

Harborlight Community Partners, Inc., a Subsidiary of The First Baptist Church in Beverly, and Affiliates

Consolidated Financial Report
and Supplementary Information
December 31, 2009

McGladrey & Pullen

Certified Public Accountants

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Certified Public Accountants

Independent Auditor's Report on the Consolidated Financial Statements

To the Board of Directors
Harborlight Community Partners, Inc., a Subsidiary of The First Baptist Church in Beverly, and Affiliates
Beverly, Massachusetts

We have audited the accompanying consolidated statement of financial position of Harborlight Community Partners, Inc., a Subsidiary of The First Baptist Church in Beverly, and Affiliates (the "Organization") as of December 31, 2009, and the related consolidated statements of activities and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Harborlight Community Partners, Inc., a Subsidiary of The First Baptist Church in Beverly, and Affiliates as of December 31, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

McGladrey & Pullen, LLP

Burlington, Massachusetts
December 17, 2010

Harborlight Community Partners, Inc., a Subsidiary of The First Baptist Church in Beverly, and Affiliates

Consolidated Statement of Financial Position

December 31, 2009

Assets

Current Assets

Cash and cash equivalents	\$ 436,780
Assets limited as to use (Note 3)	402,509
Accounts receivable - trade	72,058
Accounts receivable - affiliates (Note 2)	654
Prepaid expenses	28,122
Current portion of notes receivable (Notes 2 and 4)	24,325
Total current assets	<u>964,448</u>

Property and Equipment, net (Notes 5, 7 and 8)

8,069,806

Other Assets

Financing costs, net of amortization of \$19,103	110,312
Note receivable (Notes 2 and 4)	296,271
Total other assets	<u>406,583</u>

Total assets

\$ 9,440,837

Liabilities and Net Assets / Member Equity

Current Liabilities

Line of credit (Note 6)	\$ 211,103
Current portion of mortgage and notes payable (Notes 2 and 7)	60,066
Current portion of bonds payable (Notes 3 and 8)	9,644
Accounts payable	88,282
Accrued expenses	121,753
Deferred revenue and deposits (Note 2)	22,421
Total current liabilities	<u>513,269</u>

Long-Term Liabilities

Accrued interest (Note 7)	671,350
Mortgage and notes payable, net of current portion (Notes 2 and 7)	4,863,711
Bonds payable, net of current portion (Notes 3 and 8)	1,984,356
Total long-term liabilities	<u>7,519,417</u>

Total liabilities

8,032,686

Minority Interest in Affiliate

375,636

Net Assets / Member Equity

Unrestricted net assets / member equity (Note 15)	1,027,131
Temporarily restricted net assets (Notes 9 and 15)	5,384
Total net assets / member equity	<u>1,032,515</u>

Total liabilities and net assets / member equity

\$ 9,440,837

See Notes to Consolidated Financial Statements

Harborlight Community Partners, Inc., a Subsidiary of The First Baptist Church in Beverly, and Affiliates

Consolidated Statement of Activities
Year Ended December 31, 2009

	Unrestricted	Temporarily Restricted	Total
Revenue and Other Support			
Administrative revenue (Note 2)	\$ 226,817	\$ -	\$ 226,817
Site revenue (Note 2)	501,068	-	501,068
Service revenue (Note 2)	780,680	-	780,680
Fundraising revenue (Note 2)	170,236	-	170,236
Interest income	22,489	-	22,489
Other income (Note 4)	346,838	-	346,838
Releases from restriction (Note 10)	8,239	(8,239)	-
Total revenue and other support	2,056,367	(8,239)	2,048,128
Expenses (Notes 11, 12 and 13)			
Administrative expenses	238,286	-	238,286
Site expenses	949,713	-	949,713
Service expenses	713,342	-	713,342
Fundraising expenses	97,868	-	97,868
Total expenses	1,999,209	-	1,999,209
Rental Activities			
Rental and other income	508,413	-	508,413
Rental expense	(589,930)	-	(589,930)
Net rental activities	(81,517)	-	(81,517)
Change in net assets / member equity before minority interest in net loss of affiliate	(24,359)	(8,239)	(32,598)
Minority interest in net loss of affiliate	191,931	-	191,931
Change in Net Assets / Member Equity	167,572	(8,239)	159,333
Net Assets/Member Equity at Beginning of Year, as restated (Notes 15 and 16)	859,559	13,623	873,182
Net Assets/Member Equity at End of Year	\$ 1,027,131	\$ 5,384	\$ 1,032,515

See Notes to Consolidated Financial Statements

Harborlight Community Partners, Inc., a Subsidiary of The First Baptist Church in Beverly, and Affiliates

Consolidated Statement of Cash Flows
Year Ended December 31, 2009

Cash Flows from Operating Activities	
Change in net assets/members' equity	\$ 159,333
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Gain on sale of Harborlight Care Services	(332,000)
Forgiveness of notes payable	(13,835)
Depreciation	228,663
Amortization	3,113
Minority interests' share of net loss of affiliate	(191,931)
Change in accounts receivable	176,906
Change in prepaid expenses	25,286
Change in deposits	13,607
Change in accounts payable	(138,753)
Change in accrued expenses	143,417
Change in deferred revenue and deposits	(17,029)
Change in due from affiliates	275,831
Change in due to affiliates	(223,936)
Net cash provided by operating activities	<u>108,672</u>
Cash Flows from Investing Activities	
Change in restricted cash	(55,539)
Payments on note receivable	41,404
Bond financing costs paid	(88,415)
Purchase of property, plant and equipment	(1,489,798)
Net cash used in investing activities	<u>(1,592,348)</u>
Cash Flows from Financing Activities	
Net advances of line of credit borrowing	16,613
Proceeds from bond payable	1,994,000
Proceeds from notes payable	94,700
Payments on mortgage and notes payable	(782,106)
Net cash provided by financing activities	<u>1,323,207</u>
Net Decrease in Cash and Cash Equivalents	(160,469)
Cash and Cash Equivalents, Beginning of Year	<u>597,249</u>
Cash and Cash Equivalents, End of Year	<u>\$ 436,780</u>
<u>Supplemental Disclosures of Cash Flow Information</u>	
Cash Paid During the Year for:	
Interest	<u>\$ 153,941</u>

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities and basis of consolidation: The consolidated financial statements include the accounts of Harborlight Community Partners, Inc., HLH Affordable Housing Inc., HLH Affordable Housing Limited Partnership and Whipple Annex Housing, LLC (the "Organization"). All significant intercompany account balances and transactions have been eliminated in consolidation. Minority interests in affiliates include the interests of the affiliates' investing members.

- On January 1, 2009, FBC Property Management Corporation and Harborlight Care Services, Inc., merged into Harborlight House Properties, Inc. and Harborlight House Properties Inc.'s name was changed to Harborlight Community Partners, Inc. ("Harborlight"). In September 2009, Home At Last, Inc. and We Care About Homes, LTD merged into Harborlight and in November 2009, the North Shore Housing Trust, Inc. merged into Harborlight. Harborlight was formed under the laws of Massachusetts as a nonprofit corporation dedicated to managing housing and offering services for low and moderate-income citizens. The sole member of the Board of Directors of Harborlight is The First Baptist Church in Beverly (the Church).
- HLH Affordable Housing, Inc. (the "Corporation") (a Massachusetts corporation) is a 79% owned subsidiary of Harborlight and is the general partner of HLH Affordable Housing Limited Partnership.
- HLH Affordable Housing Limited Partnership (the "Partnership") (a Massachusetts limited partnership) was formed on October 22, 1997 for the purpose of acquiring, rehabilitating, and operating 35 units known as Harborlight House for qualifying low and moderate income elderly individuals.
- Whipple Annex Housing, LLC ("Whipple") (a Massachusetts limited liability company) was formed in May, 2005 to construct, own and operate a ten (10) unit apartment building to provide low-income housing servicing elderly, disabled and handicapped residents.

The financial statements of the Organization have been prepared on the accrual basis. The significant accounting policies followed are described to enhance the usefulness of the financial statements to the reader.

Classification and reporting of net assets: The Organization's financial statement presentation follows requirements of accounting principles generally accepted in the United States of America ("GAAP"). Under GAAP, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. A description of the three net asset classes follows:

- Unrestricted net assets represent the portion of net assets of the Organization that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations.
- Temporarily restricted net assets represent contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations.
- Permanently restricted net assets represent contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization. The Organization has no permanently restricted net assets.

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (continued)

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Accordingly, actual results could differ from those estimates.

Cash and cash equivalents: The Organization considers cash on hand, deposits in banks, certificates of deposit and short-term money market securities maturing in less than 90 days to be cash and cash equivalents. The Organization maintains its cash in bank deposit accounts, which at times may exceed federally insured limits. The Organization has not experienced any losses in such accounts. Management believes it is not exposed to any significant credit risk on cash and cash equivalents.

Assets limited as to use: Assets limited as to use include escrow funds for future payments of bond related expenditures as required by the bond agreement and escrow funds for future payments of mortgage related expenditures as required by the partnership agreement.

Accounts receivable: Accounts receivable are carried at original invoice less an estimate made for doubtful accounts based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by evaluating individual customer receivables and considering a customer's financial condition and current economic conditions. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received.

Property and equipment: Property and equipment acquisitions are recorded at cost. Depreciation of property and equipment are provided by the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings	39
Building improvements	15-20
Site improvements	15
Furniture and equipment	3-10
Motor vehicles	5

Expenditures for major renewals and improvements, which add value to the related assets or materially extend the life of the assets, are capitalized, while expenditures for maintenance and repairs are expensed as incurred. When sold, retired, or otherwise disposed of, the cost of assets and related accumulated depreciation will be removed from the accounts and any gain or loss credited or charged to income.

The Organization has given consideration to conditional asset retirement obligations, which requires that a liability be recorded for the fair value of an asset retirement obligation specific to certain legal environmental obligations such as asbestos, medical waste removal, and lead paint removal. The recording of a liability is required if such conditions exist and the obligation can be reasonably estimated. As of December 31, 2009, the Organization is unaware of any such obligations. The Organization will recognize a liability in the period in which it becomes aware of such liability and sufficient information is available to reasonably estimate the fair value.

Impairment of long-lived assets: The Organization has given consideration to the impairment of long-lived assets in its presentation of these financial statements. As of December 31, 2009, the Organization has not recognized any reduction in the carrying value of its property when considering impairment of long-lived assets.

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (continued)

Financing costs: Financing costs are capitalized and amortized over the term of the related bond or note payable using the straight-line method.

Revenue recognition: Resident fees for the Organization are recognized on a monthly basis based on the signed resident care agreement.

Rental revenues: The Organization leases a portion of its facilities to commercial tenants who occupy the facilities as tenants-at-will.

Contributions: Contributions, including unconditional promises to give, are recognized as revenue in the period when the donor makes the promise to give. Conditional promises to give are not recognized until they become unconditional, that is, at the time when the conditions on which they depend are substantially met. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risk involved. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any on the contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment of potential defaults. The determination includes such factors as prior collection history, type of contribution and nature of the fundraising activity.

Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the unrestricted net asset class. Contributions received with donor-imposed restrictions that are met subsequent to the year in which they are received are reported as revenues of the temporarily restricted net asset class when they are received. A reclassification to unrestricted net assets is made to reflect the expiration of such restrictions in the year the restriction is met.

Contributions of land, buildings and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues of the unrestricted net asset class. Contributions of cash or other assets with donor stipulations to be used to acquire land, buildings and equipment are reported as revenues of the temporarily restricted net asset class; the restrictions are considered to be released at the time of acquisition of such long-lived assets.

Contributions of services are reported as revenues and expenses of the unrestricted net asset class at the fair value of the service received only if the services create or enhance a non-financial asset or would typically need to be purchased by the Organization if they had not been provided by contribution, require specialized skills, and are provided by individuals with those skills. Contributions of goods and space to be used in program operations are reported as revenues and expenses of the unrestricted net asset class at the time the goods or space is received.

Fair value measurements: The Organization follows the fair value measurements accounting standard. The standard defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. Fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. It clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability. In support of this principle, the guidance establishes a fair value hierarchy that prioritizes the information used to develop those assumptions.

Investments measured and reported at fair value are classified and disclosed in one of the following categories:

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (continued)

Fair value measurements (continued):

Level I: Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments included in Level 1 includes listed equities and listed derivatives. As required by GAAP, the Organization does not adjust the quoted prices for these investments, even in situations where the Organization may hold a large position and a sale could reasonably impact the quoted price.

Securities that are listed on the United States securities exchange are valued at their last sales price on the largest United States securities exchange on which such securities have traded. Securities that are listed on an international exchange are valued at the last sales price from the largest exchange within the individual security's country of jurisdiction.

Level II: Pricing inputs are other than quoted prices in active markets of comparable instruments, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Investments which are generally included in this category include corporate bonds and loans, less liquid and restricted equity securities and certain over-the-counter derivatives.

Level III: Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation. Investments that are included in this category generally include equity and debt positions in private companies.

Income taxes: Harborlight has been classified as a tax-exempt organization as defined under Section 501(c)(3) of the Internal Revenue Code and accordingly, is exempt from taxation for those activities that fall under its exempt purpose.

The Partnership is a for-profit entity and is treated as a partnership for income tax purposes. Therefore, it does not pay federal or state income taxes on its taxable income. Instead, those members who are subject to taxation are liable for federal and state income taxes on their taxable income.

The Corporation is a for-profit entity and is treated as a C-Corporation for income taxation purposes. Should it have taxable income, a provision for income taxes would be included in the accompanying consolidated financial statements.

Whipple is a for-profit entity and is treated as a limited liability company for income taxation purposes. Therefore, it does not pay federal or state income taxes on its taxable income. Instead, its sole member, Harborlight, is subject to taxation and is liable for federal and state income taxes on its taxable income.

The Organization has adopted the FASB accounting standard regarding accounting for uncertainty in income taxes. The standard clarifies the accounting for uncertainty in income taxes by prescribing the recognition threshold a tax position is required to meet before being recognized in the financial statements. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. Management believes the Organization has no material uncertainties in income taxes.

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (continued)

Low-income housing tax credit: Section 42 of the Internal Revenue Code provides for low-income housing tax credits for certain qualified expenditures in connection with the acquisition and construction/rehabilitation of low-income housing. The Partnership has received an allocation of credits from the Commonwealth of Massachusetts Department of Housing and Community Development ("DHCD"), calculated at 3.62% of qualified acquisition costs and 8.45% of qualified rehabilitation costs. The annual credit, totaling \$222,156, may be claimed each year for ten years for a total aggregate credit of \$2,221,560 and is subject to adjustment by DHCD. The tax credits began in 1999, were prorated in the first year and ended in 2009.

Provisions of Section 42 of the Internal Revenue Code regulate the use of the project as to occupancy, eligibility, and unit gross rent, among other requirements. Recapture of low-income housing tax credits could result in a required repayment of a portion of the credits if these provisions are not met.

Additionally, the Partnership has entered into an Extended Use Housing Agreement with the DHCD. This agreement requires the project to maintain the provisions of Section 42 of the Internal Revenue Code for a minimum of 15 years through 2014. The Partnership is required to set aside 31 units in the project for low-income occupants.

Historic tax credit: The project claimed a historic tax credit in the amount of \$525,004 in 1999. This credit reduced the project's depreciable basis for tax purposes.

Advertising: The Organization's policy is to expense advertising costs as incurred.

Functional expenses: The costs of providing the various programs and other activities of the Organization have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated between the programs and supporting services.

Note 2. Related Party Transactions

The Board of Directors of the Organization is composed of various members of the boards of directors of the Church and/or the following related entities:

- First Baptist Beverly Housing for the Elderly, Inc. ("Turtle Creek") - a nonprofit corporation providing housing for the elderly and handicapped under the regulations of the U.S. Department of Housing and Urban Development ("HUD").
- Anchorage, Inc. - a nonprofit corporation that provides residential alternatives for adolescents in crisis who cannot live with their families.
- Harborlight Nursery School, Inc. - a nonprofit corporation that maintains a nursery school program for children.
- Turtle Woods Corporation - a nonprofit corporation providing housing for the elderly and handicapped under the regulations of HUD.

The Organization has entered into a HUD-approved management contract with Turtle Creek and Turtle Woods, the terms of which require payment to the Organization of a management fee equal to 5% and 8.19%, respectively, of gross receipts. The Organization also provides management services to each of the other entities under a fixed management fee agreement, which renews annually. The Organization also charges each entity all direct expenditures of property administrative support, capital contract, and maintenance provided to the entity at the Organization's contractual rates. The following is a schedule of revenues from the related parties:

Harborlight Community Partners, Inc., a Subsidiary of The First Baptist Church in Beverly, and Affiliates

Notes to Consolidated Financial Statements

Note 2. Related Party Transactions (continued)

Administrative Revenue

First Baptist Beverly Housing for the Elderly, Inc.	\$ 125,424
Turtle Woods Corporation	74,105
First Baptist Church in Beverly	<u>27,288</u>
Total administrative revenue	<u>\$ 226,817</u>

Site Revenue

First Baptist Beverly Housing for the Elderly, Inc.	\$ 194,531
Turtle Woods Corporation	105,294
First Baptist Church in Beverly	<u>21,392</u>
Total site revenue	<u>\$ 321,217</u>

Service Revenue

First Baptist Beverly Housing for the Elderly, Inc.	\$ 59,235
Turtle Woods Corporation	20,367
First Baptist Church in Beverly	<u>7,510</u>
Total service revenue	<u>\$ 87,112</u>

Amounts due from affiliates are as follows:

First Baptist Beverly Housing for the Elderly, Inc.	\$ 24,944
Turtle Woods Corporation	16,448
Harborlight Nursery School, Inc.	<u>3,364</u>
Total due from affiliates	<u>\$ 44,756</u>

Amounts due to affiliates are as follows:

First Baptist Church in Beverly	<u>\$ 839</u>
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During the year ended December 31, 2007, three of the Organization's affiliates provided funds to the Organization to purchase a new van, to be used by their programs. These funds were classified as deferred revenue for each affiliate's usage of the van. The deferred revenue as of December 31, 2009 was \$13,167.

The First Baptist Church in Beverly allocates money earned from an endowment fund held by the Church in accordance with its annual budget to be used for operations. Investment income received from the bequest totaled \$20,004 for the year ended December 31, 2009, which is included as unrestricted contributions on the consolidated statement of activities.

The Church had also provided financing to the Organization. As of December 31, 2009, the balance of the note payable is \$701,318 (see Note 7).

The Organization loaned money to a key employee in the amount of \$30,000 (see Note 4).

The Organization leases office space from the Church (see Note 11).

Notes to Consolidated Financial Statements

Note 3. Assets Limited as to Use

In August 2009, the Organization secured financing with the Massachusetts Development Finance Authority ("MDFA") (see Note 8). The purpose of the financing is to finance and refinance the acquisition of land and existing buildings and the renovation of such buildings. All unspent monies derived from the bond proceeds are held in trust by and disbursed to vendors as construction costs are incurred. The amount held in trust is \$16,071 at December 31, 2009. In addition, \$100,000 of the proceeds are to be held in trust until August 31, 2010 provided that the Organization is in compliance with certain covenants according to the bond agreement. The amount held in trust is \$100,676 at December 31, 2009.

As required by the partnership agreement, the general partner established an operating reserve in the amount of \$160,000 from the proceeds of the second capital installment. Thereafter, if any month in which the balance in the reserve is less than the Operating Reserve Minimum, as defined in the partnership agreement, a deposit from the net cash flow shall be made.

In addition, the Organization was required to establish and maintain a reserve for replacements that is to be funded annually from cash receipts from operations and used for capital purchases.

Following is a summary as of December 31, 2009:

<u>Restricted Partnership Agreement Required Funds</u>	<u>2009</u>
Operating deficit reserve account	\$ 167,626
Replacement reserve	26,277
Mortgage escrow fund	20,716
Total restricted partnership agreement required funds	<u>\$ 214,619</u>

The following table summarizes the valuation of the Organization's assets limited as to use by the fair value hierarchy levels as of December 31, 2009:

**Assets Measured at Fair Value on a Recurring Basis
Fair Value Measurements Using**

Assets	Quoted Prices	Observable Inputs	Unobservable Inputs	December 31, 2009
	Level I	Level II	Level III	
Cash and cash equivalents	\$ 402,509	\$ -	\$ -	\$ 402,509
Total Assets	<u>\$ 402,509</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 402,509</u>

Note 4. Notes Receivable

During the year ended December 31, 2007, the Organization loaned a key employee \$30,000. The individual is required to make interest-only payments of \$125 per month commencing on January 1, 2008 until December 31, 2012 at an annual rate of five-percent (5%), after which time payments of principal and interest will start at an interest rate equal to the lower of the prime rate listed in the Wall Street Journal or seven percent annum (7%). The final payment of any unpaid principal will be due the earlier of December 1, 2017 or one-hundred twenty (120) days following the cessation of the individual's employment with the Organization.

In February 2009, the Organization sold its personal care services for \$332,000. The gain represents the sale proceeds and is included in other income. The Organization issued a note receivable in connection with the sale. The note receivable is due in monthly installments of \$6,254 including principal and interest at 6.45% commencing

Notes to Consolidated Financial Statements

Note 4. Notes Receivable (continued)

February 2009 through August 2009. Monthly payments of \$3,530 including principal and interest at 6.45% are due from September 2009 through January 2019.

Maturities of the notes receivable are as follows:

<u>Years ending December 31,</u>	
2010	\$ 24,325
2011	25,941
2012	28,228
2013	34,919
2014	37,157
Thereafter	<u>170,026</u>
	<u>\$ 320,596</u>

Note 5. Property and Equipment, Net

Property and equipment at December 31, 2009 is as follows:

	<u>2009</u>
Land	\$ 1,072,099
Buildings	4,856,502
Building improvements	3,084,059
Site improvements	187,133
Furniture and equipment	259,767
Motor vehicles	122,486
Construction in progress	<u>225,163</u>
Total cost	9,807,209
Less accumulated depreciation and amortization	<u>(1,738,028)</u>
Property and equipment, net	<u>\$ 8,069,181</u>

Construction in progress as of December 31, 2009 represents costs related to renovations of several of the buildings. The renovations are expected to be completed in 2010 and are estimated to total approximately \$300,000.

Note 6. Line of Credit Agreements

The Organization has an operating line of credit with a maximum of \$250,000 available. The line is secured by all business assets. Interest payments are due monthly at the prime rate, plus 0.50% with a floor of 4.00% (4.00% at December 31, 2009). The line of credit is linked to the operating checking account as overdraft protection. There was an outstanding balance of \$211,103 as of December 31, 2009.

In addition, the Organization has payroll line of credit with a maximum of \$70,000 available. Interest payments are due monthly at prime plus 1% (4.25% at December 31, 2009). The line of credit is linked to the payroll checking account as overdraft protection. There was no outstanding balance as of December 31, 2009. The payroll line of credit was closed in March 2010.

Notes to Consolidated Financial Statements

Note 7. Mortgage and Notes Payable

Mortgage payable to First Baptist Church due in monthly principal and interest installments of \$5,154. This is a variable interest rate through December 31, 2028. The interest rate was set at 6% per annum through December 31, 2009, 6.5% per annum through December 31, 2013, and at 3% above the published prime rate thereafter, adjusted every five year period. In no event will the adjusted rate exceed the lesser of (i) 9% per annum or, (ii) 1.75% above the interest rate in effect during the preceding five year period.	\$ 701,318
Mortgage payable to a bank in monthly installments of \$3,619, including interest at 3.00% through May 2027. The note is secured by property.	586,582
Mortgage payable to a bank in monthly installments of \$1,007, including interest at 6.50% through September 2022. The note is secured by property.	104,562
Mortgage payable to a bank that carries an interest rate of 7.5%. On March 8, 2008, the note was amended. Payments of principal and interest of \$3,619 are due monthly until maturity on May 16, 2027. The note is secured by property.	77,855
Note payable to a bank in monthly installments of \$620, including interest at 6.75%, through October 2014. The note is secured by motor vehicles with a depreciated cost of \$34,533 at December 31, 2009.	30,124
Note payable to a bank in monthly installments of \$89 through December 2009. This note is secured by the property and carries a 0% interest rate.	4,819
Note payable to Commonwealth of Massachusetts, Department of Housing and Community Development (DHCD). Interest accrues at 6% per annum, compounded annually. No payments for principal and interest are due until the maturity date of August 2028 as long as the property remains affordable to low-income tenants. Additional interest of \$54,055 has been accrued during the year ended December 31, 2009. Total accrued interest is \$454,974 as of December 31, 2009.	500,000
Note payable to the Commonwealth of Massachusetts Department of Housing and Community Development's ("CMDHCD") allocation of Affordable Housing Trust funds which is administered by the DHCD. This note is secured by the property and carries a 0% interest rate. No payments for principal or interest are due until the maturity date of May 2104, as long as the property remains affordable to low income tenants.	500,000
Note payable to the Massachusetts Housing Partnership Fund Board's ("MHPFB") allocation of Rehabilitation Initiative of the Housing Standards Funds which is administered by the DHCD. This note is secured by the property and carries a 0% interest rate. No payments for principal or interest are due until the maturity date of for principal or interest are due until the maturity date of May 2104, as long as the property remains affordable to low income tenants.	<u>500,000</u>
Balance Forward	\$ 3,005,260

Harborlight Community Partners, Inc., a Subsidiary of The First Baptist Church in Beverly, and Affiliates

Notes to Consolidated Financial Statements

Note 7. Mortgage and Notes Payable (continued)

Balance Forward	\$ 3,005,260
Note payable to the Federal Home Loan Bank ("FHLB"). This note is secured by the property and carries a 0% interest rate. No payments for principal or interest are due until the maturity date of May 2037, as long as the property remains affordable to low income tenants.	300,000
Note payable to the Community Economic Development Assistance Corporation ("CEDAC"). Interest accrues at a rate of 5% per annum. Effective January 1, 2005, the interest rate was lowered to 0% per annum, until the maturity date. No payments for principal and interest will be due until the maturity date of August 2028. Total accrued interest is \$80,000 as of December 31, 2009.	250,000
Note payable to the CEDAC. This note is secured by the property and carries a 0% interest rate. No payments for principal or interest are due until the maturity date of September 2022, as long as the property remains affordable to low income tenants.	238,026
Note payable to the CEDAC. This note is secured by the property and carries a 0% interest rate. No payments for principal or interest are due until the maturity date of May 2037, as long as the property remains affordable to low income tenants.	201,993
Note payable to the North Shore Home Consortium ("NSHC"). Interest accrued at a rate of 6% per annum. No payments of principal and interest are due until the maturity date of August 2028. Additional interest of \$15,891 has been accrued during the year ended December 31, 2009. Total accrued interest is \$130,740 as of December 31, 2009.	150,000
Note payable to the NHSC. This note is secured by the property and carries a 0% interest rate. No payments for principal or interest are due until the maturity date of July 2023, as long as the property remains affordable to low income tenants.	140,000
Note payable to the Federal Home Investment Partnerships Program ("HOME") which is administered by the NHSC. This note is secured by the property and carries a 0% interest rate. No payments for principal or interest are due until the maturity date of May 2014, as long as the property remains affordable to low income tenants.	115,000
Note payable to the Community Development Block Grant Loan Program. This note is secured by the property and carries a 0% interest rate. No payments for principal or interest are due as long as the property remains affordable to low income tenants. The note is deferred in perpetuity.	100,000
Note payable to the NHSC. This note is secured by the property and carries a 0% interest rate. No payments for principal or interest are due until the maturity date of August 2029, as long as the property remains affordable to low income tenants.	<u>94,700</u>
Balance Forward	\$ 4,594,979

Notes to Consolidated Financial Statements

Note 7. Mortgage and Notes Payable (continued)

Balance Forward	\$ 4,594,979
Note payable to the HOME which is administered by the NHSC. This note is secured by the property and carries a 0% interest rate. No payments for principal or interest are due until the maturity date of May 2014, as long as the property remains affordable to low income tenants.	75,000
Note payable to the NHSC. This note is secured by the property and carries a 0% interest rate. No payments for principal or interest are due until the maturity date of August 2021, as long as the property remains affordable to low income tenants.	65,000
Note payable to the Home Improvement Deferred Loan Program ("HIDL"). This note is secured by the property and carries a 0% interest rate. No payments for principal or interest are due until the maturity date of September 2019, as long as the property remains affordable to low income tenants.	60,000
Note payable to the City of Beverly. Interest accrues at a rate of 1% per annum. No payments for principal and interest are due until the maturity date of August 2028. Additional interest of \$551 has been accrued during the year ended December 31, 2009. Total accrued interest is \$5,636 as of December 31, 2009.	50,000
Note payable to the HIDL. This note is secured by the property and carries a 0% interest rate. No payments for principal or interest are due until the maturity date of July 2009, as long as the property remains affordable to low income tenants.	33,798
Note payable to the NHSC. This note is secured by the property and carries a 0% interest rate. No payments for principal or interest are due until the maturity date of December 2023, as long as the property remains affordable to low income tenants.	25,000
Note payable to the NHSC. This note is secured by the property and carries a 0% interest rate. No payments for principal or interest are due until the maturity date of May 2009, as long as the property remains affordable to low income tenants.	<u>20,000</u>
Total mortgage and notes payable	4,923,777
Less current portion	<u>60,066</u>
Total mortgage and notes payable, net of current portion	<u>\$ 4,863,711</u>

Maturities of the mortgage and notes payable are as follows:

<u>Years ending December 31,</u>	
2010	\$ 60,066
2011	70,854
2012	73,567
2013	77,601
2014	78,132
Thereafter	<u>4,563,557</u>
	<u>\$ 4,923,777</u>

Harborlight Community Partners, Inc., a Subsidiary of The First Baptist Church in Beverly, and Affiliates

Notes to Consolidated Financial Statements

Note 7. Mortgage and Notes Payable (continued)

DHCD has a purchase option at the end of the 50 year restriction term to purchase the property owned by Whipple at the then current appraised value by giving written notice of exercising its option within 120 days after the expiration of the restriction term. In addition, DHCD has the right of first refusal to match any bonafide offer the Organization decides to accept.

Note 8. Bond Payable

During August 2009, the Organization issued, through Massachusetts Development Finance Agency ("MDFA"), \$1,994,000 of tax-exempt variable rate demand revenue bonds. Commencing on October 1, 2009, interest only of 5% is due monthly through September 2010. For the period commencing October 2010 through September 2019, payments of principal and interest at 5% of \$10,704 are due monthly. In September 2019, the rate will be adjusted to the greater of 4.5% or the Federal Home Loan Bank Rate plus 1.5% and adjusted to the same rate again as of September 1, 2024. The bond matures on September 1, 2029. The proceeds of the bond were used to finance and refinance the acquisition of land and existing buildings and the renovation of such buildings. The bond is secured by the first mortgage on various properties. The agreement is subject to certain financial covenants.

The Organization incurred \$88,415 of issue costs in connection with procuring the MDFA bond. These costs are amortized over the bond retirement period and are reflected net of accumulated amortization of \$1,473 at December 31, 2009.

Maturities of the bonds payable are as follows:

Years ending December 31,

2009	\$ 9,644
2010	29,912
2011	31,442
2012	33,051
2013	34,742
Thereafter	1,855,209
	<u>\$ 1,994,000</u>

Note 9. Temporarily Restricted Net Assets

Certain net assets are subject to donor restrictions. These net assets will be released from the imposed restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by the donor, as follows:

<u>Net assets subject to donor restrictions:</u>	2009
Resident Activity Fund	<u>\$ 5,384</u>

Note 10. Net Assets Released from Restrictions

Net assets were released from donor restrictions during year ended December 31, 2009 by incurring costs satisfying the restricted purposes or by the occurrence of other events specified by the donor. Contributions of \$8,239 had been used for program-related expenses during 2009.

Notes to Consolidated Financial Statements

Note 11. Operating Leases

The Organization leases office space from the First Baptist Church. Under the agreement, the Organization will pay monthly rental payments of \$1,500 plus insurance premiums through September 2016. Total rent expense for the year ended December 31, 2009 was \$19,990.

In addition, on May 9, 2008, Whipple entered into a ninety-nine year ground lease with the Town of Ipswich for the total sum of \$1. The lease expires on May 9, 2104.

Future minimum lease payments are as follows:

2010	\$ 18,000
2011	18,000
2012	18,000
2013	18,000
2014	18,000
Thereafter	<u>31,500</u>
	<u>\$ 121,500</u>

Note 12. Employee Retirement Plan

The Organization, through its affiliation with the Church, contributes to a defined contribution plan available to ministers, clergy and lay employees (Ministers and Missionaries Plan). Selected employees are covered. Payments to the plan amounted to \$46,342 for the year ended December 31, 2009.

Note 13. Functional Classification of Expenses

Expenses by functional classification for the year ended December 31, 2009 is as follows:

	<u>2009</u>
Program	\$ 1,663,055
General and administrative	238,286
Fundraising	<u>97,868</u>
Total expenses	<u>\$ 1,999,209</u>

Note 14. Capital Contributions and Distributions

The investor-limited partner had contributed \$2,309,112 in return for a 99.99% share of all profits, losses and tax credits. The general partner had agreed to contribute \$100 in return for a .01% share of all profits, losses and tax credits.

Cash available for distribution to the partners from cash flow or a capital transaction is to be distributed in accordance with the partnership agreement.

Notes to Consolidated Financial Statements

Note 15. Mergers

On January 1, 2009, FBC Property Management Corporation and Harborlight Care Services, Inc., merged into Harborlight House Properties, Inc., and Harborlight House Properties Inc.'s name was changed to Harborlight Community Partners, Inc.. Effective September 2009, Home At Last, Inc. and We Care About Homes, LTD merged into Harborlight and in November 2009, the North Shore Housing Trust, Inc. merged into Harborlight and assumed the net assets of the organizations. These transactions have been accounted for under the pooling-of-interests method of accounting.

Following is a summary of the effect on net assets of the merger:

	Unrestricted	Temporarily Restricted	Totals
Net assets at December 31, 2008 for FBC Property Management Corporation	\$ 205,017	\$ -	\$ 205,017
Net assets at December 31, 2008 for Harborlight Care Services, Inc.	(32,100)	-	(32,100)
Net assets at December 31, 2008 for Harborlight House Properties Inc.	531,054	13,623	544,677
Net assets at December 31, 2008 for Home At Last, Inc.	6,962	-	6,962
Net assets at December 31, 2008 for We Care About Homes, LTD	135,132	-	135,132
Net assets at December 31, 2008 for the North Shore Housing Trust, Inc.	27,891	-	27,891
Net assets at December 31, 2008 for HLH Affordable Housing, Inc.	(71)	-	(71)
Net assets at December 31, 2008 for HLH Affordable Housing Limited Partnership	(71)	-	(71)
Net assets as December 31, 2008 for Whipple Annex Housing, LLC	231,002	-	231,002
Eliminations	(245,257)	-	(245,257)
Net assets at December 31, 2008, as restated	\$ 859,559	\$ 13,623	\$ 873,182

Notes to Consolidated Financial Statements

Note 16. Restatement of Net Assets

A prior period adjustment was recorded to reflect a decrease in net assets related to the accounting of Harborlight Community Partners, Inc.'s merger with We Care About Homes, LTD. We Care About Homes, LTD had not reflected accurate amounts for notes payable. This prior period adjustment decreased net assets of We Care About Homes, LTD by \$154,450 as of December 31, 2008.

The following is a summary:

	As of December 31, 2008		
	As Previously Reported	Adjustment	As Restated
Total assets	\$ 1,137,668	\$ -	\$ 1,137,668
Total liabilities	848,086	154,450	1,002,536
Total net assets	289,582	(154,450)	135,132
Total liabilities and assets	<u>\$ 1,137,668</u>	<u>\$ -</u>	<u>\$ 1,137,668</u>

Note 17. Subsequent Events

On January 12, 2010, the Organization signed a purchase and sale agreement to purchase real estate in Rockport, Massachusetts to be operated as thirty units of affordable housing for a purchase price of \$3.45 million.

The Organization has evaluated subsequent events through December 17, 2010, when the financial statements were available to be issued.

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report on the Supplementary Information

Board of Directors

Harborlight Community Partners, Inc., a Subsidiary of The First Baptist Church in Beverly, and Affiliates
Beverly, Massachusetts

Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the basic consolidated financial statements, rather than to present the financial position and statement of activities of the individual entities. The consolidating information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic consolidated financial statements taken as a whole.

McGladrey & Pullen, LLP

Burlington, Massachusetts
December 17, 2010

Harborlight Community Partners, Inc., a Subsidiary of The First Baptist Church in Beverly, and Affiliates

Consolidating Schedule of Financial Position
December 31, 2009

Assets	HLH Affordable					Total
	Harborlight Community Partners, Inc.	HLH Affordable Housing, Inc.	Housing Limited Partnership	Whipple Annex Housing, LLC	Eliminations	
Current Assets						
Cash and cash equivalents	\$ 344,146	\$ -	\$ 49,198	\$ 43,436	\$ -	\$ 436,780
Assets limited as to use	116,747	-	214,619	71,143	-	402,509
Accounts receivable - trade	77,472	-	-	8	(5,422)	72,058
Accounts receivable - affiliates	21,548	-	-	-	(20,894)	654
Prepaid expenses	20,272	-	7,850	-	-	28,122
Notes receivable	24,325	-	-	-	-	24,325
Total current assets	604,510	-	271,667	114,587	(26,316)	964,448
Property and Equipment, net	3,026,067	-	2,816,957	2,464,265	(237,483)	8,069,806
Other Assets						
Investment in affiliates	(90)	(90)	-	-	180	-
Financing costs, net of amortization \$19,103	86,942	-	23,370	-	-	110,312
Notes receivable	296,271	-	-	-	-	296,271
Development fee and interest receivable, net	362,523	-	-	-	(362,523)	-
Total other assets	745,646	(90)	23,370	-	(362,343)	406,583
Total assets	\$ 4,376,223	\$ (90)	\$ 3,111,994	\$ 2,578,852	\$ (626,142)	\$ 9,440,837
Liabilities and Net Assets / Member Equity						
Current Liabilities						
Line of credit	\$ 211,103	\$ -	\$ -	\$ -	\$ -	\$ 211,103
Current portion of mortgage and notes payable	11,033	-	19,353	29,680	-	60,066
Current portion of bonds payable	9,644	-	-	-	-	9,644
Accounts payable	67,923	-	15,857	4,271	231	88,282
Accrued expenses	99,457	-	15,299	6,997	-	121,753
Due to affiliates	-	-	20,101	6,446	(26,547)	-
Deferred revenue and deposits	13,167	-	-	9,254	-	22,421
Total current liabilities	412,327	-	70,610	56,648	(26,316)	513,269
Long-Term Liabilities						
Accrued interest	-	-	671,350	-	-	671,350
Development fee payable and accrued interest	-	-	362,523	-	(362,523)	-
Long-term mortgage and notes payable, net of current portion	900,177	-	1,631,965	2,331,569	-	4,863,711
Long-term bonds payable, net of current portion	1,984,356	-	-	-	-	1,984,356
Total long-term liabilities	2,884,533	-	2,665,838	2,331,569	(362,523)	7,519,417
Total liabilities	3,296,860	-	2,736,448	2,388,217	(388,839)	8,032,686
Minority Interest in Affiliate	-	-	375,636	-	-	375,636
Net Assets / Member Equity						
Unrestricted net assets / Member Equity	1,073,979	(90)	(90)	190,635	(237,303)	1,027,131
Temporarily restricted net assets	5,384	-	-	-	-	5,384
Total net assets / member equity	1,079,363	(90)	(90)	190,635	(237,303)	1,032,515
Total liabilities and net assets / member equity	\$ 4,376,223	\$ (90)	\$ 3,111,994	\$ 2,578,852	\$ (626,142)	\$ 9,440,837

Harborlight Community Partners, Inc., a Subsidiary of The First Baptist Church in Beverly, and Affiliates

Consolidating Schedule of Activities
Year Ended December 31, 2009

	Harborlight Community Partners, Inc.		HLH Affordable		Whipple		Totals	
	Temporarily		Housing, Inc.		Annex		Temporarily	
	Unrestricted	Restricted	Total	Partnership	Housing, LLC	Unrestricted	Restricted	Total
Revenue and Other Support								
Administrative revenue	\$ 261,891	\$ -	\$ 261,891	\$ -	\$ -	\$ 226,817	\$ -	\$ 226,817
Site revenue	-	-	590,169	-	-	501,068	-	501,068
Service revenue	786,689	-	786,689	-	-	780,680	-	780,680
Fundraising revenue	170,236	-	170,236	-	-	170,236	-	170,236
Interest income	45,189	-	45,189	-	-	22,489	-	22,489
Other income	346,838	-	346,838	-	-	346,838	-	346,838
Releases from restriction	8,239	(8,239)	-	-	-	8,239	(8,239)	-
Total revenue and other support	2,199,251	(8,239)	2,191,012	-	(142,864)	2,056,367	(8,239)	2,048,128
Expenses								
Administrative expenses	238,286	-	238,286	-	-	238,286	-	238,286
Site expenses	949,713	-	949,713	-	-	949,713	-	949,713
Service expenses	713,342	-	713,342	-	-	713,342	-	713,342
Fundraising expenses	97,868	-	97,868	-	-	97,868	-	97,868
Total expenses	1,999,209	-	1,999,209	-	-	1,999,209	-	1,999,209
Rental Activities								
Rental and other income	-	-	-	370,795	-	508,413	-	508,413
Rental expense	-	-	-	(562,745)	(177,985)	(589,930)	-	(589,930)
Net rental activities				(191,950)	(40,367)	(81,517)		(81,517)
Loss on investment in affiliate	(19)	-	(19)	-	-	38	-	-
Change in net assets / member equity before minority interest in change in member equity of affiliate	200,023	(8,239)	191,784	(19)	(191,950)	(24,359)	(8,239)	(32,598)
Minority interest in net loss of affiliate	-	-	-	191,931	-	191,931	-	191,931
Change in Net Assets / Member Equity	200,023	(8,239)	191,784	(19)	(40,367)	167,572	(8,239)	159,333
Net Assets/Member Equity at Beginning of Year	873,956	13,623	887,579	(71)	231,002	859,559	13,623	873,182
Net Assets/Member Equity at End of Year	\$ 1,073,979	\$ 5,384	\$ 1,079,363	\$ (90)	\$ 190,635	\$ 1,027,131	\$ 5,384	\$ 1,032,515