



AND AFFILIATES

CONSOLIDATING FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
TOGETHER WITH
INDEPENDENT AUDITOR'S REPORT

HOUSING FAMILIES INC. AND AFFILIATES

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JUNE 30, 2014 AND 2013**

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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, 2014 and 2013, and the related consolidating statements of activities, changes in entities' equity (deficit), 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.

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, 2014 and 2013, and the changes in their entities' equity (deficit) and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

Boston, Massachusetts
October 16, 2014

HOUSING FAMILIES INC. AND AFFILIATES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2014

<u>ASSETS</u>	HFI PROPERTIES, INC.			<u>TOTAL</u>	CROSS STREET		<u>TOTAL</u>
	<u>HOUSING FAMILIES INC.</u>	<u>AND AFFILIATE (EXHIBIT A)</u>	<u>ELIMI- NATIONS</u>		<u>HOUSING LP</u>	<u>ELIMI- NATIONS</u>	
CURRENT ASSETS:							
Cash	\$ 221,106	\$ 125,008	\$ -	\$ 346,114	\$ 20,187	\$ -	\$ 366,301
Accounts and pledges receivable	379,101	1,737	-	380,838	3,636	-	384,474
Prepaid expenses	8,848	-	-	8,848	646	-	9,494
Current portion of due from affiliates	71,341	-	(71,341)	-	144	(144)	-
Total current assets	<u>680,396</u>	<u>126,745</u>	<u>(71,341)</u>	<u>735,800</u>	<u>24,613</u>	<u>(144)</u>	<u>760,269</u>
RESERVES AND DEPOSITS:							
Operating reserve	-	40,010	-	40,010	179,979	-	219,989
Reserve for replacements	-	71,174	-	71,174	81,207	-	152,381
Security deposits	28,851	11,456	-	40,307	18,023	-	58,330
Total reserves and deposits	<u>28,851</u>	<u>122,640</u>	<u>-</u>	<u>151,491</u>	<u>279,209</u>	<u>-</u>	<u>430,700</u>
OTHER ASSETS:							
Property and equipment, net	32,876	4,141,861	(71,741)	4,102,996	4,753,180	(157,499)	8,698,677
Capitalized costs, net	-	33,813	-	33,813	38,573	-	72,386
Due from affiliates, net of current portion	1,541,431	-	-	1,541,431	-	(1,541,431)	-
Total other assets	<u>1,574,307</u>	<u>4,175,674</u>	<u>(71,741)</u>	<u>5,678,240</u>	<u>4,791,753</u>	<u>(1,698,930)</u>	<u>8,771,063</u>
Total assets	<u>\$ 2,283,554</u>	<u>\$ 4,425,059</u>	<u>\$ (143,082)</u>	<u>\$ 6,565,531</u>	<u>\$ 5,095,575</u>	<u>\$ (1,699,074)</u>	<u>\$ 9,962,032</u>
LIABILITIES AND ENTITIES' EQUITY (DEFICIT)							
CURRENT LIABILITIES:							
Current portion of long-term debt	\$ -	\$ 114,638	\$ -	\$ 114,638	\$ 37,631	\$ -	\$ 152,269
Current portion of capital lease obligations	14,192	-	-	14,192	-	-	14,192
Current portion of due to affiliates	144	71,341	(71,341)	144	-	(144)	-
Current portion of accrued interest on long-term debt	-	-	-	-	3,998	-	3,998
Fiscal agent payable	11,012	-	-	11,012	-	-	11,012
Accounts payable	38,819	1,987	-	40,806	815	-	41,621
Accrued expenses	165,627	2,957	-	168,584	13,480	-	182,064
Total current liabilities	<u>229,794</u>	<u>190,923</u>	<u>(71,341)</u>	<u>349,376</u>	<u>55,924</u>	<u>(144)</u>	<u>405,156</u>
LONG-TERM LIABILITIES:							
Security deposits payable	28,851	11,456	-	40,307	18,023	-	58,330
Long-term debt, net of current portion	-	2,111,662	-	2,111,662	1,780,810	-	3,892,472
Capital lease obligations, net of current portion	22,445	-	-	22,445	-	-	22,445
Due to affiliates, net of current portion	-	-	-	-	990,455	(990,455)	-
Accrued interest on long-term debt, net of current portion	-	-	-	-	706,761	(550,976)	155,785
Contingent debt and deferred interest	-	2,105,284	-	2,105,284	1,638,337	-	3,743,621
Total long-term liabilities	<u>51,296</u>	<u>4,228,402</u>	<u>-</u>	<u>4,279,698</u>	<u>5,134,386</u>	<u>(1,541,431)</u>	<u>7,872,653</u>
Total liabilities	<u>281,090</u>	<u>4,419,325</u>	<u>(71,341)</u>	<u>4,629,074</u>	<u>5,190,310</u>	<u>(1,541,575)</u>	<u>8,277,809</u>
ENTITIES' EQUITY (DEFICIT)							
Unrestricted:							
Operating	409,294	135,835	-	545,129	190,297	-	735,426
Property and equipment	(3,761)	(130,101)	(71,741)	(205,603)	(285,032)	1,478,741	988,106
Housing development	1,541,431	-	-	1,541,431	-	(1,541,431)	-
Total unrestricted	<u>1,946,964</u>	<u>5,734</u>	<u>(71,741)</u>	<u>1,880,957</u>	<u>(94,735)</u>	<u>(62,690)</u>	<u>1,723,532</u>
Temporarily restricted	<u>55,500</u>	<u>-</u>	<u>-</u>	<u>55,500</u>	<u>-</u>	<u>-</u>	<u>55,500</u>
Total Housing Families entities' equity (deficit)	<u>2,002,464</u>	<u>5,734</u>	<u>(71,741)</u>	<u>1,936,457</u>	<u>(94,735)</u>	<u>(62,690)</u>	<u>1,779,032</u>
Non-controlling interest	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(94,809)</u>	<u>(94,809)</u>
Total entities' equity (deficit)	<u>2,002,464</u>	<u>5,734</u>	<u>(71,741)</u>	<u>1,936,457</u>	<u>(94,735)</u>	<u>(157,499)</u>	<u>1,684,223</u>
Total liabilities and entities' equity (deficit)	<u>\$ 2,283,554</u>	<u>\$ 4,425,059</u>	<u>\$ (143,082)</u>	<u>\$ 6,565,531</u>	<u>\$ 5,095,575</u>	<u>\$ (1,699,074)</u>	<u>\$ 9,962,032</u>

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

HOUSING FAMILIES INC. AND AFFILIATES

**CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2013**

<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	\$ 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	<u>692,205</u>	<u>294,284</u>	<u>(133,563)</u>	<u>852,926</u>	<u>33,249</u>	<u>(4,334)</u>	<u>881,841</u>
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	<u>26,909</u>	<u>9,752</u>	<u>-</u>	<u>36,661</u>	<u>270,053</u>	<u>-</u>	<u>306,714</u>
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	<u>1,524,999</u>	<u>4,348,149</u>	<u>(73,988)</u>	<u>5,799,160</u>	<u>4,930,443</u>	<u>(1,662,568)</u>	<u>9,067,035</u>
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>
<u>LIABILITIES AND ENTITIES' EQUITY (DEFICIT)</u>							
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
Accounts payable	7,485	4,472	-	11,957	16	-	11,973
Accrued expenses	149,668	9,333	-	159,001	4,805	-	163,806
Total current liabilities	<u>196,138</u>	<u>226,918</u>	<u>(133,563)</u>	<u>289,493</u>	<u>52,022</u>	<u>(4,334)</u>	<u>337,181</u>
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	-	2,180,949	-	2,180,949	1,821,055	-	4,002,004
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	-	2,031,099	-	2,031,099	1,592,767	-	3,623,866
Total long-term liabilities	<u>63,538</u>	<u>4,395,177</u>	<u>-</u>	<u>4,458,715</u>	<u>5,065,641</u>	<u>(1,475,069)</u>	<u>8,049,287</u>
Total liabilities	<u>259,676</u>	<u>4,622,095</u>	<u>(133,563)</u>	<u>4,748,208</u>	<u>5,117,663</u>	<u>(1,479,403)</u>	<u>8,386,468</u>
ENTITIES' EQUITY (DEFICIT)							
Unrestricted:							
Operating	422,367	192,281	-	614,648	203,893	-	818,541
Property and equipment	(2,199)	(162,191)	(73,988)	(238,378)	(87,811)	1,171,562	845,373
Housing development	1,475,069	-	-	1,475,069	-	(1,475,069)	-
Total unrestricted	<u>1,895,237</u>	<u>30,090</u>	<u>(73,988)</u>	<u>1,851,339</u>	<u>116,082</u>	<u>(303,507)</u>	<u>1,663,914</u>
Temporarily restricted	<u>89,200</u>	<u>-</u>	<u>-</u>	<u>89,200</u>	<u>-</u>	<u>-</u>	<u>89,200</u>
Total Housing Families entities' equity (deficit)	<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>
Non-controlling interest	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>116,008</u>	<u>116,008</u>
Total entities' equity (deficit)	<u>1,984,437</u>	<u>30,090</u>	<u>(73,988)</u>	<u>1,940,539</u>	<u>116,082</u>	<u>(187,499)</u>	<u>1,869,122</u>
Total liabilities and entities' equity (deficit)	<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 ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014**

	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	\$ 2,661,864	\$ -	\$ -	\$ 2,661,864	\$ -	\$ (3,000)	\$ 2,658,864
Rental income, net of vacancies	-	310,629	(96,120)	214,509	364,801	(30,000)	549,310
Special event	309,706	-	-	309,706	-	-	309,706
Grants	297,373	-	-	297,373	-	-	297,373
Donated goods and services	197,932	-	-	197,932	-	-	197,932
Contributions	194,009	-	-	194,009	-	-	194,009
Management fees, program income and other	68,929	700	(15,472)	54,157	6,659	(17,631)	43,185
Net assets released from program restrictions	89,200	-	-	89,200	-	-	89,200
Total operating support and revenues	<u>3,819,013</u>	<u>311,329</u>	<u>(111,592)</u>	<u>4,018,750</u>	<u>371,460</u>	<u>(50,631)</u>	<u>4,339,579</u>
OPERATING EXPENSES:							
Program services	2,916,811	-	(96,120)	2,820,691	-	(24,120)	2,796,571
General and administrative	386,071	-	-	386,071	-	(2,283)	383,788
Fundraising	525,968	-	-	525,968	-	(3,597)	522,371
HFI Properties, Inc. and Affiliate	-	194,431	(15,472)	178,959	-	-	178,959
Cross Street Housing LP	-	-	-	-	321,290	(20,631)	300,659
Total operating expenses before depreciation and amortization	<u>3,828,850</u>	<u>194,431</u>	<u>(111,592)</u>	<u>3,911,689</u>	<u>321,290</u>	<u>(50,631)</u>	<u>4,182,348</u>
Depreciation and amortization	<u>17,054</u>	<u>180,650</u>	<u>(2,247)</u>	<u>195,457</u>	<u>138,690</u>	<u>(30,000)</u>	<u>304,147</u>
Total operating expenses	<u>3,845,904</u>	<u>375,081</u>	<u>(113,839)</u>	<u>4,107,146</u>	<u>459,980</u>	<u>(80,631)</u>	<u>4,486,495</u>
Changes in unrestricted net assets from operations	(26,891)	(63,752)	2,247	(88,396)	(88,520)	30,000	(146,916)
NON-OPERATING ACTIVITIES:							
Forgiveness of debt	-	39,396	-	39,396	-	-	39,396
Deferred interest income	78,618	-	-	78,618	-	(78,618)	-
Deferred interest expense	-	-	-	-	(122,297)	78,618	(43,679)
Changes in unrestricted net assets	<u>51,727</u>	<u>(24,356)</u>	<u>2,247</u>	<u>29,618</u>	<u>(210,817)</u>	<u>30,000</u>	<u>(151,199)</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:							
Contributions	55,500	-	-	55,500	-	-	55,500
Net assets released from program restrictions	<u>(89,200)</u>	<u>-</u>	<u>-</u>	<u>(89,200)</u>	<u>-</u>	<u>-</u>	<u>(89,200)</u>
Changes in temporarily restricted net assets	<u>(33,700)</u>	<u>-</u>	<u>-</u>	<u>(33,700)</u>	<u>-</u>	<u>-</u>	<u>(33,700)</u>
Changes in net assets	18,027	(24,356)	2,247	(4,082)	(210,817)	30,000	(184,899)
CHANGES IN NET ASSETS ATTRIBUTABLE TO NON-CONTROLLING INTEREST							
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>210,817</u>	<u>-</u>	<u>210,817</u>
Changes in net assets attributable to Housing Families	<u>\$ 18,027</u>	<u>\$ (24,356)</u>	<u>\$ 2,247</u>	<u>\$ (4,082)</u>	<u>\$ -</u>	<u>\$ 30,000</u>	<u>\$ 25,918</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	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	\$ -	\$ (1,500)	\$ 2,589,640
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
Donated goods and services	163,546	-	-	163,546	-	-	163,546
Contributions	212,133	-	-	212,133	-	-	212,133
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>(47,607)</u>	<u>4,146,308</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
HFI Properties, Inc. and Affiliate	-	142,285	(11,471)	130,814	-	-	130,814
Cross Street Housing LP	-	-	-	-	325,911	(17,607)	308,304
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>(47,607)</u>	<u>4,044,863</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>(77,607)</u>	<u>4,319,478</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	(43,108)	-	-	(43,108)	-	-	(43,108)
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 STATEMENTS OF CHANGES IN ENTITIES' EQUITY (DEFICIT)
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

	<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, 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	1,984,437	30,090	(73,988)	1,940,539	116,082	(303,507)	1,753,114	116,008	1,869,122
Changes in net assets	<u>18,027</u>	<u>(24,356)</u>	<u>2,247</u>	<u>(4,082)</u>	<u>(210,817)</u>	<u>240,817</u>	<u>25,918</u>	<u>(210,817)</u>	<u>(184,899)</u>
BALANCE , June 30, 2014	<u>\$ 2,002,464</u>	<u>\$ 5,734</u>	<u>\$ (71,741)</u>	<u>\$ 1,936,457</u>	<u>\$ (94,735)</u>	<u>\$ (62,690)</u>	<u>\$ 1,779,032</u>	<u>\$ (94,809)</u>	<u>\$ 1,684,223</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, 2014**

	<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	\$ 18,027	\$ (24,356)	\$ (210,817)	\$ 32,247	\$ (184,899)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:					
Depreciation	17,054	178,109	133,962	(32,247)	296,878
Amortization	-	2,541	4,728	-	7,269
Forgiveness of debt	-	(39,396)	-	-	(39,396)
Deferred interest	-	-	122,297	(78,618)	43,679
Bad debt	-	-	1,856	-	1,856
Changes in operating assets and liabilities:					
Accounts and pledges receivable	(31,274)	4,040	(2,527)	-	(29,761)
Prepaid expenses	5,640	2,025	101	-	7,766
Due to/from affiliates	338	(62,222)	(16,734)	78,618	-
Accrued interest	-	(4,383)	(3,302)	-	(7,685)
Fiscal agent payable	(12,473)	-	-	-	(12,473)
Accounts payable	31,334	(2,485)	799	-	29,648
Accrued expenses	15,959	(6,376)	8,675	-	18,258
Net cash provided by operating activities	<u>44,605</u>	<u>47,497</u>	<u>39,038</u>	<u>-</u>	<u>131,140</u>
CASH FLOWS FROM INVESTING ACTIVITIES:					
Acquisition of property and equipment	-	(181,552)	-	-	(181,552)
Deposits to and interest earned on operating reserve	-	(40,010)	(180)	-	(40,190)
Deposits to and interest earned on reserve for replacements	-	(71,174)	(10,027)	-	(81,201)
Net cash used in investing activities	<u>-</u>	<u>(292,736)</u>	<u>(10,207)</u>	<u>-</u>	<u>(302,943)</u>
CASH FLOW FROM FINANCING ACTIVITIES:					
Proceeds from contingent debt	-	106,185	-	-	106,185
Principal payments on long-term debt	-	(22,420)	(38,181)	-	(60,601)
Principal payments on capital lease obligations	(15,492)	-	-	-	(15,492)
Net cash provided by (used in) financing activities	<u>(15,492)</u>	<u>83,765</u>	<u>(38,181)</u>	<u>-</u>	<u>30,092</u>
NET INCREASE (DECREASE) IN CASH	29,113	(161,474)	(9,350)	-	(141,711)
CASH, beginning of year	<u>191,993</u>	<u>286,482</u>	<u>29,537</u>	<u>-</u>	<u>508,012</u>
CASH, end of year	<u>\$ 221,106</u>	<u>\$ 125,008</u>	<u>\$ 20,187</u>	<u>\$ -</u>	<u>\$ 366,301</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:					
Cash paid for interest	<u>\$ 4,913</u>	<u>\$ 29,253</u>	<u>\$ 99,466</u>	<u>\$ -</u>	<u>\$ 133,632</u>
NON-CASH INVESTING AND FINANCING TRANSACTIONS:					
Disposal of fully depreciated property and equipment	<u>\$ 8,518</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,518</u>
Deferred interest income applied to due from affiliates	<u>\$ 78,618</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 78,618</u>
Forgiveness of long-term debt	<u>\$ -</u>	<u>\$ 7,396</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,396</u>
Forgiveness of contingent debt	<u>\$ -</u>	<u>\$ 32,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 32,000</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)
Accounts payable	(103,639)	(23,985)	(4,279)	-	(131,903)
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	-	716,765	-	-	716,765
Proceeds from long-term debt	-	935,555	-	-	935,555
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 AND FINANCING TRANSACTIONS:					
Disposal of property and equipment	<u>\$ -</u>	<u>\$ 288,534</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 288,534</u>
Deferred interest income applied to due from affiliates	<u>\$ 64,673</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 64,673</u>
Property and equipment additions included in accounts payable - construction	<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>
Forgiveness of contingent debt	<u>\$ -</u>	<u>\$ 10,666</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,666</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, 2014**
(With Summarized Comparative Totals for the Year Ended June 30, 2013)

	2014							2013		
	HOUSING FAMILIES INC.									
	SUPPORT SERVICES									
	GENERAL AND ADMINIS- TRATIVE	FUNDRAISING	TOTAL SUPPORT SERVICES	TOTAL	HFI PROPERTIES, INC. AND AFFILIATE (EXHIBIT B)	CROSS STREET HOUSING LP	ELIMI- NATIONS	TOTAL	TOTAL	
PROGRAM SERVICES										
PERSONNEL AND RELATED COSTS:										
Salaries	\$ 1,001,777	\$ 179,495	\$ 237,483	\$ 416,978	\$ 1,418,755	\$ -	\$ 17,349	\$ -	\$ 1,436,104	\$ 1,377,956
Payroll taxes and benefits	229,415	28,385	39,403	67,788	297,203	-	3,651	-	300,854	305,063
Temporary help	46,549	-	1,200	1,200	47,749	-	-	-	47,749	24,759
Total personnel and related costs	1,277,741	207,880	278,086	485,966	1,763,707	-	21,000	-	1,784,707	1,707,778
OCCUPANCY:										
Rent	1,146,620	2,283	3,597	5,880	1,152,500	-	-	(126,120)	1,026,380	1,022,089
Utilities	65,642	2,062	308	2,370	68,012	58,944	72,030	-	198,986	156,837
Interest	-	-	-	-	-	24,870	96,164	-	121,034	131,873
Repairs and maintenance	13,917	5,584	26	5,610	19,527	46,496	41,156	-	107,179	111,582
Taxes and insurance	4,233	-	-	-	4,233	45,135	38,486	-	87,854	75,100
Extermination contract	8,946	-	-	-	8,946	-	4,016	-	12,962	19,486
Non-capital equipment	9,152	-	-	-	9,152	-	-	-	9,152	9,096
Total occupancy	1,248,510	9,929	3,931	13,860	1,262,370	175,445	251,852	(126,120)	1,563,547	1,526,063
OTHER:										
Donated goods and services	181,562	-	16,370	16,370	197,932	-	-	-	197,932	163,546
Special event	-	-	127,912	127,912	127,912	-	-	-	127,912	128,157
Consultants	10,165	46,584	34,858	81,442	91,607	375	2,401	-	94,383	82,433
Office supplies and equipment	52,859	19,050	21,510	40,560	93,419	251	609	-	94,279	87,025
Professional fees	1,200	53,450	-	53,450	54,650	1,999	20,347	-	76,996	61,843
Telephone	48,125	2,324	2,845	5,169	53,294	-	-	-	53,294	54,144
Printing and postage	7,614	12,270	16,889	29,159	36,773	-	-	-	36,773	62,515
Training and travel	17,859	7,354	8,171	15,525	33,384	-	-	-	33,384	37,552
Grant expense	22,444	-	-	-	22,444	-	-	-	22,444	23,290
Vehicle costs	21,425	-	-	-	21,425	-	-	-	21,425	25,931
Dues and subscriptions	2,326	6,455	12,101	18,556	20,882	-	-	-	20,882	18,200
Insurance	10,973	8,039	-	8,039	19,012	-	-	-	19,012	18,298
Miscellaneous	1,296	7,569	970	8,539	9,835	889	5,594	(3,000)	13,318	20,585
Advertising	5,345	4,904	2,325	7,229	12,574	-	-	-	12,574	19,510
Interest	4,650	263	-	263	4,913	-	-	-	4,913	1,085
Client pass-through grants	2,717	-	-	-	2,717	-	-	-	2,717	4,219
Bad debt	-	-	-	-	-	-	1,856	-	1,856	2,689
Management fees	-	-	-	-	-	15,472	17,631	(33,103)	-	-
Total other	390,560	168,262	243,951	412,213	802,773	18,986	48,438	(36,103)	834,094	811,022
Total expenses before depreciation and amortization	2,916,811	386,071	525,968	912,039	3,828,850	194,431	321,290	(162,223)	4,182,348	4,044,863
DEPRECIATION AND AMORTIZATION	13,086	3,968	-	3,968	17,054	180,650	138,690	(32,247)	304,147	274,615
Total expenses	\$ 2,929,897	\$ 390,039	\$ 525,968	\$ 916,007	\$ 3,845,904	\$ 375,081	\$ 459,980	\$ (194,470)	\$ 4,486,495	\$ 4,319,478

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**

	HOUSING FAMILIES INC.								
	SUPPORT SERVICES					HFI PROPERTIES, INC. AND AFFILIATE (EXHIBIT B)	CROSS STREET HOUSING LP	ELIMI- NATIONS	TOTAL
	PROGRAM SERVICES	GENERAL AND ADMINIS- TRATIVE	FUNDRAISING	TOTAL SUPPORT SERVICES	TOTAL				
PERSONNEL AND RELATED COSTS:									
Salaries	\$ 958,338	\$ 164,232	\$ 246,614	\$ 410,846	\$ 1,369,184	\$ -	\$ 8,772	\$ -	\$ 1,377,956
Payroll taxes and benefits	231,069	29,673	42,393	72,066	303,135	-	1,928	-	305,063
Temporary help	17,448	206	7,105	7,311	24,759	-	-	-	24,759
Total personnel and related costs	<u>1,206,855</u>	<u>194,111</u>	<u>296,112</u>	<u>490,223</u>	<u>1,697,078</u>	<u>-</u>	<u>10,700</u>	<u>-</u>	<u>1,707,778</u>
OCCUPANCY:									
Rent	1,141,781	3,482	2,946	6,428	1,148,209	-	-	(126,120)	1,022,089
Utilities	60,871	2,706	153	2,859	63,730	35,371	57,736	-	156,837
Interest	-	-	-	-	-	17,487	114,386	-	131,873
Repairs and maintenance	22,603	6,053	-	6,053	28,656	37,313	45,613	-	111,582
Taxes and insurance	635	-	-	-	635	36,661	37,804	-	75,100
Extermination contract	13,596	-	-	-	13,596	-	5,890	-	19,486
Non-capital equipment	7,101	-	-	-	7,101	500	1,495	-	9,096
Total occupancy	<u>1,246,587</u>	<u>12,241</u>	<u>3,099</u>	<u>15,340</u>	<u>1,261,927</u>	<u>127,332</u>	<u>262,924</u>	<u>(126,120)</u>	<u>1,526,063</u>
OTHER:									
Donated goods and services	163,546	-	-	-	163,546	-	-	-	163,546
Special event	-	-	128,157	128,157	128,157	-	-	-	128,157
Consultants	25,433	35,068	16,842	51,910	77,343	1,485	3,605	-	82,433
Office supplies and equipment	36,349	17,964	30,481	48,445	84,794	478	1,753	-	87,025
Professional fees	1,445	41,290	-	41,290	42,735	100	19,008	-	61,843
Telephone	47,660	3,597	2,539	6,136	53,796	-	348	-	54,144
Printing and postage	10,955	3,230	48,330	51,560	62,515	-	-	-	62,515
Training and travel	23,842	5,242	8,468	13,710	37,552	-	-	-	37,552
Grant expense	23,290	-	-	-	23,290	-	-	-	23,290
Vehicle costs	25,931	-	-	-	25,931	-	-	-	25,931
Dues and subscriptions	3,201	2,924	12,075	14,999	18,200	-	-	-	18,200
Insurance	9,560	8,738	-	8,738	18,298	-	-	-	18,298
Miscellaneous	8,604	2,858	427	3,285	11,889	1,419	8,777	(1,500)	20,585
Advertising	12,098	-	7,412	7,412	19,510	-	-	-	19,510
Interest	727	358	-	358	1,085	-	-	-	1,085
Client pass-through grants	4,219	-	-	-	4,219	-	-	-	4,219
Bad debt	-	-	-	-	-	-	2,689	-	2,689
Management fees	-	-	-	-	-	11,471	16,107	(27,578)	-
Total other	<u>396,860</u>	<u>121,269</u>	<u>254,731</u>	<u>376,000</u>	<u>772,860</u>	<u>14,953</u>	<u>52,287</u>	<u>(29,078)</u>	<u>811,022</u>
Total expenses before depreciation and amortization	2,850,302	327,621	553,942	881,563	3,731,865	142,285	325,911	(155,198)	4,044,863
DEPRECIATION AND AMORTIZATION	<u>10,101</u>	<u>5,669</u>	<u>-</u>	<u>5,669</u>	<u>15,770</u>	<u>151,931</u>	<u>138,690</u>	<u>(31,776)</u>	<u>274,615</u>
Total expenses	<u>\$ 2,860,403</u>	<u>\$ 333,290</u>	<u>\$ 553,942</u>	<u>\$ 887,232</u>	<u>\$ 3,747,635</u>	<u>\$ 294,216</u>	<u>\$ 464,601</u>	<u>\$ (186,974)</u>	<u>\$ 4,319,478</u>

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

HOUSING FAMILIES INC. AND AFFILIATES
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

(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 and Affiliates 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 notes are to the FASB Accounting Standards Codification (ASC).

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.

Estimates

The preparation of consolidating financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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, 2014 AND 2013
(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. Rental income is recognized over the lease term. 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. All other revenue is recognized as earned. Payments received in advance of services being provided are recorded as deferred revenue and included in accounts payable in the accompanying consolidated financial statements.

Fair Value Measurements

ASC Topic, *Fair Value Measurements*, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This guidance only applies when the fair value measurement of assets and liabilities is required or permitted. HFI and Affiliates have determined that none of its financial or nonfinancial assets or liabilities is measured at fair value, therefore the disclosure requirements do not currently apply.

Description of Net Assets

Unrestricted net assets are those net resources that bear no external restrictions and are generally available for use by HFI and Affiliates. HFI and Affiliates have grouped their unrestricted net assets into the following categories:

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

Property and equipment - reflect the net book value of HFI and Affiliates' property and equipment and 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, 2014 and 2013, 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, 2014 AND 2013
(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, 2014 are expected to be collected in fiscal year 2015. Pledges receivable at June 30, 2013 were collected in fiscal year 2014.

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, 2014 and 2013.

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

Capitalized Costs and Amortization

Capitalized costs consist of the following at June 30:

	<u>2014</u>	<u>2013</u>
Mortgage financing fees	\$ 85,994	\$ 85,994
Low-income housing tax credit application fees	<u>35,000</u>	<u>35,000</u>
	120,994	120,994
Less - accumulated amortization	<u>48,608</u>	<u>41,339</u>
	<u>\$ 72,386</u>	<u>\$ 79,655</u>

HOUSING FAMILIES INC. AND AFFILIATES
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
(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 2014 and 2013 was \$7,269 and \$6,498, respectively. Amortization expense for the next five fiscal years is expected to be \$7,269.

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>2014</u>	<u>2013</u>
Program supplies	\$102,099	\$ 65,753
Contracted services	<u>95,833</u>	<u>97,793</u>
	<u>\$197,932</u>	<u>\$163,546</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, 2014 AND 2013
(Continued)

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising

Advertising costs are expensed as incurred.

Income Taxes

HFI and Affiliates account for uncertainty in income taxes in accordance with ASC Topic, *Income Taxes*. This standard clarifies the accounting for uncertainty in tax positions and prescribes a recognition threshold and measurement attribute for the consolidating financial statement regarding a tax position taken or expected to be taken in a tax return. HFI and Affiliates has determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the consolidating financial statements at June 30, 2014 and 2013. HFI and Affiliates' information and income tax returns generally remain open for the previous three years.

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, 2014 and 2013, the General Partner and HFI Properties, Inc. had, for Federal income tax purposes, net operating loss carry-forwards of approximately \$183,000 and 158,000, respectively, available to offset future taxable income as of June 30, 2014 and 2013. The General Partner had for state income tax purposes, net operating loss carry-forwards of approximately \$2,700 and \$2,600, respectively, available to offset future taxable income as of June 30, 2014 and 2013. HFI Properties, Inc. is exempt from state income taxes under Massachusetts General Law Chapter 180.

The General Partner and HFI Properties, Inc. account for uncertainty in income taxes in accordance with ASC Topic, *Income Taxes*. This standard does not have a material effect on the consolidating financial statements as of June 30, 2014 and 2013, since the tax benefit of the net operating loss carry-forwards have been fully reserved.

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 October 16, 2014, 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, 2014 AND 2013
(Continued)

(2) RELATED PARTY TRANSACTIONS

Consolidating Entities

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

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.

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.

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 2014 and 2013. The unpaid development and overhead fee reimbursements were \$184,872 as of June 30, 2014 and 2013 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, MM Homes and HFI Properties. Management fees billed for the years ended June 30, 2014 and 2013 consisted of the following:

	<u>2014</u>	<u>2013</u>
CSLP	\$17,631	\$16,107
MM Homes	10,065	7,819
HFI Properties	<u>5,407</u>	<u>3,652</u>
	<u>\$33,103</u>	<u>\$27,578</u>

Management fees 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.

HOUSING FAMILIES INC. AND AFFILIATES
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
(Continued)

(2) RELATED PARTY TRANSACTIONS (Continued)

Consolidating Entities (Continued)

HFI has a 5.375% note receivable from CSLP of \$998,598, of which \$805,583 has been advanced at June 30, 2014 and 2013. 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 2014 and 2013. Interest compounds annually. All unpaid principal and deferred interest are due in full on July 23, 2033. For fiscal years 2014 and 2013, deferred interest expense on this loan was \$78,618 and \$64,673, 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 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 2014 and 2013. 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 9).

The sponsor loan, development fee, development overhead 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.

CSLP pays certain expenses of the General Partner. As of June 30, 2014 and 2013, the General Partner owed CSLP \$4,397 and \$3,832, respectively.

MM Homes has a lease agreement with HFI to rent program space to HFI. This agreement renews annually, subject to HFI receiving future state contract funding to operate the program. Rent was \$96,120 for fiscal years 2014 and 2013.

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, 2013, the total amount of developer fee recognized in connection with these developments was \$35,764, and is included in management fees, program income and other in the accompanying consolidating statements of activities. Developer fees are payable from development financing, cash flow or from the proceeds of sale or refinancing. HFI Properties paid all outstanding developer and overhead fees totaling \$42,649 during fiscal year 2014. Included in the current portion of due from affiliate is \$42,375 of outstanding developer and overhead fee from MM Homes. This amount is expected to be paid during fiscal year 2015.

HOUSING FAMILIES INC. AND AFFILIATES
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
(Continued)

(2) RELATED PARTY TRANSACTIONS (Continued)

Consolidating Entities (Continued)

Due from affiliates consists of the following at June 30:

	<u>2014</u>	<u>2013</u>
Sponsor loan receivable	\$ 805,583	\$ 805,583
Interest receivable on sponsor loan	550,976	472,358
Developer fee and overhead receivable	227,247	245,237
Management fee	15,472	27,578
Miscellaneous	<u>13,638</u>	<u>62,210</u>
Total due from affiliate	1,612,916	1,612,966
Less - current portion	<u>71,485</u>	<u>137,897</u>
Due from affiliate, net of current portion	<u>\$1,541,431</u>	<u>\$1,475,069</u>

(3) PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

<u>2014</u>	<u>HFI</u>	<u>HFI Properties, Inc. and Affiliate</u>	<u>CSLP</u>	<u>Eliminations</u>	<u>Total</u>
Land	\$ -	\$ 322,100	\$ 963,600	\$ -	\$ 1,285,700
Buildings and improvements	-	4,545,950	5,033,084	(525,764)	9,053,270
Furniture and equipment	68,041	26,401	49,845	-	144,287
Vehicles	<u>60,489</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>60,489</u>
Total cost	128,530	4,894,451	6,046,529	(525,764)	10,543,746
Less - accumulated depreciation	<u>95,654</u>	<u>752,590</u>	<u>1,293,349</u>	<u>(296,524)</u>	<u>1,845,069</u>
	<u>\$ 32,876</u>	<u>\$4,141,861</u>	<u>\$4,753,180</u>	<u>\$(229,240)</u>	<u>\$ 8,698,677</u>
<u>2013</u>	<u>HFI</u>	<u>HFI Properties, Inc. and Affiliate</u>	<u>CSLP</u>	<u>Eliminations</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	<u>60,489</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>60,489</u>
Total cost	137,048	4,886,276	6,046,529	(525,764)	10,544,089
Less - accumulated depreciation	<u>87,118</u>	<u>574,481</u>	<u>1,159,387</u>	<u>(264,277)</u>	<u>1,556,709</u>
	<u>\$ 49,930</u>	<u>\$4,311,795</u>	<u>\$4,887,142</u>	<u>\$(261,487)</u>	<u>\$ 8,987,380</u>

HOUSING FAMILIES INC. AND AFFILIATES

**NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
(Continued)**

(3) PROPERTY AND EQUIPMENT (Continued)

Depreciation expense during fiscal years 2014 and 2013 was \$296,878 and \$268,117, respectively. Substantially all property and equipment are pledged as collateral on long-term and contingent debt (see Notes 5 and 7).

HFI accounts for the carrying value of its property and equipment in accordance with ASC Topic *Impairment and Disposal of Long-Lived Assets*. As of June 30, 2014 and 2013, 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 \$72,344 and \$80,862 as of June 30, 2014 and 2013, respectively (see Note 8). Depreciation expense for fiscal years 2014 and 2013 for assets under capital lease was \$15,185 and \$13,903, respectively. As of June 30, 2014 and 2013, accumulated depreciation was \$40,401 and \$33,734, respectively, on these assets.

(4) FUNDING

HFI and Affiliates receive a significant portion of their total unrestricted operating support and revenues (approximately 60% during fiscal years 2014 and 2013) from two funding sources under unit-rate and cost reimbursable contracts. These reimbursements are subject to audit by the funding sources. In the opinion of management, the results of such audits, if any, will not have a material effect on the consolidating financial position of HFI and Affiliates as of June 30, 2014 and 2013, 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 \$262,527 and \$269,254 in rental subsidies and vacancy reimbursements to CSLP during the years ended June 30, 2014 and 2013, respectively.

HFI Properties, Inc. and Affiliate also receives significant rental subsidies from MHA and the Metro Boston Housing Partnership (MBHP) for qualified tenants. MHA and MBHP have committed to provide subsidies to HFI Properties, Inc. and Affiliate through January, 2015 and March, 2018, respectively. Collectively, MHA and MBHP provided \$162,972 and \$106,431 in rental subsidies to HFI Properties, Inc. and Affiliate during the years ended June 30, 2014 and 2013, respectively.

(5) LONG-TERM DEBT

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

	<u>2014</u>	<u>2013</u>
<u>HFI Properties</u>		
Non-interest bearing note payable to Malden Redevelopment Authority (MRA). Payments are due annually each August based on 25% of net cash flow of the property, as defined in the agreement. Based on this calculation a payment of \$769 is due as of June 30, 2014. The note matures in November, 2042, and is secured by a first mortgage on property located in Revere, Massachusetts. A principal payment of \$1,610 was made during fiscal year 2014. No payments of principal and interest were made during fiscal year 2013.	\$ 548,390	\$ 550,000

HOUSING FAMILIES INC. AND AFFILIATES
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
(Continued)

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

<u>HFI Properties</u> (Continued)	<u>2014</u>	<u>2013</u>
5.75% interest bearing note payable to a bank. 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 a shared second mortgage on property located in Revere, Massachusetts.	<u>363,199</u>	<u>369,926</u>
Total HFI Properties	<u>911,589</u>	<u>919,926</u>
 <u>MM Homes</u>		
Non-interest bearing note payable to 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 \$14,424 is due as of June 30, 2014. Based on this calculation, a payment of \$14,202 was due as of June 30, 2013. During fiscal year 2014, MRA indicated that MM Homes had a credit of \$7,396, which is recorded as forgiveness of debt in the accompanying consolidating statement of activities. MM Homes made a payment of \$3,054 in fiscal year 2014. The remaining \$3,752 was paid subsequent to June 30, 2014. The note matures in August, 2041, and is secured by a shared first mortgage on property located in Malden and Medford, Massachusetts.	865,635	876,085
Non-interest bearing note payable with Community Economic Development Assistance Corporation (CEDAC) through its Housing Innovations Fund (HIF) program for a maximum amount of \$227,200. The note stipulates that payments of principal be made before the maturity date, if gross receipts exceed 105% of cash expenditures, as defined in the agreement. Based on this calculation, there were payments due of \$22,119 and \$25,093 as of June 30, 2014 and 2013, respectively. The payment of \$25,093 that was due as of June 30, 2013 was not paid during fiscal year 2014. All unpaid principal is due in August, 2042. The note is secured by a shared first mortgage on property in Malden and Medford, Massachusetts.	214,925	214,925

HOUSING FAMILIES INC. AND AFFILIATES
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
(Continued)

(5) LONG-TERM DEBT (Continued)

<u>MM Homes</u> (Continued)	<u>2014</u>	<u>2013</u>
Non-interest bearing note payable with CEDAC through its HIF II program. The note stipulates that payments of principal be made before the maturity date, if gross receipts exceed 105% of cash expenditures, as defined in the agreement. Based on this calculation, there were payments due of \$9,262 and \$10,508 as of June 30, 2014 and 2013, respectively. The payment of \$10,508 that was due as of June 30, 2013 was not paid during fiscal year 2014. All unpaid principal is due in February, 2028. The note is secured by a shared first mortgage on property in Medford, Massachusetts.	90,000	90,000
Non-interest bearing note payable with CEDAC through its HIF program. The note stipulates that payments of principal be made before the maturity date, if gross receipts exceed 105% of cash expenditures, as defined in the agreement. Based on this calculation, there were payments due of \$6,175 and \$7,005 as of June 30, 2014 and 2013, respectively. The payment of \$7,005 that was due as of June 30, 2013 was not paid during fiscal year 2014. All unpaid principal is due in July, 2030. The note is secured by a shared first mortgage on 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 a shared first mortgage on property located in Malden, Massachusetts. No payments were made on this note during fiscal year 2013. Payments due from fiscal year 2013 were made during fiscal year 2014.	53,046	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 a shared first mortgage on property located in Malden, Massachusetts.	23,967	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 a shared first mortgage on property located in Malden, Massachusetts.	<u>7,138</u>	<u>8,798</u>
Total MM Homes	<u>1,314,711</u>	<u>1,336,190</u>

The amounts due to CEDAC as of June 30, 2013 were paid during fiscal year 2015.

HOUSING FAMILIES INC. AND AFFILIATES
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
(Continued)

(5) LONG-TERM DEBT (Continued)

<u>CSLP</u>	<u>2014</u>	<u>2013</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.	1,158,174	1,181,651
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>660,267</u>	<u>674,971</u>
Total CSLP	<u>1,818,441</u>	<u>1,856,622</u>
Total long-term debt	4,044,741	4,112,738
Less - current portion	<u>152,269</u>	<u>110,734</u>
Total long-term debt, net of current portion	<u>\$3,892,472</u>	<u>\$4,002,004</u>

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

	<u>2014</u>	<u>2013</u>
Related party note payable (see Note 2)	\$550,976	\$472,358
MRA notes payable (see pages 19 - 21 and above)	155,785	157,676
Note payable to a bank (see above)	<u>3,998</u>	<u>11,683</u>
	710,759	641,717
Less - current portion	3,998	11,683
Less - elimination	<u>550,976</u>	<u>472,358</u>
	<u>\$155,785</u>	<u>\$157,676</u>

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

<u>Fiscal Year</u>	
2015	\$152,269
2016	\$ 55,983
2017	\$ 58,982
2018	\$ 61,264
2019	\$ 63,459

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, 2014 and 2013. 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, 2014 and 2013. Subsequent to June 30, 2014 HFI and Affiliates submitted the necessary documentation to CEDAC to be in compliance with these requirements. HFI and Affiliates obtained a waiver from CEDAC for these requirements at June 30, 2013.

HOUSING FAMILIES INC. AND AFFILIATES
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
(Continued)

(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, 2014 and 2013. 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, 2014 and 2013), plus 1% or a minimum interest rate of 4.25%, 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, 2014 and 2013, there was no outstanding balance under this agreement.

(7) CONTINGENT DEBT AND DEFERRED INTEREST

Contingent debt consists of the following at June 30:

	<u>2014</u>	<u>2013</u>
<u>HFI Properties</u>		
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 a shared second mortgage on 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 a shared second mortgage on property in Revere, Massachusetts.	51,950	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 a shared second mortgage on property in Revere, Massachusetts.	<u>40,000</u>	<u>40,000</u>
Total contingent debt – HFI Properties	<u>626,950</u>	<u>626,950</u>
<u>MM Homes</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 a shared first mortgage on 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 a shared first mortgage on property in Malden and Medford, Massachusetts.	675,000	568,815

HOUSING FAMILIES INC. AND AFFILIATES
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
(Continued)

(7) **CONTINGENT DEBT AND DEFERRED INTEREST** (Continued)

<u>MM Homes</u> (Continued)	<u>2014</u>	<u>2013</u>
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, 2014 and 2013. For the year ended June 30, 2014, \$13,333 has been forgiven under the terms of the agreement. This note is secured by a shared first mortgage on property in Malden, Massachusetts.	26,667	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, 2014 and 2013. For the year ended June 30, 2014, \$8,000 has been forgiven under the terms of the agreement. This note is secured by a shared first mortgage on property in Malden, Massachusetts.	16,000	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, 2014 and 2013. For the years ended June 30, 2014 and 2013, \$10,667 and \$10,666, respectively, has been forgiven under the terms of the agreement. This note is secured by a shared first mortgage on property in Malden, Massachusetts.	<u>10,667</u>	<u>21,334</u>
Total contingent debt - MM Homes	<u>1,478,334</u>	<u>1,404,149</u>
<u>CSLP</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 \$388,337 and \$342,767 as of June 30, 2014 and 2013, respectively. This note is secured by a shared second mortgage on the property.	1,138,337	1,092,767

HOUSING FAMILIES INC. AND AFFILIATES
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
(Continued)

(7) CONTINGENT DEBT AND DEFERRED INTEREST (Continued)

<u>CSLP</u> (Continued)	<u>2014</u>	<u>2013</u>
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, 2014 and 2013. This note is secured by a shared second mortgage on the property.	<u>500,000</u>	<u>500,000</u>
Total contingent debt and deferred interest - CSLP	<u>1,638,337</u>	<u>1,592,767</u>
Total contingent debt and deferred interest	<u>\$3,743,621</u>	<u>\$3,623,866</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, 2014 and 2013.

(8) LEASE AGREEMENTS

HFI leases program facilities under various operating leases expiring through November 30, 2015, that are renewable annually. Rent expense under the facility leases was approximately \$1,026,000 and \$1,022,000 for the years ended June 30, 2014 and 2013, respectively. The minimum lease payments under these agreements for fiscal years 2015 and 2016 is approximately \$503,000 and \$48,000, respectively.

HFI leases certain equipment (see Notes 1 and 3) as of June 30, 2014 and 2013, under various capital lease agreements through June, 2017. Interest rates under these agreements range between 2.2% and 15% during fiscal years 2014 and 2013.

Future minimum lease payments under these agreements are as follows:

<u>Fiscal Year</u>	
2015	\$17,627
2016	14,717
2017	<u>10,584</u>
Total future minimum payments	42,928
Less - amounts representing interest	<u>6,291</u>
Present value of future minimum lease payments	36,637
Less - current portion	<u>14,192</u>
Long-term portion	<u>\$22,445</u>

HOUSING FAMILIES INC. AND AFFILIATES
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
(Continued)

(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 2014 and 2013, CSLP was required to make monthly deposits of approximately \$846 and \$813, respectively, into this account. The required monthly deposits increase by 4% per year. As of June 30, 2014 and 2013, 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. For the year ended June 30, 2014, 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. As of June 30, 2014, this account was adequately funded.

During fiscal year 2014, MM Homes established a reserve for replacements. MM Homes is not required to maintain a minimum balance and any deposits or withdrawals from this account are at the discretion of management.

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 as of June 30, 2014 and 2013). There is no deposit due to the operating reserve in fiscal year 2015 based on 2014 cash flows.

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. For the year ended June 30, 2014, 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. This account was not adequately funded as of June 30, 2014 and 2013.

During fiscal year 2014, MM Homes established an operating reserve which is to be used to fund any future operating deficits. MM Homes is not required to maintain a minimum balance and any deposits or withdrawals from this account are at the discretion of management.

HOUSING FAMILIES INC. AND AFFILIATES
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
(Continued)

(9) RESERVES AND DEPOSITS (Continued)

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

	2014			
	Beginning Balance	Additions and Interest	Withdrawals and Transfers	Ending Balance
Operating reserve	<u>\$179,799</u>	<u>\$40,190</u>	<u>\$ -</u>	<u>\$219,989</u>
Reserve for replacements	<u>\$ 71,180</u>	<u>\$81,201</u>	<u>\$ -</u>	<u>\$152,381</u>
	2013			
	Beginning Balance	Additions and Interest	Withdrawals and Transfers	Ending Balance
Operating reserve	<u>\$179,616</u>	<u>\$ 183</u>	<u>\$ -</u>	<u>\$179,799</u>
Reserve for replacements	<u>\$ 61,542</u>	<u>\$ 9,638</u>	<u>\$ -</u>	<u>\$ 71,180</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 70% and 96% of HFI's accounts and pledges receivable were due from two sources as of June 30, 2014 and 2013, respectively.

(11) RECLASSIFICATION

Certain amounts in the June 30, 2013 consolidating financial statements have been reclassified to conform with the June 30, 2014 consolidating financial statements presentation.