



AND AFFILIATES

**CONSOLIDATING FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

HOUSING FAMILIES INC. AND AFFILIATES

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June 30, 2017 and 2016

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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 Affiliates, which comprise the consolidating statements of financial position as of June 30, 2017 and 2016, 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 above present fairly, in all material respects, the consolidating financial position of Housing Families Inc. and Affiliates as of June 30, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

During fiscal year 2017, Housing Families Inc. and Affiliates adopted Accounting Standards Update No. 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, which modifies the classification of debt issuance costs on the consolidating statements of financial position. Our opinion is not modified with respect to this matter.

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

Wellesley, Massachusetts
December 12, 2017

HOUSING FAMILIES INC. AND AFFILIATES

Consolidating Statement of Financial Position

June 30, 2017

(With Summarized Comparative Totals as of June 30, 2016)

Assets	2017			2016	
	Housing Families Inc.	Rental Properties (Exhibit A)	Eliminations	Total	Total
Current Assets:					
Cash	\$ 384,679	\$ 131,347	\$ -	\$ 516,026	\$ 397,819
Accounts and pledges receivable	613,731	6,269	-	620,000	947,089
Prepaid expenses and other	29,067	10,460	-	39,527	43,671
Current portion of due from affiliates	36,767	28,778	(65,545)	-	-
Total current assets	<u>1,064,244</u>	<u>176,854</u>	<u>(65,545)</u>	<u>1,175,553</u>	<u>1,388,579</u>
Reserves and Deposits:					
Operating reserves	-	254,761	-	254,761	255,515
Reserves for replacements	-	228,048	-	228,048	204,446
Security deposits	-	31,689	-	31,689	30,474
Total reserves and deposits	<u>-</u>	<u>514,498</u>	<u>-</u>	<u>514,498</u>	<u>490,435</u>
Other Assets:					
Property and equipment, net	128,266	8,060,693	(132,499)	8,056,460	8,356,069
Due from affiliates, net of current portion	184,872	-	(184,872)	-	-
Notes receivable from affiliate, net	1,422,516	-	(1,422,516)	-	-
Total other assets	<u>1,735,654</u>	<u>8,060,693</u>	<u>(1,739,887)</u>	<u>8,056,460</u>	<u>8,356,069</u>
Total assets	<u>\$ 2,799,898</u>	<u>\$ 8,752,045</u>	<u>\$ (1,805,432)</u>	<u>\$ 9,746,511</u>	<u>\$ 10,235,083</u>
Liabilities and Entities' Equity (Deficit)					
Current Liabilities:					
Current portion of long-term debt and accrued interest	\$ -	\$ 100,835	\$ -	\$ 100,835	\$ 60,592
Current portion of capital lease obligations	19,308	-	-	19,308	23,570
Current portion of due to affiliates	-	65,545	(65,545)	-	-
Accounts payable	15,636	28,029	-	43,665	86,418
Accrued expenses	232,152	35,968	-	268,120	467,503
Total current liabilities	<u>267,096</u>	<u>230,377</u>	<u>(65,545)</u>	<u>431,928</u>	<u>638,083</u>
Long-Term Liabilities:					
Security deposits payable	-	31,689	-	31,689	30,474
Long-term debt, accrued interest and unamortized debt issuance costs, net of current portion	-	3,647,199	-	3,647,199	3,747,412
Capital lease obligations, net of current portion	50,476	-	-	50,476	57,571
Due to affiliates, net of current portion	-	184,872	(184,872)	-	-
Contingent debt and deferred interest	-	5,509,868	(1,422,516)	4,087,352	4,033,282
Total long-term liabilities	<u>50,476</u>	<u>9,373,628</u>	<u>(1,607,388)</u>	<u>7,816,716</u>	<u>7,868,739</u>
Total liabilities	<u>317,572</u>	<u>9,604,005</u>	<u>(1,672,933)</u>	<u>8,248,644</u>	<u>8,506,822</u>
Entities' Equity (Deficit):					
Unrestricted:					
Operating	668,956	292,101	-	961,057	836,911
Property and equipment	58,482	(1,144,061)	2,097,867	1,012,288	1,094,910
Housing development	1,607,388	-	(1,607,388)	-	-
Total unrestricted	<u>2,334,826</u>	<u>(851,960)</u>	<u>490,479</u>	<u>1,973,345</u>	<u>1,931,821</u>
Temporarily restricted	<u>147,500</u>	<u>-</u>	<u>-</u>	<u>147,500</u>	<u>240,959</u>
Total Housing Families entities' equity (deficit)	<u>2,482,326</u>	<u>(851,960)</u>	<u>490,479</u>	<u>2,120,845</u>	<u>2,172,780</u>
Non-controlling interest	<u>-</u>	<u>-</u>	<u>(622,978)</u>	<u>(622,978)</u>	<u>(444,519)</u>
Total entities' equity (deficit)	<u>2,482,326</u>	<u>(851,960)</u>	<u>(132,499)</u>	<u>1,497,867</u>	<u>1,728,261</u>
Total liabilities and entities' equity (deficit)	<u>\$ 2,799,898</u>	<u>\$ 8,752,045</u>	<u>\$ (1,805,432)</u>	<u>\$ 9,746,511</u>	<u>\$ 10,235,083</u>

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

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HOUSING FAMILIES INC. AND AFFILIATES

 Consolidating Statement of Financial Position
 June 30, 2016

Assets	Housing Families Inc.	Rental Properties (Exhibit A)	Eliminations	Total
Current Assets:				
Cash	\$ 314,441	\$ 83,378	\$ -	\$ 397,819
Accounts and pledges receivable	944,539	2,550	-	947,089
Prepaid expenses and other	31,368	12,303	-	43,671
Current portion of due from affiliates	22,900	-	(22,900)	-
Total current assets	1,313,248	98,231	(22,900)	1,388,579
Reserves and Deposits:				
Operating reserves	-	255,515	-	255,515
Reserves for replacements	-	204,446	-	204,446
Security deposits	-	30,474	-	30,474
Total reserves and deposits	-	490,435	-	490,435
Other Assets:				
Property and equipment, net	159,472	8,361,343	(164,746)	8,356,069
Due from affiliates, net of current portion	184,872	-	(184,872)	-
Notes receivable from affiliate, net	1,422,516	-	(1,422,516)	-
Total other assets	1,766,860	8,361,343	(1,772,134)	8,356,069
Total assets	\$ 3,080,108	\$ 8,950,009	\$ (1,795,034)	\$ 10,235,083
Liabilities and Entities' Equity (Deficit)				
Current Liabilities:				
Current portion of long-term debt and accrued interest	\$ -	\$ 60,592	\$ -	\$ 60,592
Current portion of capital lease obligations	23,570	-	-	23,570
Current portion of due to affiliates	-	22,900	(22,900)	-
Accounts payable	81,025	5,393	-	86,418
Accrued expenses	441,110	26,393	-	467,503
Total current liabilities	545,705	115,278	(22,900)	638,083
Long-Term Liabilities:				
Security deposits payable	-	30,474	-	30,474
Long-term debt, accrued interest and unamortized debt issuance costs, net of current portion	-	3,747,412	-	3,747,412
Capital lease obligations, net of current portion	57,571	-	-	57,571
Due to affiliates, net of current portion	-	184,872	(184,872)	-
Contingent debt and deferred interest	-	5,455,798	(1,422,516)	4,033,282
Total long-term liabilities	57,571	9,418,556	(1,607,388)	7,868,739
Total liabilities	603,276	9,533,834	(1,630,288)	8,506,822
Entities' Equity (Deficit):				
Unrestricted:				
Operating	550,154	286,757	-	836,911
Property and equipment	78,331	(870,582)	1,887,161	1,094,910
Housing development	1,607,388	-	(1,607,388)	-
Total unrestricted	2,235,873	(583,825)	279,773	1,931,821
Temporarily restricted	240,959	-	-	240,959
Total Housing Families entities' equity (deficit)	2,476,832	(583,825)	279,773	2,172,780
Non-controlling interest	-	-	(444,519)	(444,519)
Total entities' equity (deficit)	2,476,832	(583,825)	(164,746)	1,728,261
Total liabilities and entities' equity (deficit)	\$ 3,080,108	\$ 8,950,009	\$ (1,795,034)	\$ 10,235,083

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, 2017

(With Summarized Comparative Totals for the Year Ended June 30, 2016)

	2017			2016	
	Housing Families Inc.	Rental Properties (Exhibit B)	Eliminations	Total	Total
Changes in Unrestricted Net Assets:					
Operating support and revenues:					
Program service fees	\$ 5,303,441	\$ -	\$ -	\$ 5,303,441	\$ 5,640,983
Rental income, net of vacancies	-	741,464	(126,120)	615,344	585,278
Grants	530,644	-	-	530,644	224,158
Contributions	280,112	-	-	280,112	456,143
Donated goods and services	256,230	-	-	256,230	277,285
Management fees, program income and other	129,285	12,908	(38,557)	103,636	66,469
Special event	-	-	-	-	246,290
Net assets released from program restrictions	175,959	-	-	175,959	206,066
Net assets released from time restrictions	50,000	-	-	50,000	25,000
Total operating support and revenues	6,725,671	754,372	(164,677)	7,315,366	7,727,672
Operating expenses:					
Program services	5,534,471	-	(120,639)	5,413,832	5,799,617
General and administrative	753,306	-	(2,131)	751,175	540,571
Fundraising	258,409	-	(3,350)	255,059	477,529
Rental Properties	-	651,656	(38,557)	613,099	541,146
Total operating expenses before depreciation and amortization	6,546,186	651,656	(164,677)	7,033,165	7,358,863
Depreciation and amortization	80,532	316,781	(32,247)	365,066	350,210
Total operating expenses	6,626,718	968,437	(196,924)	7,398,231	7,709,073
Changes in unrestricted net assets from operations	98,953	(214,065)	32,247	(82,865)	18,599
Non-operating activities:					
Forgiveness of debt	-	5,195	-	5,195	26,529
Deferred interest expense	-	(59,265)	-	(59,265)	(57,655)
Net assets released from capital restrictions	-	-	-	-	63,810
Changes in unrestricted net assets	98,953	(268,135)	32,247	(136,935)	51,283
Changes in Temporarily Restricted Net Assets:					
Contributions	132,500	-	-	132,500	238,636
Net assets released from restrictions	(225,959)	-	-	(225,959)	(294,876)
Changes in temporarily restricted net assets	(93,459)	-	-	(93,459)	(56,240)
Changes in net assets	5,494	(268,135)	32,247	(230,394)	(4,957)
Changes in Net Assets Attributable to Non-Controlling Interest					
Changes in net assets attributable to Housing Families	\$ 5,494	\$ (89,676)	\$ 32,247	\$ (51,935)	\$ 79,602

HOUSING FAMILIES INC. AND AFFILIATES

 Consolidating Statement of Activities
 For the Year Ended June 30, 2016

	Housing Families Inc.	Rental Properties (Exhibit B)	Eliminations	Total
Changes in Unrestricted Net Assets:				
Operating support and revenues:				
Program service fees	\$ 5,640,983	\$ -	\$ -	\$ 5,640,983
Rental income, net of vacancies	-	711,556	(126,278)	585,278
Grants	224,158	-	-	224,158
Contributions	456,143	-	-	456,143
Donated goods and services	277,285	-	-	277,285
Management fees, program income and other	96,345	4,247	(34,123)	66,469
Special event	246,290	-	-	246,290
Net assets released from program restrictions	206,066	-	-	206,066
Net assets released from time restrictions	25,000	-	-	25,000
Total operating support and revenues	<u>7,172,270</u>	<u>715,803</u>	<u>(160,401)</u>	<u>7,727,672</u>
Operating expenses:				
Program services	5,920,414	-	(120,797)	5,799,617
General and administrative	542,702	-	(2,131)	540,571
Fundraising	480,879	-	(3,350)	477,529
Rental Properties	-	575,269	(34,123)	541,146
Total operating expenses before depreciation and amortization	6,943,995	575,269	(160,401)	7,358,863
Depreciation and amortization	62,528	319,929	(32,247)	350,210
Total operating expenses	<u>7,006,523</u>	<u>895,198</u>	<u>(192,648)</u>	<u>7,709,073</u>
Changes in unrestricted net assets from operations	165,747	(179,395)	32,247	18,599
Non-operating activities:				
Forgiveness of debt	-	26,529	-	26,529
Capital grant	(63,810)	63,810	-	-
Deferred interest expense	-	(57,655)	-	(57,655)
Net assets released from capital restrictions	63,810	-	-	63,810
Changes in unrestricted net assets	<u>165,747</u>	<u>(146,711)</u>	<u>32,247</u>	<u>51,283</u>
Changes in Temporarily Restricted Net Assets:				
Contributions	238,636	-	-	238,636
Net assets released from program restrictions	(294,876)	-	-	(294,876)
Changes in temporarily restricted net assets	<u>(56,240)</u>	<u>-</u>	<u>-</u>	<u>(56,240)</u>
Changes in net assets	109,507	(146,711)	32,247	(4,957)
Changes in Net Assets Attributable to Non-Controlling Interest				
	<u>-</u>	<u>84,559</u>	<u>-</u>	<u>84,559</u>
Changes in net assets attributable to Housing Families	<u>\$ 109,507</u>	<u>\$ (62,152)</u>	<u>\$ 32,247</u>	<u>\$ 79,602</u>

HOUSING FAMILIES INC. AND AFFILIATES

Consolidating Statements of Changes in Entities' Equity (Deficit)
For the Years Ended June 30, 2017 and 2016

	<u>Housing Families Inc.</u>	<u>Rental Properties</u>	<u>Eliminations</u>	<u>Total</u>	<u>Non- Controlling Interest</u>	<u>Total</u>
Balance, June 30, 2015	\$ 2,367,325	\$ (437,114)	\$ 162,967	\$ 2,093,178	\$ (359,960)	\$ 1,733,218
Changes in net assets	<u>109,507</u>	<u>(146,711)</u>	<u>116,806</u>	<u>79,602</u>	<u>(84,559)</u>	<u>(4,957)</u>
Balance, June 30, 2016	2,476,832	(583,825)	279,773	2,172,780	(444,519)	1,728,261
Changes in net assets	<u>5,494</u>	<u>(268,135)</u>	<u>210,706</u>	<u>(51,935)</u>	<u>(178,459)</u>	<u>(230,394)</u>
Balance, June 30, 2017	<u><u>\$ 2,482,326</u></u>	<u><u>\$ (851,960)</u></u>	<u><u>\$ 490,479</u></u>	<u><u>\$ 2,120,845</u></u>	<u><u>\$ (622,978)</u></u>	<u><u>\$ 1,497,867</u></u>

HOUSING FAMILIES INC. AND AFFILIATES

 Consolidating Statement of Cash Flows
 For the Year Ended June 30, 2017

	<u>Housing Families Inc.</u>	<u>Rental Properties</u>	<u>Eliminations</u>	<u>Total</u>
Cash Flows from Operating Activities:				
Changes in net assets	\$ 5,494	\$ (268,135)	\$ 32,247	\$ (230,394)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:				
Depreciation and amortization	80,532	316,781	(32,247)	365,066
Interest - amortization of debt issuance costs	-	4,936	-	4,936
Forgiveness of debt	-	(5,195)	-	(5,195)
Deferred interest	-	59,265	-	59,265
Changes in operating assets and liabilities:				
Accounts and pledges receivable	330,808	(3,719)	-	327,089
Prepaid expenses and other	2,301	(488)	-	1,813
Due to/from affiliates	(13,867)	13,867	-	-
Accounts payable	(65,389)	22,636	-	(42,753)
Accrued expenses	(208,958)	9,575	-	(199,383)
Net cash provided by operating activities	<u>130,921</u>	<u>149,523</u>	<u>-</u>	<u>280,444</u>
Cash Flows from Investing Activities:				
Acquisition of property and equipment	(37,600)	(13,800)	-	(51,400)
Withdrawals from operating reserves	-	754	-	754
Deposits to and interest earned on reserves for replacements	-	(23,602)	-	(23,602)
Net cash used in investing activities	<u>(37,600)</u>	<u>(36,648)</u>	<u>-</u>	<u>(74,248)</u>
Cash Flows from Financing Activities:				
Principal payments on long-term debt	-	(64,906)	-	(64,906)
Principal payments on capital lease obligations	(23,083)	-	-	(23,083)
Net cash used in financing activities	<u>(23,083)</u>	<u>(64,906)</u>	<u>-</u>	<u>(87,989)</u>
Net Change in Cash	<u>70,238</u>	<u>47,969</u>	<u>-</u>	<u>118,207</u>
Cash:				
Beginning of year	<u>314,441</u>	<u>83,378</u>	<u>-</u>	<u>397,819</u>
End of year	<u>\$ 384,679</u>	<u>\$ 131,347</u>	<u>\$ -</u>	<u>\$ 516,026</u>
Supplemental Disclosure of Cash Flow Information:				
Cash paid for interest	<u>\$ 6,036</u>	<u>\$ 121,081</u>	<u>\$ -</u>	<u>\$ 127,117</u>
Non-Cash Investing and Financing Transactions:				
Property and equipment acquired under capital leases	<u>\$ 11,726</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,726</u>
Forgiveness of contingent debt	<u>\$ -</u>	<u>\$ 5,195</u>	<u>\$ -</u>	<u>\$ 5,195</u>

HOUSING FAMILIES INC. AND AFFILIATES

 Consolidating Statement of Cash Flows
 For the Year Ended June 30, 2016

	<u>Housing Families Inc.</u>	<u>Rental Properties</u>	<u>Eliminations</u>	<u>Total</u>
Cash Flows from Operating Activities:				
Changes in net assets	\$ 109,507	\$ (146,711)	\$ 32,247	\$ (4,957)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:				
Depreciation and amortization	62,528	319,929	(32,247)	350,210
Interest - amortization of debt issuance costs	-	4,936	-	4,936
Bad debt	468	510	-	978
Capital grant	63,810	(63,810)	-	-
Forgiveness of debt	-	(26,529)	-	(26,529)
Deferred interest	-	57,655	-	57,655
Changes in operating assets and liabilities:				
Accounts and pledges receivable	(353,277)	(1,427)	-	(354,704)
Prepaid expenses and other	16,728	658	-	17,386
Due to/from affiliates	(21,788)	21,788	-	-
Accounts payable	(20,201)	(11,443)	-	(31,644)
Accrued expenses	272,208	9,052	-	281,260
Net cash provided by operating activities	<u>129,983</u>	<u>164,608</u>	<u>-</u>	<u>294,591</u>
Cash Flows from Investing Activities:				
Acquisition of property and equipment	(37,672)	(84,942)	-	(122,614)
Deposits to and interest earned on operating reserves	-	(61,079)	-	(61,079)
Net withdrawals from reserves for replacements	-	5,819	-	5,819
Net cash used in investing activities	<u>(37,672)</u>	<u>(140,202)</u>	<u>-</u>	<u>(177,874)</u>
Cash Flows from Financing Activities:				
Capital grant	(63,810)	63,810	-	-
Principal payments on long-term debt	-	(56,254)	-	(56,254)
Principal payments on capital lease obligations	(21,550)	-	-	(21,550)
Net cash provided by (used in) financing activities	<u>(85,360)</u>	<u>7,556</u>	<u>-</u>	<u>(77,804)</u>
Net Change in Cash	6,951	31,962	-	38,913
Cash:				
Beginning of year	<u>307,490</u>	<u>51,416</u>	<u>-</u>	<u>358,906</u>
End of year	<u>\$ 314,441</u>	<u>\$ 83,378</u>	<u>\$ -</u>	<u>\$ 397,819</u>
Supplemental Disclosure of Cash Flow Information:				
Cash paid for interest	<u>\$ 11,278</u>	<u>\$ 120,198</u>	<u>\$ -</u>	<u>\$ 131,476</u>
Non-Cash Investing and Financing Transactions:				
Property and equipment acquired under capital leases	<u>\$ 53,775</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 53,775</u>
Forgiveness of contingent debt	<u>\$ -</u>	<u>\$ 32,000</u>	<u>\$ -</u>	<u>\$ 32,000</u>

HOUSING FAMILIES INC. AND AFFILIATES

Consolidating Statement of Functional Expenses
For the Year Ended June 30, 2017

(With Summarized Comparative Totals for the Year Ended June 30, 2016)

	2017						2016		
	Housing Families Inc.								
	Support Services								
	Program Services	General and Administrative	Fundraising	Total Support Services	Total	Rental Properties (Exhibit B)	Eliminations	Total	Total
Personnel and Related Costs:									
Salaries	\$ 1,721,898	\$ 394,114	\$ 147,615	\$ 541,729	\$ 2,263,627	\$ 71,457	\$ -	\$ 2,335,084	\$ 2,391,171
Payroll taxes and benefits	345,226	83,684	24,979	108,663	453,889	6,981	-	460,870	434,412
Temporary help	21,284	1,033	-	1,033	22,317	-	-	22,317	28,723
Total personnel and related costs	2,088,408	478,831	172,594	651,425	2,739,833	78,438	-	2,818,271	2,854,306
Occupancy:									
Rent	2,315,877	23,991	21,950	45,941	2,361,818	-	(126,120)	2,235,698	2,076,335
Utilities	122,229	-	-	-	122,229	157,081	-	279,310	234,115
Repairs and maintenance	93,370	22,548	970	23,518	116,888	136,152	-	253,040	223,750
Taxes and insurance	61,858	223	223	446	62,304	71,366	-	133,670	117,893
Interest	-	-	-	-	-	121,081	-	121,081	120,198
Extermination contract	22,276	480	-	480	22,756	3,718	-	26,474	12,666
Total occupancy	2,615,610	47,242	23,143	70,385	2,685,995	489,398	(126,120)	3,049,273	2,784,957
Other:									
Donated goods and services	244,012	-	12,218	12,218	256,230	-	-	256,230	277,285
Professional fees	67,310	119,946	3,500	123,446	190,756	29,145	-	219,901	193,849
Office supplies and equipment	104,858	69,083	23,195	92,278	197,136	7,054	-	204,190	232,806
Pass-through client services	147,212	-	-	-	147,212	-	-	147,212	410,000
Non-capital equipment	73,968	2,884	338	3,222	77,190	-	-	77,190	97,318
Training, travel and meals	51,843	8,204	7,278	15,482	67,325	-	-	67,325	79,451
Telephone	49,647	8,222	2,857	11,079	60,726	-	-	60,726	60,253
Grant expense	30,398	-	-	-	30,398	-	-	30,398	96,173
Insurance	7,219	10,349	-	10,349	17,568	-	-	17,568	14,255
Dues and subscriptions	10,986	3,437	2,930	6,367	17,353	-	-	17,353	31,000
Vehicle costs	16,817	-	-	-	16,817	-	-	16,817	18,900
Advertising	14,232	180	1,548	1,728	15,960	-	-	15,960	12,510
Printing and postage	2,572	2,552	8,498	11,050	13,622	-	-	13,622	29,867
Miscellaneous	4,901	818	310	1,128	6,029	4,128	-	10,157	16,634
Interest	4,478	1,558	-	1,558	6,036	-	-	6,036	11,278
Interest - amortization of debt issuance costs	-	-	-	-	-	4,936	-	4,936	4,936
Special event	-	-	-	-	-	-	-	-	133,085
Management fees	-	-	-	-	-	38,557	(38,557)	-	-
Total other	830,453	227,233	62,672	289,905	1,120,358	83,820	(38,557)	1,165,621	1,719,600
Total expenses before depreciation and amortization	5,534,471	753,306	258,409	1,011,715	6,546,186	651,656	(164,677)	7,033,165	7,358,863
Depreciation and Amortization	70,252	10,280	-	10,280	80,532	316,781	(32,247)	365,066	350,210
Total expenses	\$ 5,604,723	\$ 763,586	\$ 258,409	\$ 1,021,995	\$ 6,626,718	\$ 968,437	\$ (196,924)	\$ 7,398,231	\$ 7,709,073

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, 2016

	Housing Families Inc.							
	Support Services				Rental Properties (Exhibit B)	Eliminations	Total	
	Program Services	General and Adminis- trative	Fundraising	Total Support Services				Total
Personnel and Related Costs:								
Salaries	\$ 1,863,689	\$ 260,136	\$ 213,691	\$ 473,827	\$ 2,337,516	\$ 53,655	\$ -	\$ 2,391,171
Payroll taxes and benefits	362,438	32,711	31,167	63,878	426,316	8,096	-	434,412
Temporary help	23,906	1,684	3,133	4,817	28,723	-	-	28,723
Total personnel and related costs	2,250,033	294,531	247,991	542,522	2,792,555	61,751	-	2,854,306
Occupancy:								
Rent	2,179,297	12,341	10,975	23,316	2,202,613	-	(126,278)	2,076,335
Utilities	94,700	176	249	425	95,125	138,990	-	234,115
Repairs and maintenance	102,616	23,209	439	23,648	126,264	97,486	-	223,750
Taxes and insurance	30,221	2,187	-	2,187	32,408	85,485	-	117,893
Interest	-	-	-	-	-	120,198	-	120,198
Extermination contract	9,208	120	-	120	9,328	3,338	-	12,666
Total occupancy	2,416,042	38,033	11,663	49,696	2,465,738	445,497	(126,278)	2,784,957
Other:								
Donated goods and services	258,910	3,375	15,000	18,375	277,285	-	-	277,285
Professional fees	79,974	91,465	-	91,465	171,439	22,410	-	193,849
Office supplies and equipment	160,147	46,194	21,526	67,720	227,867	4,939	-	232,806
Pass-through client services	410,000	-	-	-	410,000	-	-	410,000
Non-capital equipment	76,138	18,031	3,149	21,180	97,318	-	-	97,318
Training, travel and meals	51,960	21,665	5,826	27,491	79,451	-	-	79,451
Telephone	54,916	3,790	1,547	5,337	60,253	-	-	60,253
Grant expense	94,807	-	1,366	1,366	96,173	-	-	96,173
Insurance	5,506	8,749	-	8,749	14,255	-	-	14,255
Dues and subscriptions	10,143	3,924	16,933	20,857	31,000	-	-	31,000
Vehicle costs	18,900	-	-	-	18,900	-	-	18,900
Advertising	3,237	168	9,105	9,273	12,510	-	-	12,510
Printing and postage	13,399	5,308	11,160	16,468	29,867	-	-	29,867
Miscellaneous	10,585	1,908	2,528	4,436	15,021	1,613	-	16,634
Interest	5,717	5,561	-	5,561	11,278	-	-	11,278
Interest - amortization of debt issuance costs	-	-	-	-	-	4,936	-	4,936
Special event	-	-	133,085	133,085	133,085	-	-	133,085
Management fees	-	-	-	-	-	34,123	(34,123)	-
Total other	1,254,339	210,138	221,225	431,363	1,685,702	68,021	(34,123)	1,719,600
Total expenses before depreciation and amortization	5,920,414	542,702	480,879	1,023,581	6,943,995	575,269	(160,401)	7,358,863
Depreciation and Amortization	53,624	8,904	-	8,904	62,528	319,929	(32,247)	350,210
Total expenses	\$ 5,974,038	\$ 551,606	\$ 480,879	\$ 1,032,485	\$ 7,006,523	\$ 895,198	\$ (192,648)	\$ 7,709,073

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

HOUSING FAMILIES INC. AND AFFILIATES

Notes to Consolidating Financial Statements
June 30, 2017 and 2016

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.

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 prepare their consolidating financial statements in accordance with generally accepted accounting standards and principles (U.S. GAAP) established by the Financial Accounting Standards Board (FASB). References to U.S. GAAP in these notes are to the FASB Accounting Standards Codification (ASC).

Accounting Principle Adoption

During fiscal year 2017, HFI and Affiliates adopted the FASB's Accounting Standards Update (ASU) 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, which requires that debt issuance costs be presented on the consolidating statements of financial position as a direct reduction from the carrying balance of the related long-term debt. Previously, HFI and Affiliates reflected unamortized debt issuance costs as financing fees in the accompanying 2016 consolidating statement of financial position, and has retroactively reclassified 2016 amounts in accordance with this ASU. The reclassification reduced total assets and long-term debt at June 30, 2016, by \$45,155.

In addition, amortization of debt issuance costs is required to be included with interest expense in the accompanying consolidating statements of functional expenses. Accordingly, amortization expense totaling \$4,936 for the year ended June 30, 2016, has been reclassified to interest – amortization of debt issuance costs.

The adoption of this ASU did not impact HFI and Affiliates' entities' equity (deficit) balance, changes in entities' equity (deficit), or cash flows for the years ended June 30, 2017 and 2016.

Principles of Consolidation

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

HOUSING FAMILIES INC. AND AFFILIATES

Notes to Consolidating Financial Statements
June 30, 2017 and 2016

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates

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

Revenue Recognition

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

Fair Value Measurements

HFI and Affiliates follow the accounting and disclosure standards pertaining to ASC Topic, *Fair Value Measurements*, for qualifying assets and liabilities. Fair value is defined as the price that HFI and Affiliates would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants.

HFI and Affiliates use a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. This hierarchy is broken down into three levels based on inputs that market participants would use in valuing the financial instruments based on market data obtained from sources independent of HFI and Affiliates. Inputs refer broadly to the assumptions that market participants would use in pricing the financial instrument, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the financial instrument developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset developed based on the best information available.

The three-tier hierarchy of inputs is summarized in the three broad levels as follows:

- Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets at the measurement date.
- Level 2 - Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.
- Level 3 - Inputs that are unobservable and which require significant judgment or estimation.

An 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. All qualifying assets and liabilities are valued using Level 1 inputs.

HOUSING FAMILIES INC. AND AFFILIATES

Notes to Consolidating Financial Statements
June 30, 2017 and 2016

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 reserves 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. Temporarily restricted net assets are restricted as follows as of June 30:

	<u>2017</u>	<u>2016</u>
Purpose	\$ 97,500	\$ 190,959
Time	<u>50,000</u>	<u>50,000</u>
	<u>\$ 147,500</u>	<u>\$ 240,959</u>

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).

Pledges Receivable

Pledges receivable are recorded at their net present value when unconditionally committed. Pledges receivable at June 30, 2017, are expected to be collected in fiscal year 2018.

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, 2017 and 2016.

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

Land is not depreciated.

HOUSING FAMILIES INC. AND AFFILIATES

Notes to Consolidating Financial Statements
June 30, 2017 and 2016

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capitalized Costs and Amortization

Capitalized costs consist of low-income housing tax credit application fees that have been capitalized and amortized on the straight-line basis. Capitalized costs have a cost of \$35,000 as of June 30, 2017 and 2016. Accumulated amortization of capitalized costs was \$25,028 and \$22,697 as of June 30, 2017 and 2016, respectively. Capitalized costs, net of accumulated amortization are included in prepaid expenses and other in the accompanying consolidating statements of financial position. Amortization during fiscal years 2017 and 2016 was \$2,331 and is included in depreciation and amortization in the accompanying consolidating financial statements. Amortization expense for the next four years is \$2,331 per year and \$648 on the fifth year.

Unamortized Debt Issuance Costs

Unamortized debt issuance costs are amortized over the period the related obligation is outstanding using the straight-line method, which approximates the effective interest method.

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 management, as follows for the years ended June 30:

	<u>2017</u>	<u>2016</u>
Contracted services	\$ 164,605	\$ 135,800
Program supplies	<u>91,625</u>	<u>141,485</u>
	<u>\$ 256,230</u>	<u>\$ 277,285</u>

HFI receives services of volunteers in various aspects of its programs. The value of these services is not reflected in the accompanying consolidating financial statements, since the value assigned to these services by the donating volunteers is not ascertainable and does not meet the criteria for recognition of U.S. GAAP.

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 management.

Consolidating Statements of Activities

Transactions deemed by management to be ongoing, major, or central to the provision of program services are reported as operating support and revenues and operating expenses in the accompanying consolidating statements of activities. Non-operating activities include forgiveness of debt, deferred interest expense and capital activity.

HOUSING FAMILIES INC. AND AFFILIATES

Notes to Consolidating Financial Statements
June 30, 2017 and 2016

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising

Advertising costs are expensed as incurred.

Contingent Debt

HFI and Affiliates have contingent loans from various organizations to assist in the development of housing and other projects (see Note 6). These loans generally are not required to be repaid unless the project fails to maintain its status as low-income housing or HFI and Affiliates fail to comply with other conditions. It is the intention of the Board of Directors and management 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.

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 statements regarding a tax position taken or expected to be taken in a tax return. HFI and Affiliates have determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the consolidating financial statements at June 30, 2017 and 2016.

As described on page 11, HFI is exempt from income taxes under Section 501(c)(3) of the IRC. Cross Street Realty, Inc. and HFI Properties, Inc. are for-profit corporations. At June 30, 2017 and 2016, Cross Street Realty, Inc. and HFI Properties, Inc. had, for Federal income tax purposes, net operating loss carryforwards of approximately \$480,000 and \$309,000, respectively, available to offset future taxable income. Cross Street Realty, Inc. and HFI Properties, Inc. had, for state income tax purposes, net operating loss carryforwards of approximately \$473,000 and \$303,000, respectively, available to offset future taxable income as of June 30, 2017 and 2016.

Cross Street Realty, Inc. 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, 2017 and 2016, since the tax benefit of the net operating loss carryforwards have been fully reserved.

Cross Street Housing Limited Partnership (CSLP) accounts for uncertainty in income taxes in accordance with ASC Topic, *Income Taxes*. No income tax provision has been included in the accompanying consolidating financial statements as the income, loss and credits of CSLP are reported by the partners on their respective income tax returns.

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 December 12, 2017, which is the date the consolidating financial statements were available to be issued. See Note 11 for an event that met the criteria for recognition or disclosure in the consolidating financial statements.

HOUSING FAMILIES INC. AND AFFILIATES

Notes to Consolidating Financial Statements
June 30, 2017 and 2016

2. RELATED PARTY TRANSACTIONS

HFI is presented on the consolidated basis and includes the following entity:

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.

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. MM Homes has elected to be treated as a disregarded entity for tax purposes.

HFI Properties, Inc. (HFI Properties) is a Massachusetts corporation formed in August 2010. HFI Properties purpose 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 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 between HFI and the entities described above 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 2017 and 2016. The unpaid development and overhead fee reimbursements were \$184,872 as of June 30, 2017 and 2016, and are included in due to/from 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, 2017 and 2016, consisted of the following:

	<u>2017</u>	<u>2016</u>
CSLP	\$ 22,082	\$ 17,876
MM Homes	10,776	10,526
HFI Properties	<u>5,699</u>	<u>5,721</u>
	<u>\$ 38,557</u>	<u>\$ 34,123</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, 2017 and 2016

2. RELATED PARTY TRANSACTIONS (Continued)

Consolidating Entities (Continued)

Amounts due to HFI from its affiliates for management fees and general advances are as follows:

	<u>2017</u>	<u>2016</u>
Due from CSLP	\$ 30,875	\$ 12,782
Due from MM Homes	4,806	5,122
Due from HFI Properties	<u>1,086</u>	<u>4,996</u>
	<u>\$ 36,767</u>	<u>\$ 22,900</u>

At June 30, 2017, there was \$28,778 due from HFI Properties to MM Homes for subsidy rental receipts received from HFI Properties on behalf of MM Homes. There was no amounts due from HFI Properties to MM Homes at June 30, 2016.

HFI has a 5.375% note receivable from CSLP of \$998,598, of which \$805,583 has been advanced at June 30, 2017 and 2016. 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 2017 and 2016. Interest compounds annually. All unpaid principal and deferred interest are due in full on July 23, 2033. For fiscal years 2017 and 2016, deferred interest expense on this loan was \$79,962 and \$76,559, respectively. This note is secured by a fourth mortgage on CSLP's property. During fiscal years 2017 and 2016, HFI forgave the deferred interest portion that was earned during those years, and therefore the deferred interest expense and the forgiveness of such interest have been netted in the accompanying combining statements of activities.

CSLP has a lease agreement with HFI to rent its commercial space to HFI. 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 2017 and 2016. Under the terms of the lease agreement, rent will increase annually for increases in real estate taxes and operating expenses.

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

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.

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 expense under this agreement was \$96,120 and \$96,278 for fiscal years 2017 and 2016, respectively.

HOUSING FAMILIES INC. AND AFFILIATES

Notes to Consolidating Financial Statements
June 30, 2017 and 2016

2. RELATED PARTY TRANSACTIONS (Continued)

Consolidating Entities (Continued)

Notes receivable consist of the following at June 30:

	<u>2017</u>	<u>2016</u>
Sponsor loan receivable	\$ 805,583	\$ 805,583
Interest receivable on sponsor loan	<u>773,454</u>	<u>693,492</u>
Total notes receivable	1,579,037	1,499,075
Less - reserve on uncollectable amounts	<u>156,521</u>	<u>76,559</u>
Notes receivable, net	<u>\$ 1,422,516</u>	<u>\$ 1,422,516</u>

In September 2015, HFI entered into a \$300,000 line of credit agreement with a bank where one of HFI's Board of Directors is an employee of the bank (see Note 5). This Board member refrains from discussions on matters relating to his employer.

3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

<u>2017</u>	<u>HFI</u>	<u>Rental Properties</u>	<u>Eliminations</u>	<u>Total</u>
Land	\$ -	\$ 1,285,700	\$ -	\$ 1,285,700
Buildings and improvements	-	9,656,654	(525,764)	9,130,890
Furniture and equipment	241,648	97,368	-	339,016
Vehicles	<u>95,520</u>	<u>-</u>	<u>-</u>	<u>95,520</u>
Total cost	337,168	11,039,722	(525,764)	10,851,126
Less - accumulated depreciation	<u>208,902</u>	<u>2,979,029</u>	<u>(393,265)</u>	<u>2,794,666</u>
	<u>\$ 128,266</u>	<u>\$ 8,060,693</u>	<u>\$ (132,499)</u>	<u>\$ 8,056,460</u>
<u>2016</u>	<u>HFI</u>	<u>Rental Properties</u>	<u>Eliminations</u>	<u>Total</u>
Land	\$ -	\$ 1,285,700	\$ -	\$ 1,285,700
Buildings and improvements	-	9,656,654	(525,764)	9,130,890
Furniture and equipment	229,596	83,568	-	313,164
Vehicles	<u>86,491</u>	<u>-</u>	<u>-</u>	<u>86,491</u>
Total cost	316,087	11,025,922	(525,764)	10,816,245
Less - accumulated depreciation	<u>156,615</u>	<u>2,664,579</u>	<u>(361,018)</u>	<u>2,460,176</u>
	<u>\$ 159,472</u>	<u>\$ 8,361,343</u>	<u>\$ (164,746)</u>	<u>\$ 8,356,069</u>

Depreciation expense during fiscal years 2017 and 2016 was \$362,735 and \$347,879, respectively. Substantially all property and equipment are pledged as collateral on long-term and contingent debt (see Notes 4 and 6).

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, 2017 and 2016, HFI has not recognized any reduction in the carrying value of its property and equipment under these standards.

HOUSING FAMILIES INC. AND AFFILIATES

Notes to Consolidating Financial Statements
June 30, 2017 and 2016

3. PROPERTY AND EQUIPMENT (Continued)

HFI currently has equipment and vehicles under various capital lease agreements with a total cost of \$135,674 and \$123,948 as of June 30, 2017 and 2016, respectively (see Note 8). Depreciation expense for fiscal years 2017 and 2016 for assets under capital lease was \$29,001 and \$25,570, respectively. During fiscal year 2016, HFI disposed of assets under a capital lease obligation with cost and accumulated depreciation of \$23,450. As of June 30, 2017 and 2016, accumulated depreciation was \$85,759 and \$56,758, respectively, on these assets.

4. LONG-TERM DEBT

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

	<u>2017</u>	<u>2016</u>
HFI Properties		
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 \$1,546 was due at June 30, 2016. There was no payment due at June 30, 2017. During fiscal year 2017, a principal payment of \$6,756 was made on this note. The note matures in September 2041, and is secured by a first mortgage on property located in Revere, Massachusetts.	\$ 539,981	\$ 546,737
5.75% interest bearing note payable to a bank. Principal and interest payments of \$2,359 were due monthly through November 2016. Effective in November 2016, the interest rate was adjusted to the Five-Year Federal Home Loan Classic Advance Rate, 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>340,657</u>	<u>348,156</u>
Total HFI Properties	<u>880,638</u>	<u>894,893</u>
MM Homes		
Non-interest bearing note payable to MRA. Payments of 25% of net cash flow, as defined in the agreement, are due annually each December. Based on this calculation, there was a payment of \$12,066 due at June 30, 2017, and no principal payment due as of June 30, 2016. MM Homes did not make any principal payments during fiscal years 2017 and 2016. The note matures in August 2041, and is secured by a shared first mortgage on property located in Malden and Medford, Massachusetts.	847,459	847,459

HOUSING FAMILIES INC. AND AFFILIATESNotes to Consolidating Financial Statements
June 30, 2017 and 2016**4. LONG-TERM DEBT (Continued)**

	<u>2017</u>	<u>2016</u>
MM Homes (Continued)		
Non-interest bearing note payable with Community Economic Development Assistance Corporation (CEDAC) through its Housing Innovations Fund (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 was a payment of \$16,496 due at June 30, 2017, and no payments due at June 30, 2016. The note matures in August 2042, and is secured by a shared first mortgage on property in Malden and Medford, Massachusetts.	179,988	179,988
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 was a payment of \$6,436 due at June 30, 2017 and no payments due at June 30, 2016. The note matures in February 2028, and is secured by a shared first mortgage on property in Medford, Massachusetts.	70,230	70,230
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 was a payment of \$4,291 due at June 30, 2017, and no payments due at June 30, 2016. All unpaid principal is due in July 2030. The note is secured by a shared first mortgage on the property in Malden, Massachusetts.	46,820	46,820
2% note payable to MRA, due in quarterly principal and interest payments of \$1,158. The note matures in April 2027, and is secured by a shared first mortgage on property located in Malden, Massachusetts.	41,362	45,588
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.	17,215	19,195
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>1,360</u>	<u>3,541</u>
Total MM Homes	<u>1,204,434</u>	<u>1,212,821</u>

HOUSING FAMILIES INC. AND AFFILIATES

Notes to Consolidating Financial Statements
June 30, 2017 and 2016

4. LONG-TERM DEBT (Continued)

	<u>2017</u>	<u>2016</u>
CSLP		
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.	1,077,145	1,106,081
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 (see Note 6). This note matures in July 2046, and is secured by a shared second mortgage on the property.	<u>622,430</u>	<u>635,758</u>
Total CSLP	<u>1,699,575</u>	<u>1,741,839</u>
Total long-term debt	3,784,647	3,849,553
Plus - accrued interest to a bank	3,606	3,606
Less - current portion	100,835	60,592
Less - unamortized debt issuance costs	<u>40,219</u>	<u>45,155</u>
Total long-term debt, net of current portion	<u>\$ 3,647,199</u>	<u>\$ 3,747,412</u>

Debt issuance costs related to the various notes payable totaling \$85,994 are shown net of accumulated imputed interest of \$45,775 and \$40,839 as of June 30, 2017 and 2016, respectively. Net debt issuance costs are reported on the consolidating statements of financial position as a direct reduction of the face amount of the related long-term debt. Amortization of debt issuance costs was \$4,936 for the years ended June 30, 2017 and 2016.

Aggregate maturities of long-term debt and accrued interest and amortization of debt issuance costs relating to long-term debt over the next five years are as follows:

<u>Fiscal Year</u>	<u>Principal Payments</u>	<u>Amortization of Debt Issuance Costs</u>
2018	\$ 100,835	\$ 4,936
2019	\$ 63,507	\$ 4,936
2020	\$ 66,989	\$ 4,936
2021	\$ 70,788	\$ 4,936
2022	\$ 364,734	\$ 4,936

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, 2017 and 2016.

HOUSING FAMILIES INC. AND AFFILIATES

Notes to Consolidating Financial Statements
June 30, 2017 and 2016

5. NOTE PAYABLE TO A BANK

In September 2015, HFI entered into a \$300,000 line of credit agreement with a bank. Borrowings under the agreement are due on demand and interest is payable monthly at the bank's base lending rate (3.5% at the time of closing), plus 0.5% (4.75% and 4% at June 30, 2017 and 2016, respectively). Borrowings on the line of credit are secured by a security interest in all business assets. The line of credit renews annually on December 31st at the discretion of the bank. As of June 30, 2017 and 2016, there was no outstanding balance under this agreement.

6. CONTINGENT DEBT AND DEFERRED INTEREST

Contingent debt consists of the following at June 30:

	<u>2017</u>	<u>2016</u>
HFI Properties		
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, and 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 fiscal year 2016, and every year thereafter through fiscal year 2025, a portion of the outstanding principal balance will be forgiven, as defined in the agreement. Accordingly, \$5,195 was forgiven during fiscal years 2017 and 2016. The note is secured by a shared second mortgage on property in Revere, Massachusetts.	41,560	46,755
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>616,560</u>	<u>621,755</u>
MM Homes		
Non-interest bearing note payable with DHCD under its Affordable Housing Trust Fund program. 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 DHCD under its Non-Federal Investment Trust Fund program with a maximum outstanding amount of \$750,000. All outstanding principal is due in August 2042. The note is secured by a shared first mortgage on property in Malden and Medford, Massachusetts.	<u>743,108</u>	<u>743,108</u>
Total contingent debt - MM Homes	<u>1,493,108</u>	<u>1,493,108</u>

HOUSING FAMILIES INC. AND AFFILIATES

Notes to Consolidating Financial Statements
June 30, 2017 and 2016

6. CONTINGENT DEBT AND DEFERRED INTEREST (Continued)

CSLP	<u>2017</u>	<u>2016</u>
5.375% note payable to HFI, with interest compounded annually through June 30, 2015. During fiscal years 2017 and 2016, HFI forgave the fiscal year 2017 and 2016 portions of deferred interest on this note, respectively. All unpaid principal and accrued interest are due in full in July 2023. This note is secured by a shared second mortgage on the property.	805,583	805,583
4.17% note payable to DHCD, with interest compounded annually. All unpaid principal and deferred interest are due in full in August 2033. This note is secured by a shared second mortgage on the property.	750,000	750,000
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, 2017 and 2016. This note is secured by a shared second mortgage on the property.	<u>500,000</u>	<u>500,000</u>
Total contingent debt - CSLP	2,055,583	2,055,583
Plus - deferred interest (see below)	<u>1,344,617</u>	<u>1,285,352</u>
Total contingent debt and deferred interest - CSLP	<u>3,400,200</u>	<u>3,340,935</u>
Total contingent debt and deferred interest	5,509,868	5,455,798
Less - elimination	<u>1,422,516</u>	<u>1,422,516</u>
	<u>\$ 4,087,352</u>	<u>\$ 4,033,282</u>

Deferred interest consists of the following as of June 30:

	<u>2017</u>	<u>2016</u>
Related party note, net (see page 18)	\$ 616,933	\$ 616,933
DHCD note (see above)	536,481	485,257
MRA note (see page 21)	<u>191,203</u>	<u>183,162</u>
	<u>\$ 1,344,617</u>	<u>\$ 1,285,352</u>

CEDAC, DHCD and MRA may extend the maturity dates of the notes above and on page 22 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, 2017 and 2016.

HOUSING FAMILIES INC. AND AFFILIATES

Notes to Consolidating Financial Statements
June 30, 2017 and 2016

7. COMMITMENTS

Facility Leases

HFI leases administration and program facilities under various operating leases expiring through February 2021. Program facility leases are renewable annually. Rent expense under these leases was approximately \$2,236,000 and \$2,076,000 for the years ended June 30, 2017 and 2016, respectively.

Equipment Leases

HFI leases certain equipment (see Notes 1 and 3) under various capital lease agreements through July 2021. Interest rates under these agreements range between 2.1% and 15% during fiscal years 2017 and 2016.

Future minimum lease payments under these agreements are as follows:

<u>Fiscal Year</u>	<u>Capital Leases</u>	<u>Operating Leases</u>
2018	\$ 21,169	\$ 2,377,732
2019	19,406	\$ 1,345,144
2020	18,549	\$ 164,400
2021	10,495	\$ 102,750
2022	<u>4,308</u>	\$ -
Total future minimum payments	73,927	
Less - amounts representing interest	<u>4,143</u>	
Present value of future minimum lease payments	69,784	
Less - current portion	<u>19,308</u>	
Long-term portion	<u>\$ 50,476</u>	

8. RESERVES AND DEPOSITS

Reserves 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. In fiscal years 2017 and 2016, CSLP was required to make monthly deposits of approximately \$917 and \$882, respectively, into this account. The required monthly deposits increase by 4% per year. During fiscal year 2016, CSLP received approval to withdraw \$29,133 from this account. As of June 30, 2017 and 2016, 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. 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, 2017 and 2016, 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.

HOUSING FAMILIES INC. AND AFFILIATES

Notes to Consolidating Financial Statements
June 30, 2017 and 2016

8. RESERVES AND DEPOSITS (Continued)

Operating Reserves

CSLP was also required to establish and fund an operating reserve. The operating reserve is to be used to fund operating deficits, if any. 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 \$197,000 and \$207,000 as of December 31, 2016 and 2015, respectively). During fiscal year 2017, CSLP withdrew \$6,121 from this account. CSLP deposited a total of \$25,186 during fiscal year 2016.

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. HFI Properties is required to deposit an amount sufficient to maintain a balance equal to 25% of the annual operating budget (approximately \$30,300 and \$21,700 as of June 30, 2017 and 2016, respectively). This account was adequately funded as of June 30, 2017 and 2016.

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. There were no deposits made to the reserve during fiscal year 2017. During fiscal year 2016, MM Homes deposited \$27,454 into the operating reserve.

The operating reserve and reserves for replacements balances are as follows at June 30:

	2017			
	CSLP	HFI Properties	MM Homes	Total
Operating reserve	<u>\$ 184,340</u>	<u>\$ 42,959</u>	<u>\$ 27,462</u>	<u>\$ 254,761</u>
Reserves for replacements	<u>\$ 84,380</u>	<u>\$ 66,587</u>	<u>\$ 77,081</u>	<u>\$ 228,048</u>
	2016			
	CSLP	HFI Properties	MM Homes	Total
Operating reserve	<u>\$ 190,271</u>	<u>\$ 37,790</u>	<u>\$ 27,454</u>	<u>\$ 255,515</u>
Reserves for replacements	<u>\$ 73,342</u>	<u>\$ 63,095</u>	<u>\$ 68,009</u>	<u>\$ 204,446</u>

9. FUNDING

HFI and Affiliates receive a significant portion of their total unrestricted operating support and revenues (approximately 72% during fiscal years 2017 and 2016) 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, 2017 and 2016, or on the changes in their net assets for the years then ended.

CSLP receives significant rental subsidies from the MHA for qualified tenants. MHA has committed to provide subsidies through May 2030. MHA provided \$295,578 and \$269,558 in rental subsidies and vacancy reimbursements to CSLP during the years ended June 30, 2017 and 2016, respectively.

HOUSING FAMILIES INC. AND AFFILIATES

Notes to Consolidating Financial Statements
June 30, 2017 and 2016

9. FUNDING (Continued)

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 2025 and March 2018, respectively. Collectively, MHA and MBHP provided \$190,819 and \$193,465 in rental subsidies to HFI Properties, Inc. and Affiliate during the years ended June 30, 2017 and 2016, respectively.

10. CONCENTRATIONS

Approximately 83% and 85% of HFI's accounts and pledges receivable were due from two sources as of June 30, 2017 and 2016, respectively.

11. SUBSEQUENT EVENT

Subsequent to June 30, 2017, HFI and Affiliates implemented a voluntary defined contribution retirement plan in accordance with IRC Section 403(b). Employees may withhold contributions from their salaries on a tax-deferred basis within IRC limits. All employees are eligible for the plan. HFI and Affiliates can make discretionary matching contributions capping at \$1,000 per pay period.

12. RECLASSIFICATIONS

Certain amounts in the fiscal year 2016 consolidating financial statements have been reclassified to conform with the presentation of the fiscal year 2017 consolidating financial statements.