

Harborlight Community Partners, Inc. and Subsidiaries

**Consolidated and Combined Financial Statements
(With Supplementary Information)
and Independent Auditor's Report**

December 31, 2018

COHN  REZNICK
ACCOUNTING • TAX • ADVISORY

Harborlight Community Partners, Inc. and Subsidiaries

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Independent Auditor's Report

To the Board of Directors
Harborlight Community Partners, Inc. and Subsidiaries

Report on the Consolidated and Combined Financial Statements

We have audited the accompanying consolidated and combined financial statements of Harborlight Community Partners, Inc. and Subsidiaries, which comprise the consolidated and combined statement of financial position as of December 31, 2018, and the related consolidated and combined statements of activities, changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated and combined financial statements.

Management's Responsibility for the Consolidated and Combined Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated and combined 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 consolidated and combined 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 consolidated and combined financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated and combined financial statements are free from material misstatement. The financial statements of certain subsidiaries of Harborlight Community Partners, Inc. and Subsidiaries were not audited in accordance with *Government Auditing Standards* as discussed at Note 1 in the Notes to Schedule of Expenditures of Federal Awards.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated and combined 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 consolidated and combined 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 consolidated and combined 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 consolidated and combined financial statements referred to above present fairly, in all material respects, the financial position of Harborlight Community Partners, Inc. and Subsidiaries as of December 31, 2018, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Effect of Adopting New Accounting Standard

As discussed in Note 1, Harborlight Community Partners, Inc. and Subsidiaries adopted the Financial Accounting Standards Board's Accounting Standards update ("ASU") 2016-14, Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities as of and for the year ended December 31, 2018. The requirements of the ASU have been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

Restatement

The consolidated and combined financial statements of Harborlight Community Partners, Inc. and Subsidiaries for the year ended December 31, 2017, before the restatement described in Note 18, were audited by another auditor whose report dated April 10, 2018, expressed an unmodified opinion on those statements.

As part of our audit of the December 31, 2018 consolidated and combined financial statements, we also audited the adjustments described in Note 18 that were applied to restate the 2017 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2017 financial statements of the entity other than with respect to the adjustment and, accordingly, we do not express an opinion or any other form of assurance on the 2017 financial statements as a whole.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information on pages 29 to 31 is presented for purposes of additional analysis as required by the *Uniform Financial Reporting Standards* issued by the U.S. Department of Housing and Urban Development, Office of the Inspector General, and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 26, 2019, on our consideration of Harborlight Community Partners, Inc. and Subsidiaries' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Harborlight Community Partners, Inc. and Subsidiaries' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Harborlight Community Partners, Inc. and Subsidiaries' internal control over financial reporting and compliance.

CohnReznick LLP

Boston, Massachusetts
August 26, 2019

Harborlight Community Partners, Inc. and Subsidiaries
Consolidated and Combined Statement of Financial Position
December 31, 2018

Assets

Current assets	
Cash - operations	\$ 1,176,714
Cash - development	1,929,797
Restricted deposits and funded reserves	2,770,604
Unrestricted investments	1,667,332
Tenant security deposits	111,938
Accounts receivable - residents	10,070
Accounts receivable - related party	75,664
Accounts receivable - other	47,706
Prepaid expenses	77,835
Unconditional promise to give, current maturities	69,600
Total current assets	7,937,260
Property and equipment	
Land and site improvements	8,135,616
Buildings and improvements	40,986,945
Furniture and equipment	880,235
Motor vehicles	100,848
Total	50,103,644
Less accumulated depreciation	6,106,280
Total property and equipment	43,997,364
Other assets	
Investments in affiliates	-
Tax credit fees, net of accumulated amortization of \$11,599	38,181
Notes receivable, less current maturities	-
Development fee receivable	-
Real estate project development costs	1,765,366
Unconditional promise to give, less current maturities	140,058
Total other assets	1,943,605
Total assets	\$ 53,878,229

Harborlight Community Partners, Inc. and Subsidiaries
Consolidated and Combined Statement of Financial Position
December 31, 2018

Liabilities and Net Assets

Current liabilities	
Accounts payable	\$ 156,619
Accounts payable - construction	199,877
Accrued expenses	148,261
Accrued interest	228,251
Tenant security deposits	104,003
Prepaid rent	20,000
Other liabilities	40,935
Current portion of long-term debt	<u>3,576,242</u>
Total current liabilities	<u>4,474,188</u>
Long-term liabilities	
Long-term debt, net of unamortized debt issuance costs	37,742,832
Deferred interest	43,045
Development fee payable	-
Development advance	150,000
Debt issuance costs, net of accumulated amortization of \$94,491	<u>-</u>
Total long-term liabilities	<u>37,935,877</u>
Total liabilities	<u>42,410,065</u>
Without donor restrictions - controlling	5,637,655
Without donor restrictions - non-controlling	5,673,687
Without donor restrictions - combined entities	(64,148)
With donor restrictions	<u>220,970</u>
Total net assets	<u>11,468,164</u>
Total liabilities and net assets	<u>\$ 53,878,229</u>

See Notes to Consolidated and Combined Financial Statements.

Harborlight Community Partners, Inc. and Subsidiaries

**Consolidated and Combined Statement of Activities
Year Ended December 31, 2018**

	Net Assets without Donor Restrictions	Net Assets with Donor Restrictions	Total
	<u> </u>	<u> </u>	<u> </u>
Revenue and support			
Grants and contributions	\$ 735,182	\$ 111,359	\$ 846,541
Rental	3,746,561	-	3,746,561
Contracts	43,486	-	43,486
Site support	84,611	-	84,611
Program service fees	175,503	-	175,503
Investment return, net	(24,385)	-	(24,385)
Developer fees	484,889	-	484,889
Management fees	88,150	-	88,150
Other	7,832	-	7,832
	<u>5,341,829</u>	<u>111,359</u>	<u>5,453,188</u>
Total revenue			
Expenses			
Rental property operations	4,726,636	-	4,726,636
Real estate development	371,619	-	371,619
Advocacy and services	131,846	-	131,846
	<u>5,230,101</u>	<u>-</u>	<u>5,230,101</u>
Total program services			
Management and general	316,631	-	316,631
Fundraising	260,100	-	260,100
	<u>5,806,832</u>	<u>-</u>	<u>5,806,832</u>
Total expenses			
Changes in net assets	<u>\$ (465,003)</u>	<u>\$ 111,359</u>	<u>\$ (353,644)</u>

See Notes to Consolidated and Combined Financial Statements.

Harborlight Community Partners, Inc. and Subsidiaries
Consolidated and Combined Statement of Changes in Net Assets
Year Ended December 31, 2018

	Net assets without donor restrictions				Net assets with donor restrictions	Total net assets
	Controlling	Non-controlling	Combined entities	Total		
Net assets, beginning of year	\$ 5,974,812	\$ 5,233,471	\$ 13,183	\$ 11,221,466	\$ 109,611	\$ 11,331,077
Prior period adjustment	(596,263)	-	-	(596,263)	-	(596,263)
Net assets, beginning of year, as restated	5,378,549	5,233,471	13,183	10,625,203	109,611	10,734,814
Changes in net assets	259,106	(646,778)	(77,331)	(465,003)	111,359	(353,644)
Capital contributions	-	1,112,833	-	1,112,833	-	1,112,833
Syndication costs	-	(3,437)	-	(3,437)	-	(3,437)
Distributions	-	(22,402)	-	(22,402)	-	(22,402)
Net assets, end of year	<u>\$ 5,637,655</u>	<u>\$ 5,673,687</u>	<u>\$ (64,148)</u>	<u>\$ 11,247,194</u>	<u>\$ 220,970</u>	<u>\$ 11,468,164</u>

See Notes to Consolidated and Combined Financial Statements.

Harborlight Community Partners, Inc. and Subsidiaries

**Consolidated and Combined Statement of Functional Expenses
Year Ended December 31, 2018**

	Program Services				Management and general	Fundraising	Total
	Rental property operations	Real estate development	Advocacy and services	Total program services			
Employee compensation, payroll taxes and benefits	\$ 1,106,294	\$ 238,132	\$ 94,459	\$ 1,438,885	\$ 243,617	\$ 146,707	\$ 1,829,209
Operating and maintenance expenses	489,971	-	-	489,971	-	-	489,971
Utilities	389,094	2,622	1,033	392,749	2,702	1,589	397,040
Taxes and insurance	382,011	1,707	673	384,391	1,759	1,035	387,185
Administrative	138,606	59,522	32,350	230,478	59,840	72,853	363,171
Development costs	-	61,179	-	61,179	-	-	61,179
Professional fees	94,769	5,811	2,289	102,869	5,987	3,522	112,378
Fundraising event expense	-	-	-	-	-	32,791	32,791
Financial services expense	174,464	-	-	174,464	-	-	174,464
Social service expenses	30,536	-	-	30,536	-	-	30,536
Interest expense	777,491	2,646	1,042	781,179	2,726	1,603	785,508
Other financial expenses	2,494	-	-	2,494	-	-	2,494
Depreciation and amortization	1,140,906	-	-	1,140,906	-	-	1,140,906
Total	\$ 4,726,636	\$ 371,619	\$ 131,846	\$ 5,230,101	\$ 316,631	\$ 260,100	\$ 5,806,832

See Notes to Consolidated and Combined Financial Statements.

Harborlight Community Partners, Inc. and Subsidiaries

Consolidated and Combined Statement of Cash Flows Year Ended December 31, 2018

Cash flows from operating activities	
Change in net assets	\$ (353,644)
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	1,137,679
Amortization of debt issuance costs	17,075
Amortization of tax credit monitoring fees	3,227
(Gain) loss on investments	143,954
Changes in	
Accounts receivable - residents	13,136
Accounts receivable - related party	(51,262)
Accounts receivable - other	58,650
Prepaid expenses	16,578
Donations receivable	11,270
Accounts payable	99,701
Accrued expenses	(7,592)
Accrued interest	28,677
Tenant security deposits, net	(6,875)
Prepaid rent	18,750
Other liabilities	40,935
	<hr/>
Net cash provided by operating activities	1,170,259
	<hr/>
Cash flows from investing activities	
Net deposits to restricted deposits and funded reserves	(17,239)
Purchases of property and equipment	(7,156,737)
Payments for real estate project development costs	(427,491)
Proceeds from sales of investments	511,352
Purchases of investments	(1,045,385)
	<hr/>
Net cash used in investing activities	(8,135,500)
	<hr/>
Cash flows from financing activities	
Long-term debt proceeds	9,396,986
Principal payments on mortgages and notes payable	(1,389,972)
Capital contributions	607,000
Distributions	(22,402)
Payments of debt issuance costs	(96,102)
Payments of syndication costs	(3,437)
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Net cash provided by financing activities	8,492,073
	<hr/>
Net increase in cash	1,526,832
Cash and cash equivalents, beginning	1,579,679
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Cash and cash equivalents, ending	\$ 3,106,511
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Harborlight Community Partners, Inc. and Subsidiaries

**Consolidated and Combined Statement of Cash Flows
Year Ended December 31, 2018**

Supplemental disclosure of cash flow information	
Cash paid for interest, net of interest capitalized	<u>\$ 783,009</u>
Supplemental disclosure of non-cash investing and financing activities	
Property and equipment additions	\$ 6,638,548
Property and equipment additions included in accounts payable - construction at beginning of year	559,515
Property and equipment additions included in accounts payable - construction at end of year	(30,347)
Amortization of debt issuance costs capitalized	<u>(10,979)</u>
Cash paid for purchases of property and equipment	<u>\$ 7,156,737</u>
Real estate project development costs incurred during the year	\$ 519,142
Real estate project development costs included in accounts payable - construction at beginning of year	67,989
Real estate project development costs included in accounts payable - construction at beginning of year	<u>(159,640)</u>
Payments for real estate project development costs	<u>\$ 427,491</u>
Tax credit equity bridge loan converted to equity during the year	<u>\$ 505,833</u>

See Notes to Consolidated and Combined Financial Statements.

Harborlight Community Partners, Inc. and Subsidiaries

Notes to Consolidated and Combined Financial Statements December 31, 2018

Note 1 - Organization and summary of significant accounting policies

Harborlight Community Partners, Inc. ("HCP" or the "Organization") was formed as a non-profit corporation in the Commonwealth of Massachusetts in January 2009, which was the result of a merger of several smaller non-profit organizations that had a shared mission in providing affordable housing rental units to the local community. HCP has ties dating back to the 1960s when the First Baptist Church of Beverly opened Harborlight House to provide affordable housing units to low-income seniors. Today, HCP is a community development corporation that manages, develops, preserves, and operates affordable housing on the North Shore of Massachusetts.

HCP currently owns and/or manages 21 properties in nine communities and a community land trust. These properties offer a total combined 392 housing units, which is comprised of a combination of affordable senior housing with supportive services, affordable senior supportive living, family housing for low and very low-income families, affordable housing for individuals with disabilities, and supportive permanent housing for formerly homeless individuals. HCP has also established partnerships with other non-profit organizations to further develop affordable housing units on the North Shore of Massachusetts.

Principles of consolidation and combination

HCP consolidates its wholly owned subsidiaries, as well as for-profit limited liability companies in which HCP is the managing member and is deemed to have control. The consolidated financial statements include the accounts of the Organization, its wholly-owned subsidiaries, and for-profit limited liability companies which meet the requirements for consolidation.

HCP is the sole member of Whipple Annex Housing LLC, Maple Woods Housing LLC, Granite Street Crossing LLC, and Anchor Point LLC. Turtle Creek Housing MM LLC is the managing member in Turtle Creek Housing LLC, which HCP has a controlling interest. Harborlight House MM LLC is the managing member in Harborlight House LLC, which HCP has a controlling interest. Boston Street Crossing MM LLC is the managing member in Boston Street Crossing LLC, which HCP has a controlling interest. Pigeon Cove Ledges is a residential project owned by HCP and is not a separate legal entity.

HCP also combines other not-for-profit organizations which do not meet the requirements for consolidation under the Financial Accounting Standard Board ("FASB") Accounting Standards Codification ("ASC"). The combined entities included are as follows: Firehouse Place, Inc., Rockport Affordable Housing, Inc., and Marblehead Community Housing Corporation; not-for-profit entities related through common board members and management.

HCP, its subsidiaries, and for-profit limited liability companies in which HCP has a controlling interest are collectively referred to hereinafter as the Organization unless context dictates otherwise.

All significant intercompany balances and transactions have been eliminated in consolidation and combination.

Non-controlling interest in affiliates

The non-controlling interest represents the 99.99% investor member interests in Turtle Creek Housing LLC, Harborlight House LLC, and Boston Street Crossing LLC, which are reported as a component of net assets without donor restrictions on the consolidated statement of financial

Harborlight Community Partners, Inc. and Subsidiaries

Notes to Consolidated and Combined Financial Statements December 31, 2018

position and as a separate component of the change in net assets on the consolidated and combined statement of activities.

Nature of activities

HCP provides programs and activities that raise the economic, housing, educational and social levels of low and moderate-income for the residents of or on the North Shore of Massachusetts. The following program activities are listed in order of total program expenditures.

Rental property operations

The Property Rental program consists of rental activities related to 21 residential properties in the North Shore area of Massachusetts, the majority of which are subject to long-term affordable housing restrictions. The residential properties contain 392 units in total, are subjected to affordability restrictions, some of which are attached to the related land, and are rented to families of low to moderate incomes. All leases between the Organization and its tenants are operating leases.

Real Estate Development

The Real Estate Development program uses funds obtained from various governmental entities, foundations, financial institutions, nonprofit organizations and individuals to acquire and develop properties.

Advocacy and services

The advocacy and services program provides support to the individuals and local communities which relate to HCP's mission.

Use of estimates

The preparation of consolidated and combined 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 the disclosure of contingent assets and liabilities at the date of the consolidated and combined financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Financial statement presentation

HCP presents its consolidated and combined financial statements in accordance with the accounting guidance for nonprofit entities. Under this guidance, the organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. All the net assets of the Corporation are unrestricted with the exception of those that are subject to explicit or implicit donor-imposed restrictions. Furthermore, information is required to segregate program service expenses from management and general expenses.

HCP conforms to accounting guidance on revenue recognition for nonprofit entities. Under this guidance, contributions received, if any, are recorded as support without or with donor restrictions depending on the existence and/or nature of any donor restrictions.

Cash and cash equivalents

The Organization considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Harborlight Community Partners, Inc. and Subsidiaries

Notes to Consolidated and Combined Financial Statements December 31, 2018

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are recorded at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statement of activities.

Accounts receivable - residents

Tenant rents receivable are stated at the amount management expects to collect on balances outstanding at year-end. Management has closely monitored outstanding balances and writes-off as of year-end all balances that it deems uncollectible based upon such factors as tenant payment history, the results of collection efforts, and the commencement of tenant eviction proceedings. Accounting principles generally accepted in the United States of America require the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different than the results that would have been obtained under the allowance method.

Accounts receivable - related party, other

Receivables from grants and contributions are stated at the amounts management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to net assets and a credit to a valuation allowance based on historical collection experience, its assessment of current economic conditions, review and assessment of estimated funding sources and financial condition of the debtor. Balances which are still outstanding after management has used reasonable collection efforts are written off through a charge to valuation allowance and a credit to accounts receivable.

Fixed assets and depreciation

Property and equipment are recorded at cost or if donated, fair value on the date of receipt. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives. Improvements are capitalized, while expenditures for maintenance and repairs are charged to expense as incurred. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. The resulting gains and losses are reflected in the statement of activities.

The Organization computes depreciation using the straight-line method over the following estimated useful lives:

Buildings and improvements	20 - 40 years
Leasehold improvements	3 - 27 years
Furniture and fixtures	3 - 7 years
Equipment	3 - 7 years

Real estate project development costs

Real estate project development costs include pre-acquisition, acquisition, construction costs and capitalized interest, and associated general and administrative costs related to properties the Organization intends on using in its programs. Real estate project development costs are recorded at cost. Management believes these developments could take anywhere from 2-5 years to completely develop, sell and/or rent. All properties are located in the North Shore of Massachusetts.

Impairment of long-lived assets

The Organization reviews its investment in real estate, real estate development costs, and property held for sale (real estate), for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a

Harborlight Community Partners, Inc. and Subsidiaries

Notes to Consolidated and Combined Financial Statements December 31, 2018

comparison of the carrying amount of the real estate to the future net undiscounted cash flows expected to be generated by the property and any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the real estate exceeds the fair value of such property. There were no impairment losses recognized in 2018.

Tax credit fees and amortization

Tax credit fees of \$49,780 are being amortized over the respective tax credit compliance periods using the straight-line method. Amortization expense for the year ended December 31, 2018 was \$3,227. Accumulated amortization was \$11,599 at December 31, 2018. Estimated annual amortization expense for each year through December 31, 2023 is \$3,227.

Debt issuance costs

Debt issuance costs, net of accumulated amortization, are reported as a direct deduction from the face amount of the mortgage loan payable to which such costs relate. Amortization of debt issuance costs is reported as a component of interest expense and is computed using an imputed interest rate on the related loan.

Net assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions - Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Contributions which are limited to the use of various HCP programs are reflected as net assets without donor restrictions if these funds are received and spent during the same year and if they support the activities of HCP within the limits of HCP's Articles of Organization.

Revenue recognition

The Organization recognizes its revenue as follows:

Housing management and related fees, consulting and housing development fees

Fees for property management, accounting and data processing, central office, and consulting services are recognized when earned. Development fees for housing development services are recognized when earned, based on the terms of the related agreements.

Rental revenue

Rental revenue is primarily derived from residential tenant rents. Rental revenue is recognized as occupancy is provided. Rental payments received in advance are deferred until earned. All leases between the Organization and its tenants are considered operating leases. Rental income from commercial space is recognized using the straight-line method over the lease term.

Harborlight Community Partners, Inc. and Subsidiaries

Notes to Consolidated and Combined Financial Statements December 31, 2018

Contributed services

During the year ended December 31, 2018, the value of contributed services meeting the requirements for recognition in the consolidated and combined financial statements under guidance issued by FASB was not material and has not been recorded. In addition, individuals volunteer their time and perform a variety of tasks that assist the Organization, but these services do not meet the criteria for recognition as contributed services.

Contributions

Contributions are recorded upon receipt or pledge with donor restrictions and/or without donor restrictions depending on the existence and/or nature of any donor-imposed restrictions. All contributions are considered to be available for without restrictions unless specifically restricted by the donor.

Unconditional promises to give are reported at net realizable value if at the time the promise is made collection is expected to be received in one year or less. Unconditional promises to give that are expected to be collected in more than one year are initially recorded at fair value using present value techniques and a discount rate determined by management of HCP. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. Unconditional promises to give are recorded as receivables and revenue when earned. HCP distinguishes between contributions received for each net asset category in accordance with donor-imposed restrictions. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. Contributions in the form of property and equipment and other assets are recorded at fair value on the date the donation is received.

Included in contributions receivable are the following unconditional promises to give at December 31, 2018:

Unconditional Promises to Give	\$	220,800
Less: Unamortized Discount		<u>(11,142)</u>
Net Unconditional Promises to Give	\$	<u>209,658</u>
Amounts due in		
Less than one year	\$	69,600
One to five years		<u>151,200</u>
	\$	<u>220,800</u>

Grants

HCP receives grant revenue from various agencies in accordance with its mission. Grant revenue is earned and recognized by the Organization when the services are provided. HCP also receives grant awards that are passed through to other recipients. These pass-through awards amounted to \$59,500 for the year ended December 31, 2018 and the related expense is included in other operating expense on the accompanying consolidated and combined statement of functional expenses.

Contracts

The Organization receives contract revenue from various public and private organizations. Contract revenue is recognized over the period covered by the contract as services are provided and costs are incurred.

Harborlight Community Partners, Inc. and Subsidiaries

Notes to Consolidated and Combined Financial Statements December 31, 2018

Event revenue

Event revenue is recorded when the event takes place. Amounts received in advance are deferred until earned.

Donated materials

Donated materials are recorded at their estimated fair value at the time of receipt.

Functional allocation of expenses

The cost of providing the various programs and activities has been summarized on a functional basis in the consolidated and combined statement of activities. The consolidated and combined statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income taxes

Harborlight Community Partners, Inc., Firehouse Place, Inc., Rockport Affordable Housing, Inc. and Marblehead Community Housing Corporation are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code ("IRC"). However, income from certain activities not directly related to each entity's tax-exempt purpose is subject to taxation as unrelated business income. The entities had no unrelated business income for the year ended December 31, 2018. In addition, the Organizations qualify for the charitable contribution deduction under Section 170(b)(1)(A) and have been classified as organizations other than private foundations under Section 509(a)(2).

The individual members of Turtle Creek Housing LLC, Harborlight House LLC, and Boston Street Crossing LLC are responsible for any federal and state income taxes, and therefore any such taxes are not included in the consolidated and combined financial statements of the Organization.

Whipple Annex Housing LLC, Maple Woods Housing, LLC, Granite Street Crossing, LLC, and Anchor Point LLC, as single-member entities, are disregarded entities for tax purposes.

The tax returns of each entity incorporate the interpretation of the Internal Revenue Code and applicable state regulations as determined by the management of each entity. These interpretations are subject to review and adjustment by the Internal Revenue Service and taxing authorities.

Management has evaluated significant tax positions against the criteria established by professional standards and believes there are no such tax positions requiring accounting recognition in the consolidated and combined financial statements. Management does not believe its evaluation of tax positions will significantly change within 12 months of December 31, 2018. Any changes in tax positions will be recorded when the ultimate outcome becomes known. Each entity's income tax returns are subject to examination by the IRS for a period of three years. While no income tax returns are currently being examined by the IRS, tax years since 2015 remain open.

Adoption of new accounting principle

During 2018, the Organization adopted the provisions of Accounting Standards Update 2016-14, Presentation of Financial Statements of Not-for-Profit Entities ("ASU 2016-14"). ASU 2016-14 addresses the complexity and understandability of net asset classifications, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these statements accordingly. ASU 2016-14 has been applied on a retrospective basis.

Harborlight Community Partners, Inc. and Subsidiaries

Notes to Consolidated and Combined Financial Statements December 31, 2018

Note 2 - Liquidity and availability

The Organization has \$1,665,639 of financial assets available within one year of the statement of financial position date to meet cash needs for general expenditures consisting of cash of \$1,176,714, accounts receivable of \$133,440, prepaid and miscellaneous current assets of \$77,835, and restricted deposits and funded reserves of \$277,650. Only amounts related to restricted deposits and funded reserves anticipated to be used more than one year after the statement of financial position date have been excluded from the above amounts. Financial assets of the Organization are intended to be sufficient to meet its general expenditures, liabilities and other obligations as they become due.

Note 3 - Restricted deposits and funded reserves

Mortgagee escrow deposits

The Organization is required to establish and maintain real estate taxes and insurance escrows in connection with loan agreements related to the Organization's rental operations. As of December 31, 2018, the escrow balances totaled \$59,377. All required deposits were made during the year.

Replacement reserves

In accordance with various operating and loan agreements in connection with the Organization's rental operations, the Organization is required to establish and maintain replacement reserve accounts for significant repairs and replacements. Withdrawals are subject to approval as defined in the Organization's various operating and loan agreements. The replacement reserve funds are held with certain lenders. As of December 31, 2018, the replacement reserve balances totaled \$1,287,997. All deposits and disbursements were made in accordance with the Organization's operating and loan agreements.

Residual receipts reserve

In connection with the acquisition of the Project, residual receipts of \$47,745 were transferred from the seller to the Company. The use of residual receipts is restricted by the Regulatory Agreement and funds may only be withdrawn with the permission of HUD. As of December 31, 2018, the balance of the residual receipts reserve was \$47,934.

Operating reserves

In accordance with various operating agreements in connection with the Organization's rental operations, the Organization maintains operating reserves for operating shortfalls. Withdrawals may only be made with prior approval as specified in the related operating agreements. Additionally, operating reserve accounts may have a minimum balance requirement equal to three months' debt service for notes payable. The operating reserve funds are held in financial institutions in Massachusetts and with certain lenders. As of December 31, 2018, the operating reserve balances totaled \$1,082,485.

Equity escrow

The first mortgage lender established an equity escrow to deposit equity contributions until needed to fund development costs and other required payments. As of December 31, 2018, the equity escrow has a balance of \$114,333.

Bond reserve

As of December 31, 2018, the bond reserve balances totaled \$16,088.

Harborlight Community Partners, Inc. and Subsidiaries
Notes to Consolidated and Combined Financial Statements
December 31, 2018

Other reserves

As of December 31, 2018, the other reserves balances totaled \$112,782.

Yes In My Back Yard ("YIMBY") program

The Organization acts as a fiscal agent for participants in the YIMBY program. Under the terms of the agreement, the Organization is to distribute funds only upon YIMBY's approval. The Organization has no variance power over the funds and has included amounts held on behalf of the participants in restricted deposits and funded reserves on the accompanying consolidated and combined statement of financial position. The funds held by the Organization on behalf of the participants amounted to \$49,608 as of December 31, 2018. A related liability for expenses incurred for the YIMBY program of \$40,935 as of December 31, 2018 is reflected as other liabilities on the accompanying consolidated and combined statement of financial position.

Note 4 - Investments

The Organization's investments are comprised of the following as of December 31, 2018:

	Unrestricted	
	Cost	Fair Value
Money market funds	\$ 49,386	\$ 49,386
Equity securities	506,633	542,665
Corporate bonds	614,597	608,051
Mutual funds	490,125	460,034
Accrued interest	7,196	7,196
	\$ 1,667,937	\$ 1,667,332

Realized and unrealized gains (losses) on investments are shown net in the consolidated and combined statement of activities. For the year ended December 31, 2018, net realized and unrealized losses on investments amounted to \$89,090, which is included in investment return, net in the accompanying consolidated and combined statement of activities.

Note 5 - Fair value measurements

FASB's guidance on fair value measurements established a framework for measuring fair value of assets and liabilities and expanded related disclosures. FASB's guidance requires fair value to be determined based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for an asset or liability in an orderly transaction between market participants. The guidance established a three-level valuation hierarchy based upon observable and non-observable inputs.

Fair value is the price the Organization would receive to sell an asset or pay to transfer a liability in an orderly transaction with a market participant at the measurement date. In the absence of active markets for the identical assets or liabilities, such measurements involve developing assumptions based on market observable data and, in the absence of such data, internal information that is consistent with what market participants would use in a hypothetical transaction that occurs at the measurement date.

Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Organization's market assumptions. Preference is given to observable inputs.

Harborlight Community Partners, Inc. and Subsidiaries

Notes to Consolidated and Combined Financial Statements December 31, 2018

The fair value hierarchy under the guidance is as follows:

- Level 1: Quoted prices in active markets that are unadjusted and accessible at the measurement date for identical, unrestricted assets or liabilities;
- Level 2: Quoted prices for identical assets and liabilities in markets that are not active, quoted prices for similar assets and liabilities in active markets or financial instruments for which significant inputs are observable, either directly or indirectly; and
- Level 3: Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

FASB's guidance requires the use of observable data if such data is available without undue costs and effort.

When available, the Organization uses unadjusted quoted market prices to measure the fair value and classifies such items within Level 1. Level 1 securities primarily include publicly-traded equity securities and mutual funds.

When quoted market prices are unobservable, the Organization uses quotes from independent pricing vendors based on recent trading activity and other relevant information including market interest rate curves, referenced credit spreads and estimated prepayment rates where applicable.

Investments consist of corporate stocks, mutual funds, corporate bonds, and money markets with readily determinable fair values which are carried at fair value based on quoted prices in active markets. The fair value of assets measured on a recurring basis at December 31, 2018 is as follows:

Description	Level 1	Level 2	Level 3	Total
Stocks				
Information technology	\$ 160,422	\$ -	\$ -	\$ 160,422
Health care	93,775	-	-	93,775
Consumer discretionary	53,776	-	-	53,776
Consumer staples	25,192	-	-	25,192
Industrial	62,461	-	-	62,461
Financial	99,608	-	-	99,608
Materials	12,804	-	-	12,804
Energy	34,627	-	-	34,627
Total common stock	<u>542,665</u>	<u>-</u>	<u>-</u>	<u>542,665</u>
Corporate bonds - domestic	<u>608,051</u>	<u>-</u>	<u>-</u>	<u>608,051</u>
Mutual funds				
Foreign	232,267	-	-	232,267
Domestic	<u>227,767</u>	<u>-</u>	<u>-</u>	<u>227,767</u>
Total mutual funds	<u>460,034</u>	<u>-</u>	<u>-</u>	<u>460,034</u>

Harborlight Community Partners, Inc. and Subsidiaries

**Notes to Consolidated and Combined Financial Statements
December 31, 2018**

Description	Level 1	Level 2	Level 3	Total
Money market	49,386	-	-	49,386
Accrued interest	7,196	-	-	7,196
Total assets measured at fair value	\$ 1,667,332	\$ -	\$ -	\$ 1,667,332

Note 6 - Land use restrictions

Whipple Annex Housing LLC leases the land upon which the residential units are situated from the Town of Ipswich under a ninety-nine year lease. The lease provides that the Organization shall be required to pay \$1 during the term of the lease, plus expenses, such as taxes and assessments, incidental to the use of the land.

Rockport Affordable Housing, Inc. was assigned a land lease upon which the residential units are situated from the Town of Rockport, under a sixty-five year lease. The lease provides that the Organization shall be required to pay \$1 during the term of the lease, plus expenses, such as taxes and assessments, incidental to the use of the land.

Note 7 - Long-term debt

Bond note payable

The Organization entered into a promissory note, dated August 3, 2011, in the amount of \$1,724,506 (the "Bond Note Payable"), issued by Boston Private Bank & Trust Company. The Bond Note Payable provides for interest at a rate of 3.75% per annum. The note is secured by the real estate and personal property (various HCP property locations). The note requires monthly principal and interest payments of \$8,038. The note matures on August 3, 2021.

As of December 31, 2018, the outstanding principal balance of the mortgage loan was \$1,463,551.

Line of credit

The Organization has a \$500,000 line of credit with Life Insurance Community Investment Initiative, LLC, which bears interest at 6%. The line of credit is secured by substantially all assets of HCP. The line of credit expires in June 2019, at which time all unpaid principal and interest are due. As of December 31, 2018, the outstanding balance was \$450,998. Management is currently in negotiations to extend the term of the line of credit.

Harborlight Community Partners, Inc. and Subsidiaries

Notes to Consolidated and Combined Financial Statements December 31, 2018

Debt related to various rental property and equipment consisted of the following:

Loan from	Priority	Stated interest rate	Note date	Maturity date	Outstanding balances as of 12/31/18
HCP					
Pigeon Cove Ledges					
USDA, Rural Development	Shared First	3.25%	December 1, 2011	January 2042	\$ 2,275,093
USDA, Rural Development	Shared First	3.25%	December 1, 2011	January 2042	1,253,218
North Shore HOME Consortium	Shared Second	0.00%	January 30, 2012	January 2042	150,000
Town of Rockport	Shared Second	0.00%	January 30, 2012	January 2042	72,764
Dodge Street					
North Shore Bank	First	4.25%	January 12, 2017	January 2037	128,886
CEDAC	Shared Second	0.00%	March 26, 2008	March 2038	238,026
North Shore HOME Consortium	Shared Second	0.00%	August 21, 2009	August 2039	150,000
City of Beverly	Third	0.00%	August 21, 2009	(a)	100,000
Home Street					
North Shore HOME Consortium	First	0.00%	September 18, 2003	July 2023	140,000
Pleasant Street					
Boston Private Bank & Trust	First	6.07%	August 3, 2011	August 2021	58,017
North Shore HOME Consortium	Second	0.00%	October 14, 2011	October 2041	90,000
Chase Street					
North Shore HOME Consortium	First	0.00%	December 15, 2010	December 2040	78,100
City of Beverly	Second	0.00%	September 7, 2004	September 2019	60,000
Union Street					
North Shore HOME Consortium	First	0.00%	December 13, 2010	December 2040	101,000
River Street					
North Shore HOME Consortium	First	0.00%	August 31, 2001	August 2031	65,000
Beckford Street					
North Shore HOME Consortium	First	0.00%	December 1, 2008	December 2023	25,000
Anchor Point LLC					
CEDAC	First	7.00%	December 22, 2017	(b)	206,700
Granite Street Crossing LLC					
CEDAC	First	7.00%	July 7, 2017	(b)	71,173
Firehouse Place, Inc.					
First Baptist Church of Beverly	First	6.00%	February 18, 2011	February 2031	103,753
DHCD	Shared Second	0.00%	June 6, 2011	October 2041	200,000
CEDAC	Shared Second	0.00%	May 20, 2011	October 2041	200,000
CEDAC	Shared Second	0.00%	May 20, 2011	October 2041	107,000
North Shore HOME Consortium	Shared Second	0.00%	May 20, 2011	October 2041	220,000
Town of Hamilton	Shared Second	0.00%	May 20, 2011	October 2041	65,720
Marblehead Community Housing Corp.					
National Grand Bank	First	5.25%	April 29, 2014	April 2034	111,021
MHP Fund Board	Second	0.00%	October 22, 2004	October 2054	260,000
North Shore HOME Consortium	Third	0.00%	September 6, 2013	September 2023	100,000
FHLB of Boston	Fourth	0.00%	April 29, 2014	February 2030	84,000
Rockport Affordable Housing, Inc.					
USDA, Rural Development	First	3.75%	December 1, 2013	January 2044	842,137
Cape Ann Savings Bank	Second	4.50%	December 2, 2013	December 2043	183,015
DHCD	Shared Third	0.00%	December 12, 1996	December 2026	450,000
Town of Rockport	Shared Third	0.50%	December 12, 1996	December 2046	390,400
North Shore HOME Consortium	Shared Third	0.00%	November 26, 2013	December 2043	300,000
North Shore HOME Consortium	Shared Third	0.00%	January 30, 2012	January 2042	200,000
North Shore HOME Consortium	Shared Third	0.00%	November 26, 2013	November 2043	35,300

Harborlight Community Partners, Inc. and Subsidiaries

Notes to Consolidated and Combined Financial Statements December 31, 2018

Loan from	Priority	Stated interest rate	Note date	Maturity date	Outstanding balances as of 12/31/18
Whipple Annex LLC					
North Shore Bank	Shared First	3.00%	March 16, 2016	May 2027	322,128
North Shore Bank	Shared First	4.22%	December 28, 2015	March 2026	42,921
DHCD	Shared Second	0.00%	July 7, 2006	March 2036	500,000
DHCD	Shared Second	0.00%	March 16, 2016	March 2056	500,000
FHLB of Boston	Shared Second	0.00%	March 16, 2016	May 2022	300,000
CEDAC	Shared Second	0.00%	May 8, 2007	May 2037	201,993
Town of Ipswich	Shared Third	0.00%	March 16, 2016	March 2105	115,000
North Shore HOME Consortium	Shared Third	0.00%	March 16, 2016	March 2105	75,000
Turtle Creek Housing LLC					
Red Capital Mortgage LLC	First	4.05%	May 1, 2016	June 2051	9,961,363
First Church of Beverly	Second	3.37%	November 19, 2013	November 2063	2,614,283
First Church of Beverly	Third	0.00%	November 19, 2013	November 2063	439,710
North Shore HOME Consortium	Fourth	0.00%	November 19, 2013	November 2048	64,724
Kelly Ford, Inc.	N/A - Vehicle	7.74%	August 2, 2017	August 2022	28,624
Harborlight House LLC					
DHCD	Shared First	2.74%	August 10, 2016	August 2046	400,000
MHP Fund Board	Shared First	0.00%	August 10, 2016	August 2066	1,005,000
CEDAC	Shared First	2.00%	August 10, 2016	August 2056	180,795
CEDAC	Shared First	0.00%	August 10, 2016	August 2046	1,000,000
CEDAC	Shared First	0.00%	August 10, 2016	August 2056	1,000,000
North Shore HOME Consortium	Shared Third	2.82%	August 31, 2016	August 2045	150,000
City of Beverly	Shared Third	2.82%	August 31, 2016	August 2045	50,000
Boston Street Crossing LLC					
Boston Private Bank & Trust	Shared First	2.71%	August 8, 2017	August 2019	2,736,036
Boston Private Bank & Trust	Shared First	2.71%	August 8, 2017	August 2049	150,000
DHCD	Shared Second	0.00%	August 8, 2017	August 2048	1,334,168
DHCD	Shared Second	0.00%	August 8, 2017	August 2048	430,000
CEDAC	Shared Second	0.00%	August 8, 2017	August 2048	1,400,000
CEDAC	Shared Second	0.00%	August 8, 2017	August 2048	592,000
MHP Fund Board	Shared Second	0.00%	August 8, 2017	August 2068	900,000
North Shore HOME Consortium	Shared Second	0.00%	August 8, 2017	August 2048	185,000
City of Peabody	Shared Second	0.00%	August 8, 2017	August 2048	300,000
Granite Street Crossing LLC					
CEDAC	Shared First	6.00%	July 28, 2016	July 2020	376,000
CEDAC	Shared First	4.00%	July 28, 2016	July 2020	188,000
Anchor Point LLC					
CEDAC	First	3.50%	January 29, 2018	January 2020	<u>3,000,000</u>
Total					<u>\$ 39,658,068</u>

(a) Maturity will occur upon the default of the loan, or sale, transfer or refinancing of the property.

(b) Maturity will occur upon the construction and permanent loan closing.

Unless otherwise indicated, the above debt is secured by an interest in the related project, including an assignment of leases and rents.

Debt issuance costs, net of accumulated amortization, totaled \$253,543 as of December 31, 2018 and are related to the mortgages for HCP and various properties. Debt issuance costs on the mortgages are being amortized using imputed interest rates ranging from 3.87% to 5.80%. As of December 31, 2018, the outstanding principal balance on the loans and mortgages, net of unamortized debt issuance costs, is \$41,319,074.

Harborlight Community Partners, Inc. and Subsidiaries

Notes to Consolidated and Combined Financial Statements December 31, 2018

Debt covenants

Certain notes payable require the Organization to maintain a minimum loan to value ratios and debt service coverage ratios. As of the date of the auditor's report, management has determined that the Organization was in compliance with these ratios as of December 31, 2018 or obtained waivers for any noncompliance.

Estimated annual principal payments due during each of the next five years and thereafter on the above-mentioned debt are as follows:

2019	\$	3,576,242
2020		3,873,337
2021		1,709,860
2022		282,923
2023		452,471
Thereafter		<u>31,677,784</u>
Total	\$	<u>41,572,617</u>

Interest costs incurred and expensed on all debt for the year ended December 31, 2018 amounted to \$828,761, including amortization of debt issuance costs of \$17,075. As of December 31, 2018, accrued interest expensed and currently payable amounted to \$228,251. Accrued interest on all debt not currently payable totals \$43,045 at December 31, 2018. Interest costs incurred and capitalized on real estate projects in development for the year ended December 31, 2018 were \$200,140.

During 2019, the Boston Private Bank & Trust loan on Boston Street Crossing LLC, with a principal balance of \$2,736,036 as of December 31, 2018, was paid off in full from the proceeds of the permanent loan and capital contributions.

Note 8 - Development advances

During both 2014 and 2016, the Organization received advances of \$75,000 from a local donor to support pre-development costs on future development projects. All funds will be repaid at a time that is mutually agreeable to both parties. As of December 31, 2018, development advances totaling \$150,000 remained outstanding.

Harborlight Community Partners, Inc. and Subsidiaries

Notes to Consolidated and Combined Financial Statements December 31, 2018

Note 9 - Net assets with donor imposed restrictions

Restricted net assets

Restricted net assets consist of resources available to meet future obligations, but only in compliance with the restrictions specified by donors. Donor restrictions limit the use of the resources within the particular purposes listed below.

	Restricted at December 31, 2017	Increase / (released) during 2018	Restricted at December 31, 2018
Harborlight House	\$ 93,259	\$ 17,831	\$ 111,090
Properties in development	16,352	(16,352)	-
Housing renovations	-	107,500	107,500
Tenant support	-	2,380	2,380
	<u>\$ 109,611</u>	<u>\$ 111,359</u>	<u>\$ 220,970</u>

Note 10 - Related party transactions

Intercompany loans

HCP and its consolidated subsidiaries have entered into various notes whereby HCP has provided funding to the subsidiary in the form of Sponsor loans or advances. The notes and accrued interest generally are paid from the Project's cash flow or a sale or refinancing. Additionally, HCP assesses the collectability of the notes and interest receivable and records an allowance for uncollectability based on the expected payments to be received. The loans and advances, accrued interest, interest earnings and expense, as well as any bad debt allowance and bad debt expense are eliminated in consolidation.

Development fees

HCP provides development services to its consolidated subsidiaries and earns a development fee in accordance with the terms of each agreement. Development fees of \$484,889 were earned during the year ended December 31, 2018. The development fees receivable and payable are eliminated in consolidation.

Management fees

For providing certain administrative, oversight services and property management services to its consolidated subsidiaries, HCP earns management fees from the Projects. Such fees are generally payable only from net cash flows of the Projects. Fees receivable and payable, earned and incurred are eliminated in consolidation.

Note 11 - Operating leases

HCP entered into operating leases with a third party tenant to rent two rental units, which will be used as office space in support of providing support services to elderly tenants at the property. The leases commenced on July 1, 2016 for a term of three years through June 30, 2019. The leases call for rent of \$56,400 per year. Minimum future payments due for 2019 are \$28,200. Management is currently in negotiations to extend the leases with the tenant.

Harborlight Community Partners, Inc. and Subsidiaries

Notes to Consolidated and Combined Financial Statements December 31, 2018

HCP entered into an operating lease with a third party tenant for commercial space at a rental property, which will be operated as a food pantry to serve the community. The lease has a term of fifteen years with and a mutual option to extend the lease for successive periods of ten years each.

Minimum future payments due over the next five years and thereafter are as follows:

2019	\$	9,700
2020		10,182
2021		10,688
2022		11,219
2023		11,780
Thereafter		<u>37,823</u>
Total	\$	<u>91,392</u>

HCP entered into an operating lease with an unrelated third party for office space, which is used to operate HCP's central office. The leases commenced in January 2012 for a term of five years through January 2017, with up to five one year options to renew available. The lease was renewed through December 2018, with monthly payments of \$2,741. In January 2019, the lease was renewed through December 2020 with monthly payments of \$2,851. Minimum future payments are \$34,212 for each of 2019 and 2020.

Note 12 - Housing assistance payments

Some of the rental properties have entered into housing assistance payments contracts to receive Section 8 Project-Based Voucher Payments for qualifying tenants. Two of the rental properties have entered into rental assistance agreements with U.S. Department of Agriculture, Rural Development to receive rental assistance for qualifying tenants. Additionally, some of the rental properties are provided rental subsidies from the Massachusetts Rental Voucher Program. Also, certain tenants in the rental properties receive rental assistance from local housing agencies. Subsidies earned from these rental assistance providers for the year ended December 31, 2018 were \$2,170,424.

Note 13 - Employee benefits plan

The Organization has a 403(b) retirement plan through its affiliation with the First Baptist Church in Beverly which covers employees who met the eligibility requirements. The Organization matches up to 3% of the eligible employees' annual compensation. The Organization's contributions under this plan amounted to \$28,791 for the year ended December 31, 2018.

Note 14 - Concentrations of credit risk

The Organization maintains its cash balances at several financial institutions located in Massachusetts. The cash balances are insured by the Federal Deposit Insurance Corporation up to \$250,000 at each bank. At times, these balances may exceed the federal insurance limits; however, the Organization has not experienced any losses with respect to its bank balances in excess of government provided insurance. Management believes that no significant concentration of credit risk exists with respect to these cash balances as of December 31, 2018.

Harborlight Community Partners, Inc. and Subsidiaries

Notes to Consolidated and Combined Financial Statements December 31, 2018

Note 15 - Contingencies

Harborlight House LLC and Boston Street Crossing LLC's low-income housing credits are contingent on its ability to maintain compliance with applicable sections of Section 42. Failure to maintain compliance with occupant eligibility, and/or unit gross rent, or to correct noncompliance within a specified time period could result in recapture of previously taken tax credits plus interest. In addition, such potential noncompliance may require an adjustment to the contributed capital by the investor member.

Note 16 - Economic concentration

The Organization operates several apartment complexes located in the North Shore of Massachusetts. Future operations could be affected by changes in economic or other conditions in that geographical area or by changes in federal and state low-income housing subsidies or demand for such housing.

Note 17 - Risks and uncertainties

The Organization maintains an investment portfolio consisting of a combination of U.S. Treasury securities and other government obligations, corporate bonds, and mutual funds that are invested in equity securities, bonds, money market and other investment securities. Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the value of these investments will occur in the near term and such changes could materially affect the Organization's investment account balances.

Note 18 - Prior period adjustment

During 2018, it was determined that in 2017, the Organization erroneously did not eliminate developer's profit of \$596,263 from the basis of property and equipment related to the balance of deferred development fee due from Harborlight House LLC to HCP. The adjustment resulted in the overstatement of property and equipment totaling \$596,263, as previously reported, and an overstatement of 2017 net assets of \$596,263, as previously reported. Accordingly, a prior period adjustment was recorded to restate and decrease net assets by \$596,263 at December 31, 2017. This restatement resulted in an increase to changes in net assets as had originally been reported of \$19,234 for the year ended December 31, 2017.

Note 19 - Subsequent events

Events that occur after the consolidated and combined statement of financial position date but before the consolidated and combined financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the consolidated and combined statement of financial position date are recognized in the accompanying consolidated and combined financial statements. Subsequent events which provide evidence about the conditions that existed after the consolidated and combined statement of financial position date require disclosure in the accompanying notes. Management evaluated the activity of the Organization through August 26, 2019 (the date the consolidated and combined financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the consolidated and combined financial statements or disclosure in the notes to the consolidated and combined financial statements, except as disclosed in Note 7.

Supplementary Information

Harborlight Community Partners, Inc. and Subsidiaries
Consolidating and Combining Statement of Financial Position
December 31, 2018

	Operating	Residential							Development					Eliminations	Total
	Harborlight Community Partners, Inc.	Whipple Annex Housing, LLC	Turtle Creek Housing, LLC	Harborlight House LLC	Boston Street Crossing LLC	Firehouse Place, Inc.	Marblehead Community Housing Corp.	Rockport Affordable Housing, Inc.	Subtotal	Maple Woods Housing LLC	Granite Street Crossing LLC	Anchor Point LLC	Subtotal		
Assets															
Current assets															
Cash - operations	\$ 543,653	\$ 21,103	\$ 441,119	\$ 75,658	\$ 40,270	\$ 22,566	\$ 4,276	\$ 28,019	\$ 633,011	\$ -	\$ 25	\$ 25	\$ 50	\$ -	\$ 1,176,714
Cash - developments	65,141	-	-	-	1,840,852	-	-	-	1,840,852	1,406	7,142	15,256	23,804	-	1,929,797
Restricted deposits and funded reserves	495,720	53,955	1,293,728	433,779	114,333	44,152	-	334,937	2,274,884	-	-	-	-	-	2,770,604
Unrestricted investments	1,667,332	-	-	-	-	-	-	-	-	-	-	-	-	-	1,667,332
Tenant security deposits	28,088	4,982	48,259	-	6,211	1,291	4,649	18,458	83,850	-	-	-	-	-	111,938
Accounts receivable - tenants	1,480	2	3,699	642	1,337	10	2,500	400	8,590	-	-	-	-	-	10,070
Accounts receivable - related party	162,342	-	-	-	912	-	-	-	912	-	566	-	566	(88,156)	75,664
Accounts receivable - other	31,521	50	1,678	6,042	7,038	-	-	1,377	16,185	-	-	-	-	-	47,706
Prepaid expenses	11,534	1,405	49,543	3,467	5,316	986	1,291	4,293	66,301	-	-	-	-	-	77,835
Donation receivable - current portion	69,600	-	-	-	-	-	-	-	-	-	-	-	-	-	69,600
Total current assets	3,076,411	81,497	1,838,026	519,588	2,016,269	69,005	12,716	387,484	4,924,585	1,406	7,733	15,281	24,420	(88,156)	7,937,260
Property and equipment															
Land and site improvements	1,983,889	-	1,385,775	353,825	519,240	135,000	252,252	5,635	2,651,727	-	470,000	3,030,000	3,500,000	-	8,135,616
Buildings and improvements	6,368,377	2,655,353	14,998,562	7,171,328	6,531,562	1,011,872	378,443	2,486,945	35,234,065	-	-	-	-	(615,497)	40,986,945
Furniture and equipment	272,408	10,491	377,468	54,366	129,224	12,916	2,717	20,645	607,827	-	-	-	-	-	880,235
Motor vehicles	60,815	-	40,033	-	-	-	-	-	40,033	-	-	-	-	-	100,848
Total	8,685,489	2,665,844	16,801,838	7,579,519	7,180,026	1,159,788	633,412	2,513,225	38,533,652	-	470,000	3,030,000	3,500,000	(615,497)	50,103,644
Less accumulated depreciation	1,889,699	788,784	2,261,996	479,365	109,903	172,417	148,367	290,371	4,251,203	-	-	-	-	(34,622)	6,106,280
Total property and equipment	6,795,790	1,877,060	14,539,842	7,100,154	7,070,123	987,371	485,045	2,222,854	34,282,449	-	470,000	3,030,000	3,500,000	(580,875)	43,997,364
Other assets															
Investments in affiliates	3,782	-	-	-	-	-	-	-	-	-	-	-	-	(3,782)	-
Tax credit fees, net	-	-	15,182	13,676	9,323	-	-	-	38,181	-	-	-	-	-	38,181
Notes receivable, less current maturities	3,336,279	-	-	-	-	-	-	-	-	-	-	-	-	(3,336,279)	-
Development fee receivable	608,042	-	-	-	-	-	-	-	-	-	-	-	-	(608,042)	-
Real estate project development costs	80,865	-	-	-	-	-	-	-	-	894,422	360,722	429,357	1,684,501	-	1,765,366
Donation receivable	140,058	-	-	-	-	-	-	-	-	-	-	-	-	-	140,058
Total other assets	4,169,026	-	15,182	13,676	9,323	-	-	-	38,181	894,422	360,722	429,357	1,684,501	(3,948,103)	1,943,605
Total assets	\$ 14,041,227	\$ 1,958,557	\$ 16,393,050	\$ 7,633,418	\$ 9,095,715	\$ 1,056,376	\$ 497,761	\$ 2,610,338	\$ 39,245,215	\$ 895,828	\$ 838,455	\$ 3,474,638	\$ 5,208,921	\$ (4,617,134)	\$ 53,878,229

Harborlight Community Partners, Inc. and Subsidiaries
Consolidating and Combining Statement of Financial Position
December 31, 2018

	Operating	Residential							Development				Eliminations	Total	
	Harborlight Community Partners, Inc.	Whipple Annex Housing, LLC	Turtle Creek Housing, LLC	Harborlight House LLC	Boston Street Crossing LLC	Firehouse Place, Inc.	Marblehead Community Housing Corp.	Rockport Affordable Housing, Inc.	Subtotal	Maple Woods Housing LLC	Granite Street Crossing LLC	Anchor Point LLC			Subtotal
Liabilities and Net Assets															
Current liabilities															
Accounts payable	\$ 78,641	\$ 3,663	\$ 28,425	\$ 16,325	\$ 15,387	\$ 1,415	\$ 1,467	\$ 8,417	\$ 75,099	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 153,740
Accounts payable - related party	2,879	4,086	38,665	15,065	18,947	1,472	3,787	6,134	88,156	889,212	-	308,924	1,198,136	(1,286,292)	2,879
Accounts payable - construction	79	-	-	-	40,158	-	-	-	40,158	6,678	-	152,962	159,640	-	199,877
Accrued expenses	83,241	1,706	13,746	8,802	17,084	3,167	3,579	16,936	65,020	-	-	-	-	-	148,261
Accrued interest	10,269	455	136,267	135,987	6,811	218	2,195	1,963	283,896	-	-	12,755	-	(78,669)	228,251
Tenant security deposits	24,144	4,937	46,198	-	5,691	1,289	4,604	17,140	79,859	-	-	-	-	-	104,003
Prepaid rent	1,005	32	3,904	3,503	11,498	36	-	22	18,995	-	-	-	-	-	20,000
Other liabilities	40,935	-	-	-	-	-	-	-	-	-	-	-	-	-	40,935
Current portion of long-term debt	595,406	39,354	182,579	-	2,736,858	5,973	4,717	11,355	2,980,836	-	-	-	-	-	3,576,242
Total current liabilities	836,599	54,233	449,784	179,682	2,852,434	13,570	20,349	61,967	3,632,019	895,890	-	474,641	1,370,531	(1,364,961)	4,474,188
Long-term liabilities															
Long-term debt, net of unamortized debt issuance costs	6,501,491	2,017,688	12,852,744	5,231,316	5,270,922	890,500	570,084	2,629,108	29,462,362	-	838,453	3,000,000	3,838,453	(2,059,474)	37,742,832
Development fee payable	-	-	-	514,193	93,849	-	-	-	608,042	-	-	-	-	(608,042)	-
Deferred interest	-	-	-	-	-	-	-	43,045	43,045	-	-	-	-	-	43,045
Development advance	150,000	-	-	-	-	-	-	-	-	-	-	-	-	-	150,000
Total long-term liabilities	6,651,491	2,017,688	12,852,744	5,745,509	5,364,771	890,500	570,084	2,672,153	30,113,449	-	838,453	3,000,000	3,838,453	(2,667,516)	37,935,877
Total liabilities	7,488,090	2,071,921	13,302,528	5,925,191	8,217,205	904,070	590,433	2,734,120	33,745,468	895,890	838,453	3,474,641	5,208,984	(4,032,477)	42,410,065
Net assets															
Without donor restrictions - controlling	6,332,167	(113,364)	(173)	3,768	(23)	-	-	-	(109,792)	(62)	2	(3)	(63)	(584,657)	5,637,655
Without donor restrictions - non-controlling	-	-	3,090,695	1,704,459	878,533	-	-	-	5,673,687	-	-	-	-	-	5,673,687
Without donor restrictions - combined entities	-	-	-	-	-	152,306	(92,672)	(123,782)	(64,148)	-	-	-	-	-	(64,148)
With donor restrictions	220,970	-	-	-	-	-	-	-	-	-	-	-	-	-	220,970
Total net assets	6,553,137	(113,364)	3,090,522	1,708,227	878,510	152,306	(92,672)	(123,782)	5,499,747	(62)	2	(3)	(63)	(584,657)	11,468,164
Total liabilities and net assets	\$ 14,041,227	\$ 1,958,557	\$ 16,393,050	\$ 7,633,418	\$ 9,095,715	\$ 1,056,376	\$ 497,761	\$ 2,610,338	\$ 39,245,215	\$ 895,828	\$ 838,455	\$ 3,474,638	\$ 5,208,921	\$ (4,617,134)	\$ 53,878,229

Harborlight Community Partners, Inc. and Subsidiaries

Consolidating and Combining Statement of Activities Year Ended December 31, 2018

	Operating	Residential							Development					Eliminations	Total
	Harborlight Community Partners, Inc.	Whipple Annex Housing, LLC	Turtle Creek Housing, LLC	Harborlight House LLC	Boston Street Crossing LLC	Firehouse Place, Inc.	Marblehead Community Housing Corp.	Rockport Affordable Housing, Inc.	Subtotal	Maple Woods Housing LLC	Granite Street Crossing LLC	Anchor Point LLC	Subtotal		
Revenue and support															
Grants and contributions	\$ 846,541	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 846,541
Rental	747,614	154,792	1,860,455	375,630	172,686	67,580	56,870	310,934	2,998,947	-	-	-	-	-	3,746,561
Contracts	43,486	-	-	-	-	-	-	-	-	-	-	-	-	-	43,486
Site support	971,033	-	-	-	-	-	-	-	-	-	-	-	-	(886,422)	84,611
Program service fees	89,046	-	-	72,707	13,750	-	-	-	86,457	-	-	-	-	-	175,503
Investment return, net	(12,830)	161	11,566	2,666	994	46	-	2,558	17,991	3	-	13	16	(29,562)	(24,385)
Developer fee	484,889	-	-	-	-	-	-	-	-	-	-	-	-	-	484,889
Management fees	490,257	-	-	-	-	-	-	-	-	-	-	-	-	(402,107)	88,150
Other	4,815	-	330	1,473	114	1,100	-	-	3,017	-	-	-	-	-	7,832
Total revenue and support	3,664,851	154,953	1,872,351	452,476	187,544	68,726	56,870	313,492	3,106,412	3	-	13	16	(1,318,091)	5,453,188
Expenses															
Employee compensation, payroll taxes and benefits	2,021,575	29,854	275,888	130,367	110,977	13,438	8,986	66,186	635,696	-	-	-	-	(828,062)	1,829,209
Operating and maintenance expenses	174,012	18,828	117,657	84,062	23,792	6,450	7,515	57,655	315,959	-	-	-	-	-	489,971
Utilities	71,571	14,731	174,765	53,816	23,762	7,235	4,784	46,376	325,469	-	-	-	-	-	397,040
Taxes and insurance	96,142	14,526	174,490	37,293	11,456	9,793	3,353	40,132	291,043	-	-	-	-	-	387,185
Administrative	198,585	5,919	93,048	22,302	22,824	2,969	2,735	14,724	164,521	65	-	-	65	-	363,171
Development costs	61,179	-	-	-	-	-	-	-	-	-	-	-	-	-	61,179
Professional fees	46,421	-	11,394	8,444	20,045	2,500	4,724	18,850	65,957	-	-	-	-	-	112,378
Fundraising event expense	32,791	-	-	-	-	-	-	-	-	-	-	-	-	-	32,791
Financial services expense	198,248	5,800	-	16,260	7,500	3,384	1,632	-	34,576	-	-	-	-	(58,360)	174,464
Management fees	50,762	9,346	272,695	25,449	9,786	5,054	3,554	25,461	351,345	-	-	-	-	(402,107)	-
Social service expenses	1,949	-	12,470	2,006	14,111	-	-	-	28,587	-	-	-	-	-	30,536
Interest expense	132,232	12,253	523,934	46,013	60,379	6,398	7,889	25,972	682,838	-	-	-	-	(29,562)	785,508
Other financial expenses	2,494	-	-	-	-	-	-	-	-	-	-	-	-	-	2,494
Depreciation and amortization	197,683	67,712	475,686	186,073	110,470	23,857	13,111	81,702	958,611	-	-	-	-	(15,388)	1,140,906
Total expenses	3,285,644	178,969	2,132,027	612,085	415,102	81,078	58,283	377,058	3,854,602	65	-	-	65	(1,333,479)	5,806,832
Changes in net assets	379,207	(24,016)	(259,676)	(159,609)	(227,558)	(12,352)	(1,413)	(63,566)	(748,190)	(62)	-	13	(49)	15,388	(353,644)
Distributions	-	-	(22,404)	-	-	-	-	-	(22,404)	-	-	-	-	-	(22,402)
Other changes in net assets	-	-	-	-	(3,437)	-	-	-	(3,437)	-	-	-	-	-	(3,437)
Capital contributions	-	-	-	-	1,112,833	-	-	-	1,112,833	-	-	-	-	-	1,112,833
Other changes in net assets	-	-	(22,404)	-	1,109,396	-	-	-	1,086,992	-	-	-	-	2	1,086,994
Total changes in net assets	379,207	(24,016)	(282,080)	(159,609)	881,838	(12,352)	(1,413)	(63,566)	338,802	(62)	-	13	(49)	15,390	733,350
Net assets (deficit), beginning of year	6,173,930	(89,348)	3,372,602	1,867,836	(3,328)	164,658	(91,259)	(60,216)	5,160,945	-	2	(16)	(14)	(3,784)	11,331,077
Prior period adjustment	-	-	-	-	-	-	-	-	-	-	-	-	-	(596,263)	(596,263)
Net assets (deficit), beginning of year, as restated	6,173,930	(89,348)	3,372,602	1,867,836	(3,328)	164,658	(91,259)	(60,216)	5,160,945	-	2	(16)	(14)	(600,047)	10,734,814
Net assets (deficit), end of year	\$ 6,553,137	\$ (113,364)	\$ 3,090,522	\$ 1,708,227	\$ 878,510	\$ 152,306	\$ (92,672)	\$ (123,782)	\$ 5,499,747	\$ (62)	\$ 2	\$ (3)	\$ (63)	\$ (584,657)	\$ 11,468,164

See Independent Auditor's Report.

Harborlight Community Partners, Inc. and Subsidiaries

Schedule of Expenditures of Federal Awards Year Ended December 31, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA number	Pass-through entity identifying number	Passed through to subrecipients	Federal expenditures
Major Programs				
U.S. Department of Agriculture				
Rural Rental Housing Loans	10.415	N/A	N/A	\$ 3,565,407
Rural Rental Housing Interest Subsidy	10.415	N/A	N/A	<u>56,720</u>
Total U.S. Department of Agriculture				<u>3,622,127</u>
U.S. Department of Housing and Urban Development				
Passed through North Shore Home Consortium				
HOME Investment Partnerships Program	14.239	N/A	N/A	799,100
Passed through Town of Rockport				
HOME Investment Partnerships Program	14.239	N/A	N/A	<u>72,764</u>
Total U.S. Department of Housing and Urban Development				<u>871,864</u>
Total Major Programs				<u>4,493,991</u>
Non Major Programs				
U.S. Department of Agriculture				
Rural Rental Assistance Payments	10.427	N/A	N/A	<u>213,918</u>
Total U.S. Department of Agriculture				<u>213,918</u>
U.S. Department of Housing and Urban Development				
Passed through City of Beverly				
Community Development Block Grants / Entitlement Grants	14.218	N/A	N/A	<u>160,000</u>
Total U.S. Department of Housing and Urban Development				<u>160,000</u>
Total Non Major Programs				<u>373,918</u>
Total Expenditures of Federal Awards				<u>\$ 4,867,909</u>

See Notes to Schedule of Expenditures of Federal Awards.

Harborlight Community Partners, Inc. and Subsidiaries

Notes to Schedule of Expenditures of Federal Awards Year Ended December 31, 2018

Note 1 - General

The Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of Harborlight Community Partners, Inc., including federal awards passed through other government agencies. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance").

The financial statements of certain subsidiaries included in the consolidated and combined financial statements were not audited in accordance with *Government Audit Standards* as they are not subject to the requirements under the *Uniform Guidance, "Audits of State, Local Governments, and Non-Profit Organizations."* The schedule includes federal awards received directly by Harborlight Community Partners, Inc. from federal agencies as well as federal awards passed through to Harborlight Community Partners, Inc. by state or local government agencies or other nonprofit organizations. Because the Schedule presents only a selected portion of the operations of Harborlight Community Partners, Inc. and Subsidiaries, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Harborlight Community Partners, Inc. and Subsidiaries

Note 2 - Basis of presentation

The schedule of expenditures of federal awards has been prepared on the following basis:

The awards are classified by program in accordance with the Uniform Guidance. Funds expended under the same catalog of federal domestic assistance number are classified as a program.

Expenditures are recognized using the accrual basis of accounting and the cost accounting principles contained in OMB Circular A-122, "Cost Principles for Nonprofit Organizations" and the cost principles contained in the Uniform Guidance. Under these cost principles, certain types of expenditures are not allowable or are limited as to reimbursement. Expenditures for loan disbursements are recognized when paid. Harborlight Community Partners, Inc. and Subsidiaries have not elected to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

Note 3 - U.S. Department of Agriculture, Rural Development loan program

Harborlight Community Partners, Inc. and Subsidiaries have received a Rural Development loan under Section 515 of the National Housing Act. The loan balance outstanding at the beginning of the year is included in the federal expenditures presented in the Schedule. Harborlight Community Partners, Inc. and Subsidiaries received no additional loans during the year. The balance of the loan outstanding at December 31, 2018 consists of:

Federal CFDA Number	Program name	Outstanding loan balance at December 31, 2018
10.415	Rural Rental Housing Loans	\$ 3,528,311

Harborlight Community Partners, Inc. and Subsidiaries

**Notes to Schedule of Expenditures of Federal Awards
Year Ended December 31, 2018**

Note 4 - Home Investment Partnerships loan program

Harborlight Community Partners, Inc. and Subsidiaries have received the following loans under the Home Investment Partnerships Program from the federal agency U.S. Department of Housing and Urban Development passed through the North Shore HOME Consortium and the Town of Rockport:

<u>Federal CFDA Number</u>	<u>Entity receiving award</u>	<u>Outstanding loan balance at December 31, 2018</u>
14.239	Harborlight Community Partners, Inc.	\$ 871,864

There were no expenditures or receipts on the loans during the year ended December 31, 2018.

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Consolidated and Combined Financial Statements
Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
Harborlight Community Partners, Inc. and Subsidiaries

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated and combined financial statements of Harborlight Community Partners, Inc. and Subsidiaries, which comprise the consolidated and combined statement of financial position as of December 31, 2018, and the related consolidated and combined statements of activities, changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated and combined financial statements, and have issued our report thereon dated August 26, 2019, which includes an emphasis of matter paragraph as indicated on page 3. The financial statements of certain subsidiaries were not audited in accordance with *Government Auditing Standards* (see Note 1), and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance with these certain subsidiaries.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated and combined financial statements, we considered Harborlight Community Partners, Inc. and Subsidiaries' internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated and combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of Harborlight Community Partners, Inc. and Subsidiaries' internal control. Accordingly, we do not express an opinion on the effectiveness of the Harborlight Community Partners, Inc. and Subsidiaries' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's consolidated and combined financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a *material weakness*, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2018-001 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Harborlight Community Partners, Inc. and Subsidiaries' consolidated and combined financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Harborlight Community Partners, Inc. and Subsidiaries' Response to Finding

Harborlight Community Partners, Inc. and Subsidiaries' response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Harborlight Community Partners, Inc. and Subsidiaries' response was not subjected to the auditing procedures applied in the audit of the consolidated and combined financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Boston, Massachusetts
August 26, 2019

Independent Auditor's Report on Compliance for Each Major Program and on
Internal Control over Compliance Required by the Uniform Guidance

To the Board of Directors
Harborlight Community Partners, Inc. and Subsidiaries

Report on Compliance for Each Major Federal Program

We have audited Harborlight Community Partners, Inc. and Subsidiaries' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Harborlight Community Partners, Inc. and Subsidiaries' major federal programs for the year ended December 31, 2018. Harborlight Community Partners, Inc. and Subsidiaries' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Harborlight Community Partners, Inc. and Subsidiaries' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Harborlight Community Partners, Inc. and Subsidiaries' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal programs. However, our audit does not provide a legal determination of Harborlight Community Partners, Inc. and Subsidiaries' compliance.

Opinion on the Major Federal Programs

In our opinion, Harborlight Community Partners, Inc. and Subsidiaries complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended December 31, 2018.

Report on Internal Control over Compliance

Management of Harborlight Community Partners, Inc. and Subsidiaries is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Harborlight Community Partners, Inc. and Subsidiaries' internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Harborlight Community Partners, Inc. and Subsidiaries' internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Boston, Massachusetts
August 26, 2019

Harborlight Community Partners, Inc. and Subsidiaries

**Schedule of Findings and Questioned Costs
December 31, 2018**

A. Summary of Auditor's Results

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with generally accepted accounting principles: Unmodified

Internal control over financial reporting:

*Material weakness(es) identified? X Yes No
 *Significant deficiency(ies) identified? Yes X None reported
 Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major federal programs:

*Material weakness(es) identified? Yes X No
 *Significant deficiency(ies) identified? Yes X None reported

Type of auditor's report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)? Yes X No

Identification of major federal programs:

<u>CFDA Numbers(s)</u>	<u>Name of Federal Program or Cluster</u>
10.415	Rural Rental Housing Loans
14.239	HOME Investment Partnerships Program

Dollar threshold used to distinguish between Type A and Type B programs: \$ 750,000

Auditee qualified as low-risk auditee Yes X No

B. Findings - Financial Statements Audit

See Finding 2018-001 on the Schedule of Findings and Questioned Costs

C. Findings and Questioned Costs - Major Federal Award Programs Audit

None

Harborlight Community Partners, Inc. and Subsidiaries

**Schedule of Findings and Questioned Costs
December 31, 2018**

1. Corrective Action Not Started or in Process

Finding 2018-001

Statement of Condition

A material adjustment related to prior reporting periods was required in order for the consolidated and combined financial statements to be fairly presented in accordance with generally accepted accounting principles in the United States of America.

Criteria

Internal controls over financial reporting should exist to ensure that material misstatements are detected and corrected by management in a timely manner.

Cause

Management did not properly implement controls over financial reporting.

Effect or Potential Effect

Management may produce financial statements that are materially misstated. The net assets previously reported in the 2017 audited financial statements were overstated by \$596,263.

Recommendation

Management should undertake a review of internal controls over financial reporting and ensure that relevant information is properly recorded in the financial records to prevent misstatements from occurring in the future.

Auditor Noncompliance Code: S - Internal control deficiencies

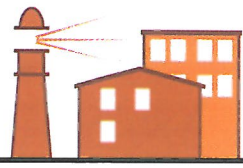
Reporting Views of Responsible Officials

Management concurs with this finding. Management believes this condition resulted from an oversight in the accounting for the elimination of transactions between Harborlight Community Partners, Inc. and a subsidiary by company personnel. Management believes that internal controls in place to ensure the proper accounting for and presentation of such costs are adequate. However, management will exercise greater care in the accounting for such costs to prevent misstatements from occurring in the future.

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August 29, 2019

Corrective Action Plan

Auditee Name:

Harborlight Community Partners, Inc. and Subsidiaries

Auditor Name:

CohnReznick LLP
One Boston Place, Suite 500
Boston, MA 02108

Audit Period:

January 1, 2018 – December 31, 2018

Corrective Action Plan prepared by:

Name: Tim Donovan
Position: Chief Operating Officer
Telephone Number: 978-473-7160

A. Current Findings on the Schedule of Findings and Questioned Costs

1. Finding 2018-001

a. Comments on the Finding and Each Recommendation

Management agrees that a material adjustment related to prior reporting periods was required in order for the December 31, 2018 consolidated and combined financial statements to be fairly presented in accordance with generally accepted accounting principles in the United States of America (US GAAP).

Action Planned on the Finding

Management believes that this finding was the result of an oversight by company personnel involved in the accounting treatment for a related party transaction between Harborlight Community Partners, Inc. and a subsidiary. Management agrees that such related party transactions among Harborlight Community Partners, Inc. and its subsidiaries are required to be eliminated in the consolidated and combined financial statements in accordance with US GAAP. Management believes that internal controls over financial reporting should be put in place to ensure that the consolidated and combined financial statements are free from material misstatements from occurring in the future. Management will undertake a review of its internal controls over financial reporting to ensure that the consolidated and combined financial statements are produced free from material error and are in accordance with US GAAP.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Tim Donovan', is written over a white background.

Tim Donovan
Chief Operating Officer