	5,777	-	353,604	2,965	-	356,569
Prepaid expenses	14,488	2,025	-	16,513	747	-	17,260
Current portion of due from affiliates	137,897	-	(133,563)	4,334	-	(4,334)	-
Total current assets	692,205	294,284	(133,563)	852,926	33,249	(4,334)	881,841
RESERVES AND DEPOSITS:							
Operating reserve	-	-	-	-	179,799	-	179,799
Reserve for replacements	-	-	-	-	71,180	-	71,180
Security deposits	26,909	9,752	-	36,661	19,074	-	55,735
Total reserves and deposits	26,909	9,752	-	36,661	270,053	-	306,714
OTHER ASSETS:							
Property and equipment, net	49,930	4,311,795	(73,988)	4,287,737	4,887,142	(187,499)	8,987,380
Capitalized costs, net	-	36,354	-	36,354	43,301	-	79,655
Due from affiliates, net of current portion	1,475,069	-	-	1,475,069	-	(1,475,069)	-
Total other assets	1,524,999	4,348,149	(73,988)	5,799,160	4,930,443	(1,662,568)	9,067,035
Total assets	<u>\$ 2,244,113</u>	<u>\$ 4,652,185</u>	<u>\$ (207,551)</u>	<u>\$ 6,688,747</u>	<u>\$ 5,233,745</u>	<u>\$ (1,666,902)</u>	<u>\$ 10,255,590</u>
LIABILITIES AND ENTITIES' EQUITY							
CURRENT LIABILITIES:							
Current portion of long-term debt	\$ -	\$ 75,167	\$ -	\$ 75,167	\$ 35,567	\$ -	\$ 110,734
Current portion of capital lease obligations	15,500	-	-	15,500	-	-	15,500
Current portion of due to affiliates	-	133,563	(133,563)	-	4,334	(4,334)	-
Current portion of accrued interest on long-term debt	-	4,383	-	4,383	7,300	-	11,683
Fiscal agent payable	23,485	-	-	23,485	-	-	23,485
Deferred revenue	-	208	-	208	16	-	224
Accounts payable	7,485	4,264	-	11,749	-	-	11,749
Accrued expenses	149,668	9,333	-	159,001	4,805	-	163,806
Total current liabilities	196,138	226,918	(133,563)	289,493	52,022	(4,334)	337,181
LONG-TERM LIABILITIES:							
Accounts payable - construction	-	173,377	-	173,377	-	-	173,377
Security deposits payable	26,909	9,752	-	36,661	19,074	-	55,735
Long-term debt, net of current portion	-	1,630,949	-	1,630,949	1,821,055	-	3,452,004
Capital lease obligations, net of current portion	36,629	-	-	36,629	-	-	36,629
Due to affiliates, net of current portion	-	-	-	-	1,002,711	(1,002,711)	-
Accrued interest on long-term debt, net of current portion	-	-	-	-	630,034	(472,358)	157,676
Contingent debt and deferred interest	-	2,581,099	-	2,581,099	1,592,767	-	4,173,866
Total long-term liabilities	63,538	4,395,177	-	4,458,715	5,065,641	(1,475,069)	8,049,287
Total liabilities	259,676	4,622,095	(133,563)	4,748,208	5,117,663	(1,479,403)	8,386,468
ENTITIES' EQUITY							
Unrestricted:							
Operating	422,367	243,635	-	666,002	203,893	-	869,895
Property and equipment	(2,199)	(213,545)	(73,988)	(289,732)	(87,811)	1,171,562	794,019
Housing development	1,475,069	-	-	1,475,069	-	(1,475,069)	-
Total unrestricted	1,895,237	30,090	(73,988)	1,851,339	116,082	(303,507)	1,663,914
Temporarily restricted	89,200	-	-	89,200	-	-	89,200
Total Housing Families entities' equity	1,984,437	30,090	(73,988)	1,940,539	116,082	(303,507)	1,753,114
Non-controlling interest	-	-	-	-	-	116,008	116,008
Total entities' equity	1,984,437	30,090	(73,988)	1,940,539	116,082	(187,499)	1,869,122
Total liabilities and entities' equity	<u>\$ 2,244,113</u>	<u>\$ 4,652,185</u>	<u>\$ (207,551)</u>	<u>\$ 6,688,747</u>	<u>\$ 5,233,745</u>	<u>\$ (1,666,902)</u>	<u>\$ 10,255,590</u>

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

HOUSING FAMILIES INC. AND AFFILIATES

**CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2012**

<u>ASSETS</u>	<u>HOUSING FAMILIES INC.</u>	<u>HFI PROPERTIES, INC. AND AFFILIATE (EXHIBIT A)</u>	<u>ELIMI- NATIONS</u>	<u>TOTAL</u>	<u>CROSS STREET HOUSING LP</u>	<u>ELIMI- NATIONS</u>	<u>TOTAL</u>
CURRENT ASSETS:							
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	<u>770,449</u>	<u>164,727</u>	<u>(77,443)</u>	<u>857,733</u>	<u>23,895</u>	<u>(8,849)</u>	<u>872,779</u>
RESERVES AND DEPOSITS:							
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	<u>23,508</u>	<u>4,100</u>	<u>-</u>	<u>27,608</u>	<u>253,182</u>	<u>-</u>	<u>280,790</u>
OTHER ASSETS:							
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 affiliates, net of current portion	1,404,151	-	-	1,404,151	-	(1,404,151)	-
Total other assets	<u>1,437,606</u>	<u>3,484,113</u>	<u>(40,000)</u>	<u>4,881,719</u>	<u>5,069,133</u>	<u>(1,621,650)</u>	<u>8,329,202</u>
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>
LIABILITIES AND ENTITIES' EQUITY							
CURRENT LIABILITIES:							
Current portion of long-term debt	\$ -	\$ 19,825	\$ -	\$ 19,825	\$ 33,628	\$ -	\$ 53,453
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	-	-	7,954	4,142	-	12,096
Accrued expenses	128,389	-	-	128,389	6,450	-	134,839
Total current liabilities	<u>283,622</u>	<u>100,638</u>	<u>(77,443)</u>	<u>306,817</u>	<u>60,522</u>	<u>(8,849)</u>	<u>358,490</u>
LONG-TERM LIABILITIES:							
Accounts payable - construction	-	718,722	-	718,722	-	-	718,722
Security deposits payable	23,508	4,100	-	27,608	12,024	-	39,632
Long-term debt, net of current portion	-	1,092,016	-	1,092,016	1,856,251	-	2,948,267
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	-	1,544,137	-	1,544,137	1,549,035	-	3,093,172
Total long-term liabilities	<u>45,786</u>	<u>3,358,975</u>	<u>-</u>	<u>3,404,761</u>	<u>4,968,815</u>	<u>(1,404,151)</u>	<u>6,969,425</u>
Total liabilities	<u>329,408</u>	<u>3,459,613</u>	<u>(77,443)</u>	<u>3,711,578</u>	<u>5,029,337</u>	<u>(1,413,000)</u>	<u>7,327,915</u>
ENTITIES' EQUITY							
Unrestricted:							
Operating	453,148	161,357	-	574,505	183,917	-	758,422
Property and equipment	1,748	31,970	(40,000)	33,718	132,956	869,853	1,036,527
Housing development	1,404,151	-	-	1,404,151	-	(1,404,151)	-
Total unrestricted	<u>1,859,047</u>	<u>193,327</u>	<u>(40,000)</u>	<u>2,012,374</u>	<u>316,873</u>	<u>(534,298)</u>	<u>1,794,949</u>
Temporarily restricted	43,108	-	-	43,108	-	-	43,108
Total Housing Families entities' equity	<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>
Non-controlling interest	-	-	-	-	-	316,799	316,799
Total entities' equity	<u>1,902,155</u>	<u>193,327</u>	<u>(40,000)</u>	<u>2,055,482</u>	<u>316,873</u>	<u>(217,499)</u>	<u>2,154,856</u>
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 ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013**

	HOUSING FAMILIES INC.	HFI PROPERTIES, INC. AND AFFILIATE (EXHIBIT B)	ELIMI- NATIONS	TOTAL	CROSS STREET HOUSING LP	ELIMI- NATIONS	TOTAL
CHANGES IN UNRESTRICTED NET ASSETS:							
OPERATING SUPPORT AND REVENUES:							
Program service fees	\$ 2,591,140	\$ -	\$ -	\$ 2,591,140	\$ -	\$ -	\$ 2,591,140
Rental income, net of vacancies	-	229,596	(96,120)	133,476	374,753	(30,000)	478,229
Special event	336,408	-	-	336,408	-	-	336,408
Grants	262,723	-	-	262,723	-	-	262,723
Contributions	212,133	-	-	212,133	-	-	212,133
Donated goods and services	163,546	-	-	163,546	-	-	163,546
Management fees, program income and other	110,094	5,985	(47,235)	68,844	7,784	(16,107)	60,521
Net assets released from program restrictions	43,108	-	-	43,108	-	-	43,108
Total operating support and revenues	<u>3,719,152</u>	<u>235,581</u>	<u>(143,355)</u>	<u>3,811,378</u>	<u>382,537</u>	<u>(46,107)</u>	<u>4,147,808</u>
OPERATING EXPENSES:							
Program services	2,850,302	-	(96,120)	2,754,182	-	(23,572)	2,730,610
General and administrative	327,621	-	-	327,621	-	(3,482)	324,139
Fundraising	553,942	-	-	553,942	-	(2,946)	550,996
Real Estate Development	-	142,285	(11,471)	130,814	-	-	130,814
Cross Street Housing, LP	-	-	-	-	325,911	(16,107)	309,804
Total operating expenses before depreciation and amortization	<u>3,731,865</u>	<u>142,285</u>	<u>(107,591)</u>	<u>3,766,559</u>	<u>325,911</u>	<u>(46,107)</u>	<u>4,046,363</u>
Depreciation and amortization	<u>15,770</u>	<u>151,931</u>	<u>(1,776)</u>	<u>165,925</u>	<u>138,690</u>	<u>(30,000)</u>	<u>274,615</u>
Total operating expenses	<u>3,747,635</u>	<u>294,216</u>	<u>(109,367)</u>	<u>3,932,484</u>	<u>464,601</u>	<u>(76,107)</u>	<u>4,320,978</u>
Changes in unrestricted net assets from operations	(28,483)	(58,635)	(33,988)	(121,106)	(82,064)	30,000	(173,170)
NON-OPERATING ACTIVITIES:							
Forgiveness of debt	-	10,666	-	10,666	-	-	10,666
Deferred interest income	64,673	-	-	64,673	-	(64,673)	-
Deferred interest expense	-	(4,383)	-	(4,383)	(118,727)	64,673	(58,437)
Loss on disposal of property and equipment	-	(110,885)	-	(110,885)	-	-	(110,885)
Changes in unrestricted net assets	<u>36,190</u>	<u>(163,237)</u>	<u>(33,988)</u>	<u>(161,035)</u>	<u>(200,791)</u>	<u>30,000</u>	<u>(331,826)</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:							
Contributions	89,200	-	-	89,200	-	-	89,200
Net assets released from program restrictions	<u>(43,108)</u>	<u>-</u>	<u>-</u>	<u>(43,108)</u>	<u>-</u>	<u>-</u>	<u>(43,108)</u>
Changes in temporarily restricted net assets	<u>46,092</u>	<u>-</u>	<u>-</u>	<u>46,092</u>	<u>-</u>	<u>-</u>	<u>46,092</u>
Changes in net assets	82,282	(163,237)	(33,988)	(114,943)	(200,791)	30,000	(285,734)
CHANGES IN NET ASSETS ATTRIBUTABLE TO NON-CONTROLLING INTEREST							
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>200,791</u>	<u>-</u>	<u>200,791</u>
Changes in net assets attributable to Housing Families	<u>\$ 82,282</u>	<u>\$ (163,237)</u>	<u>\$ (33,988)</u>	<u>\$ (114,943)</u>	<u>\$ -</u>	<u>\$ 30,000</u>	<u>\$ (84,943)</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

	HOUSING FAMILIES INC.	HFI PROPERTIES, INC. AND AFFILIATE (EXHIBIT B)	ELIMI- NATIONS	TOTAL	CROSS STREET HOUSING LP	ELIMI- NATIONS	TOTAL
CHANGES IN UNRESTRICTED NET ASSETS:							
OPERATING SUPPORT AND REVENUES:							
Program service fees	\$ 2,560,263	\$ -	\$ -	\$ 2,560,263	\$ -	\$ -	\$ 2,560,263
Rental income, net of vacancies	16,923	9,048	-	25,971	339,195	(30,000)	335,166
Grants	482,248	-	-	482,248	-	-	482,248
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
Total operating support and revenues	<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>
OPERATING EXPENSES:							
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	<u>23,700</u>	<u>-</u>	<u>-</u>	<u>23,700</u>	<u>138,690</u>	<u>(30,000)</u>	<u>132,390</u>
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)
NON-OPERATING ACTIVITIES:							
Capital grants	-	90,916	-	90,916	-	-	90,916
Deferred interest income	61,890	-	-	61,890	-	(61,890)	-
Deferred interest expense	-	-	-	-	(113,700)	61,890	(51,810)
Loss on disposal of property and equipment	(6,090)	-	-	(6,090)	-	-	(6,090)
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>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:							
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)
CHANGES IN NET ASSETS ATTRIBUTABLE TO NON-CONTROLLING INTEREST							
	<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 STATEMENTS OF CHANGES IN ENTITIES' EQUITY
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	<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>
BALANCE, June 30, 2011	\$ 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>
BALANCE, June 30, 2012	1,902,155	193,327	(40,000)	2,055,482	316,873	(534,298)	1,838,057	316,799	2,154,856
Changes in net assets	<u>82,282</u>	<u>(163,237)</u>	<u>(33,988)</u>	<u>(114,943)</u>	<u>(200,791)</u>	<u>230,791</u>	<u>(84,943)</u>	<u>(200,791)</u>	<u>(285,734)</u>
BALANCE, June 30, 2013	<u>\$ 1,984,437</u>	<u>\$ 30,090</u>	<u>\$ (73,988)</u>	<u>\$ 1,940,539</u>	<u>\$ 116,082</u>	<u>\$ (303,507)</u>	<u>\$ 1,753,114</u>	<u>\$ 116,008</u>	<u>\$ 1,869,122</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, 2013

	<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>
CASH FLOWS FROM OPERATING ACTIVITIES:					
Changes in net assets	\$ 82,282	\$ (163,237)	\$ (200,791)	\$ (3,988)	\$ (285,734)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:					
Depreciation	15,770	150,161	133,962	(31,776)	268,117
Amortization	-	1,770	4,728	-	6,498
Forgiveness of debt	-	(10,666)	-	-	(10,666)
Deferred interest	-	4,383	118,727	(64,673)	58,437
Loss on disposal of property and equipment	-	110,885	-	-	110,885
Bad debt	-	-	2,689	-	2,689
Changes in operating assets and liabilities:					
Accounts and pledges receivable	(112,607)	(5,777)	(757)	-	(119,141)
Prepaid expenses	48,088	(2,025)	(747)	-	45,316
Due to/from affiliates	(124,624)	58,221	1,730	64,673	-
Fiscal agent payable	(11,195)	-	-	-	(11,195)
Deferred revenue	(103,170)	(3,162)	(137)	-	(106,469)
Accounts payable	(469)	(20,823)	(4,142)	-	(25,434)
Accrued expenses	21,279	9,333	(1,645)	-	28,967
Net cash provided by (used in) operating activities	<u>(184,646)</u>	<u>129,063</u>	<u>53,617</u>	<u>(35,764)</u>	<u>(37,730)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:					
Acquisition of property and equipment	-	(1,608,986)	-	35,764	(1,573,222)
Interest earned on operating reserve	-	-	(183)	-	(183)
Deposits to and interest earned on reserve for replacements	-	-	(9,638)	-	(9,638)
Net cash used in investing activities	<u>-</u>	<u>(1,608,986)</u>	<u>(9,821)</u>	<u>35,764</u>	<u>(1,583,043)</u>
CASH FLOW FROM FINANCING ACTIVITIES:					
Proceeds from contingent debt	-	1,047,628	-	-	1,047,628
Proceeds from long-term debt	-	604,692	-	-	604,692
Cash paid for capitalized costs	-	(38,124)	-	-	(38,124)
Principal payments on long-term debt	-	(10,417)	(33,257)	-	(43,674)
Principal payments on capital lease obligations	(11,823)	-	-	-	(11,823)
Net cash provided by (used in) financing activities	<u>(11,823)</u>	<u>1,603,779</u>	<u>(33,257)</u>	<u>-</u>	<u>1,558,699</u>
NET INCREASE (DECREASE) IN CASH	(196,469)	123,856	10,539	-	(62,074)
CASH, beginning of year	<u>388,462</u>	<u>162,626</u>	<u>18,998</u>	<u>-</u>	<u>570,086</u>
CASH, end of year	<u>\$ 191,993</u>	<u>\$ 286,482</u>	<u>\$ 29,537</u>	<u>\$ -</u>	<u>\$ 508,012</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:					
Cash paid for interest	<u>\$ 1,085</u>	<u>\$ 17,487</u>	<u>\$ 114,386</u>	<u>\$ -</u>	<u>\$ 132,958</u>
NON-CASH INVESTING TRANSACTIONS:					
Disposal of property and equipment	<u>\$ -</u>	<u>\$ 288,534</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 288,534</u>
Property and equipment included in accounts payable	<u>\$ -</u>	<u>\$ 173,377</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 173,377</u>
Equipment acquired under capital lease obligation	<u>\$ 32,245</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 32,245</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>
CASH FLOWS FROM OPERATING ACTIVITIES:					
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 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 to/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)
Accrued expenses	(1,275)	-	680	-	(595)
Net cash provided by operating activities	<u>52,583</u>	<u>152,076</u>	<u>43,515</u>	<u>(40,000)</u>	<u>208,174</u>
CASH FLOWS FROM INVESTING ACTIVITIES:					
Deposits to and interest earned on 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 used in investing activities	<u>-</u>	<u>(1,435,552)</u>	<u>(9,585)</u>	<u>40,000</u>	<u>(1,405,137)</u>
CASH FLOW FROM FINANCING ACTIVITIES:					
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>
NET INCREASE IN CASH	36,277	154,451	2,106	-	192,834
CASH, beginning of year	352,185	8,175	16,892	-	377,252
CASH, end of year	<u>\$ 388,462</u>	<u>\$ 162,626</u>	<u>\$ 18,998</u>	<u>\$ -</u>	<u>\$ 570,086</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:					
Cash paid for interest	<u>\$ 2,210</u>	<u>\$ -</u>	<u>\$ 105,818</u>	<u>\$ -</u>	<u>\$ 108,028</u>
NON-CASH INVESTING AND FINANCING TRANSACTIONS:					
Increase in construction in progress financed by accounts payable	<u>\$ -</u>	<u>\$ 693,635</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 693,635</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, 2013
(With Summarized Comparative Totals for the Year Ended June 30, 2012)

	2013					2012				
	HOUSING FAMILIES INC.									
	SUPPORT SERVICES					HFI		CROSS	ELIMI-	
	GENERAL	AND	TOTAL		PROPERTY, INC.	CROSS	NATIONS	TOTAL	TOTAL	
PROGRAM	ADMINIS-	FUNDRAISING	SUPPORT	TOTAL	AND AFFILIATE	STREET				
SERVICES	TRATIVE		SERVICES		(EXHIBIT B)	HOUSING LP				
PERSONNEL AND RELATED COSTS:										
Salaries	\$ 958,338	\$ 164,232	\$ 246,614	\$ 410,846	\$ 1,369,184	\$ -	\$ 8,772	\$ -	\$ 1,377,956	\$ 1,407,268
Payroll taxes and benefits	231,069	29,673	42,393	72,066	303,135	-	1,928	-	305,063	271,470
Temporary help	17,448	206	7,105	7,311	24,759	-	-	-	24,759	18,458
Total personnel and related costs	1,206,855	194,111	296,112	490,223	1,697,078	-	10,700	-	1,707,778	1,697,196
OCCUPANCY:										
Rent	1,141,781	3,482	2,946	6,428	1,148,209	-	-	(126,120)	1,022,089	1,118,940
Utilities	60,871	2,706	153	2,859	63,730	35,371	57,736	-	156,837	116,686
Interest	-	-	-	-	-	17,487	114,386	-	131,873	106,583
Repairs and maintenance	22,603	6,053	-	6,053	28,656	37,313	45,613	-	111,582	74,594
Taxes and insurance	635	-	-	-	635	36,661	37,804	-	75,100	45,846
Extermination contract	13,596	-	-	-	13,596	-	5,890	-	19,486	14,603
Non-capital equipment	7,101	-	-	-	7,101	500	1,495	-	9,096	2,915
Total occupancy	1,246,587	12,241	3,099	15,340	1,261,927	127,332	262,924	(126,120)	1,526,063	1,480,167
OTHER:										
Donated goods and services	163,546	-	-	-	163,546	-	-	-	163,546	186,548
Special event	-	-	128,157	128,157	128,157	-	-	-	128,157	-
Office supplies and equipment	36,349	17,964	30,481	48,445	84,794	478	1,753	-	87,025	70,577
Consultants	25,433	35,068	16,842	51,910	77,343	1,485	3,605	-	82,433	57,066
Printing and postage	10,955	3,230	48,330	51,560	62,515	-	-	-	62,515	30,541
Professional fees	1,445	41,290	-	41,290	42,735	100	19,008	-	61,843	86,926
Telephone	47,660	3,597	2,539	6,136	53,796	-	348	-	54,144	46,877
Training and travel	23,842	5,242	8,468	13,710	37,552	-	-	-	37,552	33,701
Vehicle costs	25,931	-	-	-	25,931	-	-	-	25,931	28,236
Grant expense	23,290	-	-	-	23,290	-	-	-	23,290	24,223
Miscellaneous	8,604	2,858	427	3,285	11,889	1,419	8,777	-	22,085	22,518
Advertising	12,098	-	7,412	7,412	19,510	-	-	-	19,510	7,792
Insurance	9,560	8,738	-	8,738	18,298	-	-	-	18,298	17,457
Dues and subscriptions	3,201	2,924	12,075	14,999	18,200	-	-	-	18,200	11,038
Client pass-through grants	4,219	-	-	-	4,219	-	-	-	4,219	15,424
Bad debt	-	-	-	-	-	-	2,689	-	2,689	-
Interest	727	358	-	358	1,085	-	-	-	1,085	1,445
Management fees	-	-	-	-	-	11,471	16,107	(27,578)	-	-
Total other	396,860	121,269	254,731	376,000	772,860	14,953	52,287	(27,578)	812,522	640,369
Total expenses before depreciation and amortization	2,850,302	327,621	553,942	881,563	3,731,865	142,285	325,911	(153,698)	4,046,363	3,817,732
DEPRECIATION AND AMORTIZATION	10,101	5,669	-	5,669	15,770	151,931	138,690	(31,776)	274,615	132,390
Total expenses	\$ 2,860,403	\$ 333,290	\$ 553,942	\$ 887,232	\$ 3,747,635	\$ 294,216	\$ 464,601	\$ (185,474)	\$ 4,320,978	\$ 3,950,122

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

	HOUSING FAMILIES INC.				TOTAL	HFI PROPERTIES, INC. AND AFFILIATE (EXHIBIT B)	CROSS STREET HOUSING LP	ELIMI- NATIONS	TOTAL
	PROGRAM SERVICES	GENERAL AND ADMINIS- TRATIVE	FUNDRAISING	TOTAL SUPPORT SERVICES					
PERSONNEL AND RELATED COSTS:									
Salaries	\$ 1,027,281	\$ 126,420	\$ 253,567	\$ 379,987	\$ 1,407,268	\$ -	\$ -	\$ -	\$ 1,407,268
Payroll taxes and benefits	208,487	27,921	35,062	62,983	271,470	-	-	-	271,470
Temporary help	17,901	198	359	557	18,458	-	-	-	18,458
Total personnel and related costs	<u>1,253,669</u>	<u>154,539</u>	<u>288,988</u>	<u>443,527</u>	<u>1,697,196</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,697,196</u>
OCCUPANCY:									
Rent	1,141,511	4,483	2,946	7,429	1,148,940	-	-	(30,000)	1,118,940
Utilities	57,989	2,371	212	2,583	60,572	202	55,912	-	116,686
Interest	765	-	-	-	765	-	105,818	-	106,583
Repairs and maintenance	16,001	4,880	12	4,892	20,893	593	53,108	-	74,594
Taxes and insurance	10,668	-	-	-	10,668	1,835	33,343	-	45,846
Extermination contract	7,752	-	-	-	7,752	-	6,851	-	14,603
Non-capital equipment	2,915	-	-	-	2,915	-	-	-	2,915
Total occupancy	<u>1,237,601</u>	<u>11,734</u>	<u>3,170</u>	<u>14,904</u>	<u>1,252,505</u>	<u>2,630</u>	<u>255,032</u>	<u>(30,000)</u>	<u>1,480,167</u>
OTHER:									
Donated goods and services	181,133	-	5,415	5,415	186,548	-	-	-	186,548
Office supplies and equipment	38,576	16,481	15,063	31,544	70,120	-	457	-	70,577
Consultants	24,446	20,678	8,945	29,623	54,069	-	2,997	-	57,066
Printing and postage	9,146	2,224	19,171	21,395	30,541	-	-	-	30,541
Professional fees	10,879	53,395	-	53,395	64,274	-	22,652	-	86,926
Telephone	40,069	4,044	2,342	6,386	46,455	-	422	-	46,877
Training and travel	24,227	5,284	4,190	9,474	33,701	-	-	-	33,701
Vehicle costs	28,170	33	33	66	28,236	-	-	-	28,236
Grant expense	24,223	-	-	-	24,223	-	-	-	24,223
Miscellaneous	2,843	4,415	6,397	10,812	13,655	-	8,863	-	22,518
Advertising	6,234	-	1,558	1,558	7,792	-	-	-	7,792
Insurance	13,365	3,728	364	4,092	17,457	-	-	-	17,457
Dues and subscriptions	255	1,660	9,123	10,783	11,038	-	-	-	11,038
Client pass-through grants	11,900	-	3,524	3,524	15,424	-	-	-	15,424
Interest	974	471	-	471	1,445	-	-	-	1,445
Management fees	-	-	-	-	-	-	15,941	(15,941)	-
Total other	<u>416,440</u>	<u>112,413</u>	<u>76,125</u>	<u>188,538</u>	<u>604,978</u>	<u>-</u>	<u>51,332</u>	<u>(15,941)</u>	<u>640,369</u>
Total expenses before depreciation and amortization	2,907,710	278,686	368,283	646,969	3,554,679	2,630	306,364	(45,941)	3,817,732
DEPRECIATION AND AMORTIZATION	<u>18,028</u>	<u>5,672</u>	<u>-</u>	<u>5,672</u>	<u>23,700</u>	<u>-</u>	<u>138,690</u>	<u>(30,000)</u>	<u>132,390</u>
Total expenses	<u>\$ 2,925,738</u>	<u>\$ 284,358</u>	<u>\$ 368,283</u>	<u>\$ 652,641</u>	<u>\$ 3,578,379</u>	<u>\$ 2,630</u>	<u>\$ 445,054</u>	<u>\$ (75,941)</u>	<u>\$ 3,950,122</u>

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

HOUSING FAMILIES INC. AND AFFILIATES
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

(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. The Board, staff and volunteers are dedicated to raising awareness of homelessness and poverty, and helping families to move into, retain and sustain permanent housing. During fiscal year 2013, HFI completed construction of a property in Revere.

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.

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.

HOUSING FAMILIES INC. AND AFFILIATES

NOTES TO CONSOLIDATING FINANCIAL STATEMENTS JUNE 30, 2013 AND 2012 (Continued)

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 in fiscal year 2012 was used to offset capitalized relocation costs, which are included in construction in progress in the accompanying June 30, 2012 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).

Temporarily restricted net assets are those unexpended financial resources that are restricted by donors as to purpose or timing of expenditure. At June 30, 2013 and 2012, all temporarily restricted net assets are purpose restricted.

Non-controlling interest represents the net capital interest of an outside investor participating in the ownership of Cross Street Housing Limited Partnership (see Note 2).

HOUSING FAMILIES INC. AND AFFILIATES

**NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012
(Continued)**

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pledges Receivable

Pledges receivable are recorded at their net present value when unconditionally committed. Pledges receivable at June 30, 2013 are expected to be collected in fiscal year 2014. Pledges receivable at June 30, 2012 were collected in fiscal year 2013.

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, 2013 and 2012.

Property, Equipment and Depreciation

Property and equipment are capitalized at cost when purchased or at fair value at the date of donation. Renewals and betterments are capitalized as additions to the related asset accounts, while repairs and maintenance are expensed as incurred. Property and equipment are depreciated using the straight-line method over the following estimated useful lives:

Buildings and improvements	20 - 40 years
Furniture and equipment	3 - 10 years
Vehicles	5 years

Construction in Progress

HFI and Affiliates have incurred predevelopment costs as of June 30, 2012, to acquire and develop a new property and renovate two existing properties in Revere, Malden, and Medford, Massachusetts. Construction in progress on these properties totaled \$2,726,089 as of June 30, 2012, and consisted of predevelopment costs on these properties, net of \$137,402 of rental income received by MM Homes during fiscal year 2012 used to offset capitalized relocation costs (see page 12). These properties were placed in service as of June 30, 2013.

Capitalized Costs and Amortization

Capitalized costs consist of the following at June 30:

	<u>2013</u>	<u>2012</u>
Mortgage financing fees	\$ 85,994	\$47,870
Low-income housing tax credit application fees	<u>35,000</u>	<u>35,000</u>
	120,994	82,870
Less - accumulated amortization	<u>41,339</u>	<u>34,841</u>
	<u>\$ 79,655</u>	<u>\$48,029</u>

HOUSING FAMILIES INC. AND AFFILIATES
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012
(Continued)

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capitalized Costs and Amortization (Continued)

Mortgage financing fees are being amortized over the term of the mortgages (twenty years) (see Note 5), 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 2013 and 2012 was \$6,498 and \$4,728, respectively.

Security Deposits

Security deposits consist of tenant deposits collected upon move-in. Interest is paid annually to the tenants based on the current interest rate of the bank where the deposits are held.

Donated Goods and Services

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

	<u>2013</u>	<u>2012</u>
Contracted services	\$ 97,793	\$127,793
Program supplies	<u>65,753</u>	<u>58,755</u>
	<u>\$163,546</u>	<u>\$186,548</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.

Contingent Debt

HFI has contingent loans from various organizations to assist in the development of housing and other projects (see Note 7). These loans generally are not required to be repaid unless the project fails to maintain its status as low-income housing or HFI fails to comply with other conditions. It is the intention of the Board of Directors and management of HFI to maintain these properties as low-income housing and to meet other conditions. Therefore, these loans have been classified as contingent debt in the accompanying consolidating statements of financial position.

HOUSING FAMILIES INC. AND AFFILIATES
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012
(Continued)

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising

Advertising costs are expensed as incurred.

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, 2013, HFI and Affiliates determined that there are no material unrecognized tax benefits to report. HFI does not expect a significant increase or decrease to the total amounts of unrecognized tax benefits during fiscal year 2013. However, HFI is subject to audit by tax authorities. HFI believes that they have appropriate support for the position taken on their tax returns.

As described on page 11, HFI is exempt from income taxes under Section 501(c)(3) of the IRC. The General Partner and HFI Properties, Inc. are for-profit corporations. At June 30, 2013 and 2012, the General Partner and HFI Properties, Inc. had for Federal income tax purposes, net operating loss carryforwards of approximately \$5,900 and \$4,900, respectively. At June 30, 2013 and 2012, the General Partner and HFI Properties, Inc. had approximately \$2,600 and \$2,100 of state operating loss carryforwards, respectively. These net operating loss carryforwards are available to offset future taxable income. These carryforwards expire at various dates through 2033 for Federal carryforwards and 2018 for state carry-forwards. Following the U.S. GAAP standards for *Accounting for Income Taxes* did not have a material effect on the consolidating financial statements for the year ended June 30, 2013, since the tax benefits for the net operating loss carryforwards have been fully reserved.

Information and tax 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.

Low-Income Housing Tax Credit

CSLP has been awarded low-income housing tax credits (LIHTC) under IRC Section 42. As a condition of receiving these LIHTC, CSLP must operate its property in a manner prescribed by this Code Section and by the Tax Regulatory Agreement for a minimum of fifteen years, expiring in 2019.

Subsequent Events

Subsequent events have been evaluated through November 4, 2013, which is the date the consolidating financial statements were available to be issued.

HOUSING FAMILIES INC. AND AFFILIATES
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012
(Continued)

(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 Properties, Inc. 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 corporation formed in August, 2010. The purpose of HFI Properties is to hold title to real property for the benefit of HFI. HFI owns 100% of HFI Properties common stock.

Cross Street Housing Limited Partnership (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. Non-controlling interest represents the interests of MHEF.

Transactions among the entities described above 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 2013 and 2012. The unpaid development and overhead fee reimbursements were \$184,872 as of June 30, 2013 and 2012, 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 \$16,107 and \$15,941 for these services during fiscal years 2013 and 2012, respectively. These amounts are included in management fees, program income and other and management fee expense in the accompanying consolidating financial statements. HFI also provides management services to HFI Properties and MM Homes. HFI billed \$3,652 and \$7,819 to HFI Properties and MM Homes, respectively, during fiscal year 2013.

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, 2013 and 2012. 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 2013 and 2012. Interest compounds annually. All unpaid principal and deferred interest are due in full on July 23, 2033. For fiscal years 2013 and 2012, deferred interest expense on this loan was \$64,673 and \$61,890, respectively. This note is secured by a third mortgage on CSLP's property.

HOUSING FAMILIES INC. AND AFFILIATES
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012
(Continued)

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

Consolidating Entities (Continued)

CSLP has a lease agreement with HFI to rent its commercial space to HFI (see Note 8). 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 2013 and 2012. Under the terms of the lease agreement, rent will increase annually for increases in real estate taxes and operating expenses.

MM Homes has a lease agreement with HFI to rent program space to HFI. The monthly base rent under the lease agreement is \$8,010. This agreement renews annually, subject to HFI receiving future state contract funding to operate the program.

As part of the development of the Project, the General Partner has agreed to make contributions to fund operating deficits to CSLP to the extent that operating deficits exceed the funds available in the operating reserve accounts (see Note 9).

CSLP pays certain expenses of the General Partner. As of June 30, 2013 and 2012, the General Partner owed CSLP \$3,832 and \$3,376, 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 5 and 7). The remaining \$46,602 was financed through due from affiliate as of June 30, 2012.

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 years ended June 30, 2013 and 2012, the total amount of developer fee recognized in connection with these developments was \$35,764 and \$40,000, respectively, and is included in management fees, program income and other in the accompanying consolidating statements of activities.

Due from affiliates consists of the following at June 30:

	<u>2013</u>	<u>2012</u>
Sponsor loan receivable	\$ 805,583	\$ 805,583
Interest receivable on sponsor loan	472,358	407,685
Development fee receivable	245,237	224,872
Miscellaneous	62,210	35,342
Management fee	<u>27,578</u>	<u>14,860</u>
Total due from affiliate	1,612,966	1,488,342
Less - current portion	<u>137,897</u>	<u>84,191</u>
Due from affiliate, net of current portion	<u>\$1,475,069</u>	<u>\$1,404,151</u>

HOUSING FAMILIES INC. AND AFFILIATES
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012
(Continued)

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

Consolidating Entities (Continued)

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 2013 and 2012.

(3) **PROPERTY AND EQUIPMENT**

Property and equipment consist of the following at June 30:

<u>2013</u>	<u>HFI</u>	<u>HFI Properties, Inc. and Affiliate</u>	<u>CSLP</u>	<u>Elimi- nations</u>	<u>Total</u>
Land	\$ -	\$ 322,100	\$ 963,600	\$ -	\$ 1,285,700
Buildings and improvements	-	4,537,775	5,033,084	(525,764)	9,045,095
Furniture and equipment	76,559	26,401	49,845	-	152,805
Vehicles	60,489	-	-	-	60,489
Total cost	137,048	4,886,276	6,046,529	(525,764)	10,544,089
Less - accumulated depreciation	87,118	574,481	1,159,387	(264,277)	1,556,709
	<u>\$ 49,930</u>	<u>\$4,311,795</u>	<u>\$4,887,142</u>	<u>\$(261,487)</u>	<u>\$ 8,987,380</u>
<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	(450,000)	5,674,477
Furniture and equipment	76,559	-	49,845	-	126,404
Vehicles	28,244	-	-	-	28,244
Total cost	104,803	1,319,993	6,046,529	(450,000)	7,021,325
Less - accumulated depreciation	71,348	601,969	1,025,425	(232,501)	1,466,241
	<u>\$ 33,455</u>	<u>\$ 718,024</u>	<u>\$5,021,104</u>	<u>\$(217,499)</u>	<u>\$ 5,555,084</u>

Depreciation expense during fiscal years 2013 and 2012 was \$268,117 and \$127,662, respectively. Substantially all property and equipment are pledged as collateral on long-term and contingent debt (see Notes 5 and 7).

HOUSING FAMILIES INC. AND AFFILIATES

**NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012
(Continued)**

(3) PROPERTY AND EQUIPMENT (Continued)

HFI accounts for the carrying value of its property and equipment in accordance with U.S. GAAP standards on *Impairment of Disposal of Long-Lived Assets*. As of June 30, 2013 and 2012, HFI has not recognized any reduction in the carrying value of its property and equipment under these standards.

HFI currently has equipment and a vehicle under various capital lease agreements with a total cost of \$80,862 and \$48,617 as of June 30, 2013 and 2012, respectively (see Note 8). Depreciation expense for fiscal years 2013 and 2012 for assets under capital lease was \$13,903 and \$10,642, respectively. As of June 30, 2013 and 2012, accumulated depreciation was \$33,734 and \$19,831, respectively, on these assets.

(4) FUNDING

HFI and Affiliates receive a significant portion of their total unrestricted operating support and revenues (approximately 60% and 62% during fiscal years 2013 and 2012, 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, 2013 and 2012, or on the changes in their net assets for the years 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 \$269,254 and \$246,029 in rental subsidies and vacancy reimbursements to CSLP during the years ended June 30, 2013 and 2012, respectively.

(5) LONG-TERM DEBT

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

	<u>2013</u>	<u>2012</u>
<u>HFI Properties</u>		
5.75% interest bearing note payable to a bank. Interest only payments were due through November, 2012. Commencing in December, 2012, principal and interest payments of \$2,359 are due monthly through November, 2016. Effective in November, 2016, the interest rate shall be adjusted to the <i>Five Year Federal Home Loan Classic Advance Rate</i> plus 2.75%, but never less than 5.75%. This note matures in November, 2021 and requires a balloon payment of \$295,704 at maturity. This note is secured by property located in Revere, Massachusetts.	\$ 369,926	\$ 50,000
<u>MM Homes</u>		
Non-interest bearing note payable to Malden Redevelopment Authority (MRA). Payments of 25% of net cash flow, as defined in the agreement, are due annually each December. Based on this calculation, a payment of \$14,202 is due as of June 30, 2013. No payment was due as of June, 30, 2012. The note matures in August, 2041, and is secured by property located in Malden and Medford, Massachusetts.	876,085	839,585

HOUSING FAMILIES INC. AND AFFILIATES
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012
(Continued)

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

	<u>2013</u>	<u>2012</u>
<u>MM Homes</u> (Continued)		
Non-interest bearing note payable with the Community Economic Development Assistance Corporation (CEDAC) Housing Innovations Fund for a maximum amount of \$227,200. The note stipulates that payments of principal be made before the maturity date, if gross receipts are 105% of cash expenditures, as defined in the agreement. Based on this calculation, there was a payment due of \$25,093 as of June 30, 2013. All unpaid principal is due in August, 2042. The note is secured by property in Malden and Medford, Massachusetts.	214,925	-
Non-interest bearing note payable with the CEDAC Housing Innovations Fund II. The note stipulates that payments of principal be made before the maturity date, if gross receipts are 105% of cash expenditures, as defined in the agreement. Based on this calculation, there was a payment due of \$10,508 as of June 30, 2013. There was no payment due as of June 30, 2012. All unpaid principal is due in February, 2028. The note is secured by property in Medford, Massachusetts.	90,000	90,000
Non-interest bearing note payable with the CEDAC Housing Innovations Fund. The note stipulates that payments of principal be made before the maturity date, if gross receipts are 105% of cash expenditures, as defined in the agreement. Based on this calculation, there was a payment due of \$7,005 as of June 30, 2013. There was no payment due as of June 30, 2012. All unpaid principal is due in July, 2030. The note is secured by property in Malden, Massachusetts.	60,000	60,000
2% note payable to MRA, due in quarterly principal and interest payments of \$1,158 commencing in July, 2012. The note matures in April, 2027, and is secured by property located in Malden, Massachusetts. No payments were made on this note during fiscal year 2013.	60,000	60,000
2% note payable to MRA, due in quarterly principal and interest payments of \$731. The note matures in November, 2022, and is secured by property located in Malden, Massachusetts.	26,382	-
3% note payable to MRA, due in monthly principal and interest payments of \$171. The note matures in February, 2018, and is secured by property located in Malden, Massachusetts.	8,798	10,548
5% note payable to MRA, due in monthly principal and interest payments of \$156. This note was paid in full during fiscal year 2013, and was secured by property in Malden, Massachusetts.	-	1,708
Total MM Homes	<u>1,336,190</u>	<u>1,061,841</u>

HOUSING FAMILIES INC. AND AFFILIATES
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012
(Continued)

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

<u>CSLP</u>	<u>2013</u>	<u>2012</u>
7% note payable to a bank, due in monthly principal and interest payments of \$8,786 using a thirty-year amortization schedule. There is a balloon payment of approximately \$760,000 due on June 15, 2025. This note is secured by a first mortgage on the property.	1,181,651	1,203,534
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>674,971</u>	<u>686,345</u>
Total CSLP	<u>1,856,622</u>	<u>1,889,879</u>
Total long-term debt	3,562,738	3,001,720
Less - current portion	<u>110,734</u>	<u>53,453</u>
Total long-term debt, net of current portion	<u>\$3,452,004</u>	<u>\$2,948,267</u>

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

	<u>2013</u>	<u>2012</u>
Related party note payable (see Note 2)	\$472,358	\$407,685
MRA notes payable (see pages 19 and 20)	157,676	147,354
Note payable to a bank (see above)	<u>11,683</u>	<u>7,300</u>
	641,717	562,339
Less - current portion	11,683	7,300
Less - elimination	<u>472,358</u>	<u>407,685</u>
	<u>\$157,676</u>	<u>\$147,354</u>

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

<u>Fiscal Year</u>	
2014	\$110,734
2015	\$ 53,161
2016	\$ 55,983
2017	\$ 58,982
2018	\$ 61,264

The mortgage notes payable contain various covenants and restrictions on HFI and Affiliates as described in the agreements. HFI and Affiliates were in compliance with these covenants and restrictions as of June 30, 2013 and 2012.

HOUSING FAMILIES INC. AND AFFILIATES

**NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012
(Continued)**

(5) LONG-TERM DEBT (Continued)

The 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, 2013 and 2012. HFI and Affiliates has obtained a waiver from CEDAC of these requirements as of June 30, 2013 and 2012.

(6) NOTE PAYABLE TO A BANK

HFI has available up to \$175,000 under a line of credit agreement with a bank at June 30, 2013 and 2012. 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, 2013 and 2012), plus 1% or a minimum interest rate of 5%, whichever is greater. Collateral for borrowings on the line of credit is a security interest in all business assets. This line of credit renews annually. As of June 30, 2013 and 2012, there was no outstanding balance under this agreement.

(7) CONTINGENT DEBT

Contingent debt consists of the following at June 30:

<u>HFI Properties</u>	<u>2013</u>	<u>2012</u>
Non-interest bearing note payable to MRA. Payments are due annually each August based on 25% of net cash flow of the property, as defined in the agreement. The note matures in November, 2042, and is secured by property located in Revere, Massachusetts. No payments of principal and/or interest have been made since inception of this loan.	\$ 550,000	\$ 219,137
Non-interest bearing note payable to the Commonwealth of Massachusetts, Department of Housing and Community Development (DHCD). All outstanding principal is due in September, 2025. The note is secured by property in Revere, Massachusetts.	535,000	535,000
Non-interest bearing note payable with the City of Peabody. All outstanding principal is due on demand if there is a default under the loan agreement or the property is transferred. Commencing in February, 2017, and every year thereafter through 2027, a portion of the outstanding principal balance will be forgiven, as defined in the agreement. The note is secured by property in Revere, Massachusetts.	51,950	-
Non-interest bearing note payable with the City of Revere. All outstanding principal is due on demand if there is a default under the loan agreement or the property is sold or transferred. The note is secured by property in Revere, Massachusetts.	<u>40,000</u>	<u>40,000</u>
Total contingent debt – HFI Properties	<u>1,176,950</u>	<u>794,137</u>

HOUSING FAMILIES INC. AND AFFILIATES
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012
(Continued)

(7) **CONTINGENT DEBT** (Continued)

<u>MM Homes</u>	<u>2013</u>	<u>2012</u>
Non-interest bearing note payable with the DHCD Affordable Housing Trust Fund. All outstanding principal is due in August, 2042. The note is secured by property in Malden and Medford, Massachusetts.	750,000	750,000
Non-interest bearing note payable with the DHCD Non-Federal Investment Trust Fund. All outstanding principal is due in August, 2042. The note is secured by property in Malden and Medford, Massachusetts.	568,815	-
Non-interest bearing note payable to MRA maturing in November, 2015. Commencing on November 8, 2013, and every year thereafter, 33% of the principal amount shall be forgiven, granted MM Homes remains in compliance with certain covenants as defined in the agreement. MM Homes was in compliance with these covenants as of June 30, 2013. This note is secured by property in Malden, Massachusetts.	40,000	-
Non-interest bearing note payable to MRA maturing in August, 2015. Commencing on August 3, 2013, and every year thereafter, 33% of the principal amount shall be forgiven, granted MM Homes remains in compliance with certain covenants as defined in the agreement. MM Homes was in compliance with these covenants as of June 30, 2013. This note is secured by property in Malden, Massachusetts.	24,000	-
Non-interest bearing note payable to MRA maturing in March, 2015. Commencing on March 22, 2013, and every year thereafter, 33% of the principal amount shall be forgiven, granted MM Homes remains in compliance with certain covenants as defined in the agreement. MM Homes was in compliance with these covenants as of June 30, 2013. For the year ended June 30, 2013, \$10,666 has been forgiven under the terms of the agreement. This note is secured by property in Malden, Massachusetts.	21,334	-
Total contingent debt - MM Homes	<u>1,404,149</u>	<u>750,000</u>

HOUSING FAMILIES INC. AND AFFILIATES
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012
(Continued)

(7) **CONTINGENT DEBT** (Continued)

<u>CSLP</u>	<u>2013</u>	<u>2012</u>
4.17% note payable to DHCD, with interest compounded annually. All unpaid principal and deferred interest are due in full in August, 2033. Deferred interest on this note was \$342,767 and \$299,035 as of June 30, 2013 and 2012, respectively. This note is secured by a shared second mortgage on the property.	1,092,767	1,049,035
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 th of each year, if gross cash receipts for the year exceed 105% of gross cash expenditures for the year, as defined in the agreement. There were no payments due as of June 30, 2013 and 2012. 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>1,592,767</u>	<u>1,549,035</u>
Total contingent debt and deferred interest	<u>\$4,173,866</u>	<u>\$3,093,172</u>

CEDAC, DHCD 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.

The contingent debt agreements contain various covenants and restrictions on HFI and Affiliates as described in the agreements. HFI and Affiliates were in compliance with these covenants at June 30, 2013 and 2012.

(8) **LEASE AGREEMENTS**

HFI leases program facilities under various operating leases expiring through April 30, 2014, that are renewable annually. Rent expense under the facility leases was approximately \$1,119,000 for the years ended June 30, 2013 and 2012. The minimum lease payments under these agreements for fiscal year 2014 is approximately \$234,000.

HFI leases certain equipment (see Note 1) as of June 30, 2013 and 2012, under various capital lease agreements through June, 2017. Interest rates under these agreements range between 2.2% and 15% during fiscal years 2013 and 2012.

HOUSING FAMILIES INC. AND AFFILIATES
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012
(Continued)

(8) LEASE AGREEMENTS (Continued)

Future minimum lease payments under these agreements are as follows:

<u>Fiscal Year</u>	
2014	\$20,207
2015	17,627
2016	14,717
2017	<u>10,585</u>
Total future minimum payments	63,136
Less - amounts representing interest	<u>11,007</u>
Present value of future minimum lease payments	52,129
Less - current portion	<u>15,500</u>
Long-term portion	<u>\$36,629</u>

HFI rented units to tenants under various lease agreements expiring through May, 2012. Rental income was \$16,923 for fiscal year 2012. During fiscal year 2012, HFI transferred the rental property to MM Homes (see Note 2).

(9) 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 2013 and 2012, CSLP was required to make monthly deposits of approximately \$813 and \$782, respectively, into this account. The required monthly deposits increase by 4% per year. As of June 30, 2013 and 2012, this account was adequately funded.

HFI Properties 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 2013, HFI Properties was required to make a deposit of \$50,000 to establish the reserve for replacement account. This account was not adequately funded as of June 30, 2013. Subsequent to June 30, 2013, HFI Properties made the required deposit of \$50,000 to establish the reserve for replacements account. HFI Properties is required to deposit \$500 per unit annually into the reserve for replacements account. HFI Properties must receive approval for any withdrawals in excess of \$2,000 from the reserve for replacements account.

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 \$181,000 and \$176,000 as of June 30, 2013 and 2012, respectively). There is no deposit due to the operating reserve in fiscal year 2014 based on 2013 cash flows.

HOUSING FAMILIES INC. AND AFFILIATES
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012
(Continued)

(9) **RESERVES AND DEPOSITS** (Continued)

Operating Reserve (Continued)

HFI Properties was also required to establish and fund an operating reserve. The operating reserve is to be used to fund operating deficits, if any, and is held with Eagle Bank. In fiscal year 2013, HFI Properties was required to make a deposit totaling \$5,000 to establish the operating reserve account. The operating reserve account was not adequately funded as of June 30, 2013. Subsequent to June 30, 2013, HFI Properties made the required deposit of \$5,000 to establish this account. HFI Properties is required to deposit an amount sufficient to maintain a balance equal to 25% of the annual operating budget.

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

	2013			
	<u>Beginning Balance</u>	<u>Additions and Interest</u>	<u>Withdrawals and Transfers</u>	<u>Ending Balance</u>
Operating reserve	<u>\$179,616</u>	<u>\$ 183</u>	<u>\$ -</u>	<u>\$179,799</u>
Reserve for replacements	<u>\$ 61,542</u>	<u>\$10,238</u>	<u>\$ -</u>	<u>\$ 71,180</u>
	2012			
	<u>Beginning Balance</u>	<u>Additions and Interest</u>	<u>Withdrawals and Transfers</u>	<u>Ending Balance</u>
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>

(10) **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 96% and 92% of HFI's accounts and pledges receivable were due from two sources as of June 30, 2013 and 2012, respectively.

(11) **RECLASSIFICATION**

Certain amounts in the June 30, 2012 consolidating financial statements have been reclassified to conform with the June 30, 2013 consolidating financial statements presentation.