

HEARTH, INC. AND AFFILIATES
CONSOLIDATING FINANCIAL STATEMENTS
DECEMBER 31, 2011
TOGETHER WITH
INDEPENDENT AUDITOR'S REPORT

HEARTH, INC. AND AFFILIATES

**CONTENTS
DECEMBER 31, 2011**

	<u>PAGES</u>
INDEPENDENT AUDITOR'S REPORT	1
CONSOLIDATING FINANCIAL STATEMENTS:	
Consolidating Statement of Financial Position	2
Consolidating Statement of Activities	3
Consolidating Statement of Changes in Net Assets	4
Consolidating Statement of Cash Flows	5
Consolidating Statement of Functional Expenses	6
Notes to Consolidating Financial Statements	7 – 27
SUPPLEMENTARY INFORMATION:	
Supplementary Consolidating Statement of Financial Position – Non-Syndicated Rental Properties (Exhibit A)	28
Supplementary Consolidating Statement of Activities – Non-Syndicated Rental Properties (Exhibit B)	29
Supplementary Consolidating Statement of Financial Position – Syndicated Rental Properties (Exhibit C)	30
Supplementary Consolidating Statement of Activities – Syndicated Rental Properties (Exhibit D)	31

Where Every Client Is A Valued Client

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Hearth, Inc. and Affiliates:

We have audited the accompanying consolidating statement of financial position of Hearth, Inc. (a Massachusetts corporation, not-for-profit) and Affiliates (collectively, Hearth) as of December 31, 2011, and the related consolidating statements of activities, changes in net assets, cash flows, and functional expenses for the year then ended. These consolidating financial statements are the responsibility of Hearth's management. Our responsibility is to express an opinion on these consolidating 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 consolidating financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidating financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidating financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidating financial statements referred to above present fairly, in all material respects, the consolidating statement of financial position of Hearth, Inc. and Affiliates as of December 31, 2011, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the consolidating financial statements as a whole. The accompanying supplemental information (as shown in pages 28 to 31) is presented for purposes of additional analysis and is not a required part of the consolidating 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 consolidating financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidating financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidating financial statements or to the consolidating 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 consolidating financial statements as a whole.

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

Wellesley, Massachusetts
April 12, 2012

HEARTH, INC. AND AFFILIATES

CONSOLIDATING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2011

ASSETS	HEARTH, INC.		PROPERTY MANAGE- MENT	NON- SYNDICATED RENTAL PROPERTIES (EXHIBIT A)	ELIMI- NATIONS	SUB- TOTAL	SYNDICATED RENTAL PROPERTIES (EXHIBIT C)	ELIMI- NATIONS	TOTAL
	OPERATING	REAL ESTATE DEVELOPMENT							
CURRENT ASSETS:									
Cash and cash equivalents	\$ 1,654,195	\$ -	\$ -	\$ 60,796	\$ -	\$ 1,714,991	\$ 1,093,739	\$ -	\$ 2,808,730
Funds held in trust	39,071	-	-	-	-	39,071	10,932	-	50,003
Accounts and pledges receivable	306,434	177,000	-	3,053	-	486,487	2,485	-	488,972
Prepaid expenses and deposits	63,428	-	1,355	7,757	-	72,540	11,183	-	83,723
Current reserves and deposits	50,000	-	-	-	-	50,000	-	-	50,000
Current portion of due (to) from affiliates, net	169,700	-	33,000	-	-	202,700	(45,700)	-	157,000
Current portion of developer and overhead fees receivable	-	247,071	-	-	-	247,071	-	(247,071)	-
Total current assets	<u>2,282,828</u>	<u>424,071</u>	<u>34,355</u>	<u>71,606</u>	<u>-</u>	<u>2,812,860</u>	<u>1,072,639</u>	<u>(247,071)</u>	<u>3,638,428</u>
PROPERTY AND EQUIPMENT:									
Land	-	-	-	390,600	-	390,600	152,000	-	542,600
Buildings and improvements	173,781	-	-	3,332,133	(220,269)	3,285,645	5,945,187	(794,473)	8,436,359
Furniture and equipment	541,057	-	-	155,000	-	696,057	117,132	-	813,189
	714,838	-	-	3,877,733	(220,269)	4,372,302	6,214,319	(794,473)	9,792,148
Less - accumulated depreciation	606,333	-	-	1,093,442	-	1,699,775	2,381,908	-	4,081,683
Net property and equipment	<u>108,505</u>	<u>-</u>	<u>-</u>	<u>2,784,291</u>	<u>(220,269)</u>	<u>2,672,527</u>	<u>3,832,411</u>	<u>(794,473)</u>	<u>5,710,465</u>
PROJECT UNDER DEVELOPMENT	-	-	-	-	-	-	10,502,758	(1,168,855)	9,333,903
OTHER ASSETS:									
Reserves and deposits	-	-	-	73,083	-	73,083	245,149	-	318,232
Investments	270,961	-	-	-	-	270,961	-	-	270,961
Due (to) from affiliates, net of current portion	92,079	428,177	187,111	(100,701)	-	606,666	(61,595)	1,347	546,418
Investment in affiliate	-	240,000	-	-	-	240,000	-	(240,000)	-
Financing fees, net	-	-	-	56,150	-	56,150	7,115	-	63,265
Developer and overhead fees receivable, net of current portion	-	153,549	-	-	(53,569)	99,980	-	(99,980)	-
Total other assets	<u>363,040</u>	<u>821,726</u>	<u>187,111</u>	<u>28,532</u>	<u>(53,569)</u>	<u>1,346,840</u>	<u>190,669</u>	<u>(338,633)</u>	<u>1,198,876</u>
Total assets	<u>\$ 2,754,373</u>	<u>\$ 1,245,797</u>	<u>\$ 221,466</u>	<u>\$ 2,884,429</u>	<u>\$ (273,838)</u>	<u>\$ 6,832,227</u>	<u>\$ 15,598,477</u>	<u>\$ (2,549,032)</u>	<u>\$ 19,881,672</u>
LIABILITIES AND ENTITIES' EQUITY (DEFICIT)									
CURRENT LIABILITIES:									
Current portion of long-term debt	\$ -	\$ -	\$ -	\$ 14,668	\$ -	\$ 14,668	\$ 52,295	\$ -	\$ 66,963
Accounts payable and accrued expenses	285,566	4,859	17,936	26,126	-	334,487	2,796,984	-	3,131,471
Funds held in trust	39,071	-	-	-	-	39,071	10,932	-	50,003
Total current liabilities	<u>324,637</u>	<u>4,859</u>	<u>17,936</u>	<u>40,794</u>	<u>-</u>	<u>388,226</u>	<u>2,860,211</u>	<u>-</u>	<u>3,248,437</u>
OTHER LIABILITIES:									
Long-term debt, net of current portion	-	-	-	308,021	-	308,021	2,765,832	-	3,073,853
Contingent debt	-	-	-	2,150,000	-	2,150,000	5,228,356	-	7,378,356
Notes payable and deferred interest - affiliates	-	-	-	-	-	-	3,181,276	(3,181,276)	-
Deferred interest	-	-	-	179,153	(179,153)	-	385,959	-	385,959
Developer and overhead fees payable	-	-	-	220,269	(220,269)	-	347,061	(347,061)	-
Total other liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,857,443</u>	<u>(399,422)</u>	<u>2,458,021</u>	<u>11,908,484</u>	<u>(3,528,337)</u>	<u>10,838,168</u>
Total liabilities	<u>324,637</u>	<u>4,859</u>	<u>17,936</u>	<u>2,898,237</u>	<u>(399,422)</u>	<u>2,846,247</u>	<u>14,768,695</u>	<u>(3,528,337)</u>	<u>14,086,605</u>
ENTITIES' EQUITY (DEFICIT):									
Unrestricted:									
Operating	1,977,922	(4,859)	203,530	(78,079)	-	2,098,514	(51,777)	958,034	3,004,771
Board designated	107,351	-	-	-	-	107,351	-	-	107,351
Property and equipment	108,505	-	-	41,413	179,153	329,071	881,559	(213,162)	997,468
Real estate development	-	640,620	-	-	(53,569)	587,051	-	(587,051)	-
Total unrestricted	<u>2,193,778</u>	<u>635,761</u>	<u>203,530</u>	<u>(36,666)</u>	<u>125,584</u>	<u>3,121,987</u>	<u>829,782</u>	<u>157,821</u>	<u>4,109,590</u>
Temporarily restricted	235,958	605,177	-	22,858	-	863,993	-	-	863,993
Total Hearth entities' equity (deficit)	<u>2,429,736</u>	<u>1,240,938</u>	<u>203,530</u>	<u>(13,808)</u>	<u>125,584</u>	<u>3,985,980</u>	<u>829,782</u>	<u>157,821</u>	<u>4,973,583</u>
Non-controlling interest	-	-	-	-	-	-	-	821,484	821,484
Total entities' equity (deficit)	<u>2,429,736</u>	<u>1,240,938</u>	<u>203,530</u>	<u>(13,808)</u>	<u>125,584</u>	<u>3,985,980</u>	<u>829,782</u>	<u>979,305</u>	<u>5,795,067</u>
Total liabilities and entities' equity (deficit)	<u>\$ 2,754,373</u>	<u>\$ 1,245,797</u>	<u>\$ 221,466</u>	<u>\$ 2,884,429</u>	<u>\$ (273,838)</u>	<u>\$ 6,832,227</u>	<u>\$ 15,598,477</u>	<u>\$ (2,549,032)</u>	<u>\$ 19,881,672</u>

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

HEARTH, INC. AND AFFILIATES

CONSOLIDATING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

	HEARTH, INC.		NON-SYNDICATED RENTAL PROPERTIES (EXHIBIT B)	ELIMI-NATIONS	SUB-TOTAL	SYNDICATED RENTAL PROPERTIES (EXHIBIT D)	ELIMI-NATIONS	TOTAL	
	OPERATING	REAL ESTATE DEVELOPMENT							PROPERTY MANAGEMENT
CHANGES IN UNRESTRICTED NET ASSETS:									
OPERATING REVENUES:									
Fee income and other revenue:									
Rental fees, net and program revenues	\$ 1,280,821	\$ -	\$ -	\$ 317,615	\$ -	\$ 1,598,436	\$ 636,081	\$ (31,239)	\$ 2,203,278
Government grants and other contracts	926,003	-	-	-	-	926,003	-	-	926,003
Management and service fees	87,021	-	126,927	-	(65,008)	148,940	-	(50,110)	98,830
Investment income	5,224	1,203	-	115	-	6,542	597	-	7,139
Developer fee revenue	-	69,180	-	-	-	69,180	-	(69,180)	-
Net fee income and other revenue	<u>2,299,069</u>	<u>70,383</u>	<u>126,927</u>	<u>317,730</u>	<u>(65,008)</u>	<u>2,749,101</u>	<u>636,678</u>	<u>(150,529)</u>	<u>3,235,250</u>
Support revenue:									
Private grants, contributions and special events, net	705,315	-	-	-	-	705,315	-	-	705,315
Donated goods and services	81,301	-	-	-	-	81,301	-	-	81,301
Net assets released from purpose restrictions	114,258	-	-	-	-	114,258	-	-	114,258
Net support revenue	<u>900,874</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>900,874</u>	<u>-</u>	<u>-</u>	<u>900,874</u>
Total operating revenues	<u>3,199,943</u>	<u>70,383</u>	<u>126,927</u>	<u>317,730</u>	<u>(65,008)</u>	<u>3,649,975</u>	<u>636,678</u>	<u>(150,529)</u>	<u>4,136,124</u>
OPERATING EXPENSES:									
Outreach	453,930	-	-	-	-	453,930	-	-	453,930
Housing and supportive services	1,960,972	-	-	326,022	(65,008)	2,221,986	529,931	(81,349)	2,670,568
Property management	-	-	80,017	-	-	80,017	-	-	80,017
General and administration	488,611	-	15,159	83,509	-	587,279	-	-	587,279
Institutional advancement	278,524	-	-	-	-	278,524	-	-	278,524
Total operating expenses before depreciation and amortization	<u>3,182,037</u>	<u>-</u>	<u>95,176</u>	<u>409,531</u>	<u>(65,008)</u>	<u>3,621,736</u>	<u>529,931</u>	<u>(81,349)</u>	<u>4,070,318</u>
Depreciation and amortization	<u>32,963</u>	<u>-</u>	<u>-</u>	<u>114,783</u>	<u>-</u>	<u>147,746</u>	<u>161,902</u>	<u>(26,667)</u>	<u>282,981</u>
Total operating expenses	<u>3,215,000</u>	<u>-</u>	<u>95,176</u>	<u>524,314</u>	<u>(65,008)</u>	<u>3,769,482</u>	<u>691,833</u>	<u>(108,016)</u>	<u>4,353,299</u>
Changes in unrestricted net assets from operations	<u>(15,057)</u>	<u>70,383</u>	<u>31,751</u>	<u>(206,584)</u>	<u>-</u>	<u>(119,507)</u>	<u>(55,155)</u>	<u>(42,513)</u>	<u>(217,175)</u>
OTHER REVENUES (EXPENSES):									
Predevelopment and capital grants	-	557,765	-	-	-	557,765	-	-	557,765
Recovery of affiliate advances	92,812	-	-	-	-	92,812	-	(9,320)	83,492
Forgiveness of debt	-	-	-	-	-	-	20,000	-	20,000
Net assets released from capital restrictions	-	-	-	800	-	800	-	-	800
Reserve on development grants	-	(1,068,865)	-	-	-	(1,068,865)	-	1,068,865	-
General partner operating expenses	-	(1,062)	-	-	-	(1,062)	-	-	(1,062)
Unrealized loss on investments	(5,651)	-	-	-	-	(5,651)	-	-	(5,651)
Interest on deferred debt	-	-	-	(19,572)	19,572	-	(158,346)	133,346	(25,000)
Total other revenues (expenses)	<u>87,161</u>	<u>(512,162)</u>	<u>-</u>	<u>(18,772)</u>	<u>19,572</u>	<u>(424,201)</u>	<u>(138,346)</u>	<u>1,192,891</u>	<u>630,344</u>
Changes in unrestricted net assets	<u>72,104</u>	<u>(441,779)</u>	<u>31,751</u>	<u>(225,356)</u>	<u>19,572</u>	<u>(543,708)</u>	<u>(193,501)</u>	<u>1,150,378</u>	<u>413,169</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:									
Grants	177,271	455,177	-	23,658	-	656,106	-	-	656,106
Net assets released from restrictions	<u>(114,258)</u>	<u>-</u>	<u>-</u>	<u>(800)</u>	<u>-</u>	<u>(115,058)</u>	<u>-</u>	<u>-</u>	<u>(115,058)</u>
Changes in temporarily restricted net assets	<u>63,013</u>	<u>455,177</u>	<u>-</u>	<u>22,858</u>	<u>-</u>	<u>541,048</u>	<u>-</u>	<u>-</u>	<u>541,048</u>
Changes in net assets	<u>135,117</u>	<u>13,398</u>	<u>31,751</u>	<u>(202,498)</u>	<u>19,572</u>	<u>(2,660)</u>	<u>(193,501)</u>	<u>1,150,378</u>	<u>954,217</u>
CHANGES IN NET ASSETS ATTRIBUTABLE TO NON-CONTROLLING INTEREST									
Changes in net assets attributable to Hearth	<u>\$ 135,117</u>	<u>\$ 13,398</u>	<u>\$ 31,751</u>	<u>\$ (202,498)</u>	<u>\$ 19,572</u>	<u>\$ (2,660)</u>	<u>\$ (1,935)</u>	<u>\$ 1,150,378</u>	<u>\$ 1,145,783</u>

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

HEARTH, INC. AND AFFILIATES
CONSOLIDATING STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>HEARTH, INC.</u>		<u>PROPERTY MANAGE- MENT</u>	<u>NON- SYNDICATED RENTAL PROPERTIES</u>	<u>ELIMI- NATIONS</u>	<u>SUB- TOTAL</u>	<u>SYNDICATED RENTAL PROPERTIES</u>	<u>ELIMI- NATIONS</u>	<u>TOTAL</u>	<u>NON- CONTROLLING INTEREST</u>	<u>TOTAL</u>
	<u>OPERATING</u>	<u>REAL ESTATE DEVELOPMENT</u>									
NET ASSETS, December 31, 2010	\$ 2,462,541	\$ 1,158,286	\$ 156,620	\$ 105,181	\$ 75,211	\$ 3,957,839	\$ -	\$ -	\$ 3,957,839	\$ -	\$ 3,957,839
Adoption of accounting principle	-	-	-	-	30,801	30,801	1,023,283	(1,184,123)	(130,039)	1,013,050	883,011
Changes in net assets	135,117	13,398	31,751	(202,498)	19,572	(2,660)	(193,501)	1,341,944	1,145,783	(191,566)	954,217
Transfers	<u>(167,922)</u>	<u>69,254</u>	<u>15,159</u>	<u>83,509</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET ASSETS, December 31, 2011	<u>\$ 2,429,736</u>	<u>\$ 1,240,938</u>	<u>\$ 203,530</u>	<u>\$ (13,808)</u>	<u>\$ 125,584</u>	<u>\$ 3,985,980</u>	<u>\$ 829,782</u>	<u>\$ 157,821</u>	<u>\$ 4,973,583</u>	<u>\$ 821,484</u>	<u>\$ 5,795,067</u>

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

HEARTH, INC. AND AFFILIATES

**CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>HEARTH</u>	<u>SYNDICATED RENTAL PROPERTIES</u>	<u>ELIMI- NATIONS</u>	<u>TOTAL</u>
CASH FLOWS FROM OPERATING ACTIVITIES:				
Changes in net assets	\$ (2,660)	\$ (193,501)	\$ 1,150,378	\$ 954,217
Adjustments to reconcile changes in net assets to net cash provided by operating activities:				
Depreciation and amortization	147,746	161,902	(26,667)	282,981
Predevelopment and capital grants	(1,012,942)	-	-	(1,012,942)
Reserve on development grants	1,068,865	-	(1,068,865)	-
Recovery of affiliate advances	(92,812)	-	9,320	(83,492)
Interest on deferred debt	-	158,346	(133,346)	25,000
Forgiveness of debt	-	(20,000)	-	(20,000)
Unrealized loss on investments	5,651	-	-	5,651
Bad debt	99	1,248	-	1,347
Changes in operating assets and liabilities:				
Accounts and pledges receivable	(118,122)	(3,563)	-	(121,685)
Prepaid expenses and deposits	15,833	(3)	-	15,830
Due (from) to affiliates	18,480	(37,850)	-	(19,370)
Accounts payable and accrued expenses	70,081	26,391	-	96,472
Net cash provided by operating activities	<u>100,219</u>	<u>92,970</u>	<u>(69,180)</u>	<u>124,009</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Deposits to and interest earned on other reserves and deposits	(55,111)	(22,270)	-	(77,381)
Change in developer and overhead fees receivable	(69,180)	-	69,180	-
Acquisition of property and equipment	(5,246)	-	-	(5,246)
Additions of project under development	-	(6,978,596)	-	(6,978,596)
Purchases of investments	(5,216)	-	-	(5,216)
Net cash provided by (used in) investing activities	<u>(134,753)</u>	<u>(7,000,866)</u>	<u>69,180</u>	<u>(7,066,439)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from long-term and contingent debt	-	7,394,188	-	7,394,188
Proceeds (payments) on notes payable (receivable) - affiliates	(656,096)	656,096	-	-
Predevelopment and capital grants received	835,942	-	-	835,942
Payments of long-term debt	(13,271)	(52,541)	-	(65,812)
Net cash provided by financing activities	<u>166,575</u>	<u>7,997,743</u>	<u>-</u>	<u>8,164,318</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	132,041	1,089,847	-	1,221,888
CASH AND CASH EQUIVALENTS, beginning of year	<u>1,582,950</u>	<u>3,892</u>	<u>-</u>	<u>1,586,842</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 1,714,991</u>	<u>\$ 1,093,739</u>	<u>\$ -</u>	<u>\$ 2,808,730</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Cash paid for interest	<u>\$ 20,442</u>	<u>\$ 7,001</u>	<u>\$ -</u>	<u>\$ 27,443</u>
Property and equipment additions financed by accounts and developer and overhead fees payable	<u>\$ -</u>	<u>\$ 3,524,162</u>	<u>\$ -</u>	<u>\$ 3,524,162</u>
Capitalized interest	<u>\$ -</u>	<u>\$ 5,482</u>	<u>\$ -</u>	<u>\$ 5,482</u>
Accounts payable and accrued expenses transferred to related party	<u>\$ (605,686)</u>	<u>\$ 605,686</u>	<u>\$ -</u>	<u>\$ -</u>
Project under development transferred to related party	<u>\$ (1,265,522)</u>	<u>\$ 1,265,522</u>	<u>\$ -</u>	<u>\$ -</u>
Capitalized developer and overhead fees	<u>\$ -</u>	<u>\$ 347,061</u>	<u>\$ -</u>	<u>\$ 347,061</u>

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

HEARTH, INC. AND AFFILIATES

CONSOLIDATING STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2011

EXPENSES:	PROGRAM SERVICES						SUPPORT SERVICES							
	HOUSING AND SUPPORTIVE SERVICES			PROPERTY MANAGEMENT	TOTAL PROGRAM SERVICES	GENERAL AND ADMINISTRATION	INSTITUTIONAL ADVANCEMENT	TOTAL SUPPORT SERVICES	ELIMINATIONS	SUB-TOTAL	SYNDICATED RENTAL PROPERTIES	ELIMINATIONS	TOTAL	
	OUTREACH	HEARTH	NON-SYNDICATED RENTAL PROPERTIES											
Personnel and related:														
Salaries	\$ 306,495	\$ 1,428,704	\$ 35,327	\$ 1,464,031	\$ 62,272	\$ 1,832,798	\$ 349,817	\$ 184,222	\$ 534,039	\$ -	\$ 2,366,837	\$ 158,773	\$ -	\$ 2,525,610
Payroll taxes	25,614	132,140	3,352	135,492	5,341	166,447	34,490	16,404	50,894	-	217,341	14,751	-	232,092
Fringe benefits	19,759	114,762	2,628	117,390	4,490	141,639	30,573	13,931	44,504	-	186,143	12,909	-	199,052
Consultants and contracted services	24,932	29,970	-	29,970	1,165	56,067	30,678	4,497	35,175	-	91,242	8,132	-	99,374
Total personnel and related	<u>376,800</u>	<u>1,705,576</u>	<u>41,307</u>	<u>1,746,883</u>	<u>73,268</u>	<u>2,196,951</u>	<u>445,558</u>	<u>219,054</u>	<u>664,612</u>	<u>-</u>	<u>2,861,563</u>	<u>194,565</u>	<u>-</u>	<u>3,056,128</u>
Occupancy:														
Utilities	-	342	75,664	76,006	-	76,006	-	-	-	-	76,006	109,174	-	185,180
Repairs and maintenance	391	3,099	66,953	70,052	-	70,443	495	66	561	-	71,004	76,690	-	147,694
Real estate taxes	-	-	24,748	24,748	-	24,748	-	-	-	-	24,748	28,275	-	53,023
Insurance	1,317	1,913	9,289	11,202	1,407	13,926	-	1,317	1,317	-	15,243	15,998	-	31,241
Mortgage interest	-	-	20,442	20,442	-	20,442	-	-	-	-	20,442	7,001	-	27,443
Rent	12,193	-	-	-	1,562	13,755	16,748	4,686	21,434	-	35,189	-	(31,239)	3,950
Total occupancy	<u>13,901</u>	<u>5,354</u>	<u>197,096</u>	<u>202,450</u>	<u>2,969</u>	<u>219,320</u>	<u>17,243</u>	<u>6,069</u>	<u>23,312</u>	<u>-</u>	<u>242,632</u>	<u>237,138</u>	<u>(31,239)</u>	<u>448,531</u>
Other:														
Professional fees	-	659	9,256	9,915	617	10,532	119,911	2,942	122,853	-	133,385	14,811	-	148,196
Food and household supplies	4,980	102,823	181	103,004	-	107,984	771	85	856	-	108,840	-	-	108,840
Program supplies and client expenses	23,573	20,118	-	20,118	-	43,691	28	794	822	-	44,513	-	-	44,513
Miscellaneous	824	5,447	11,722	17,169	103	18,096	10,016	6,636	16,652	-	34,748	9,519	-	44,267
Telephone	6,984	24,613	130	24,743	633	32,360	6,889	1,599	8,488	-	40,848	-	-	40,848
Office expense	990	6,956	938	7,894	1,605	10,489	12,062	2,598	14,660	-	25,149	9,128	-	34,277
Printing and copying	2,627	3,371	-	3,371	471	6,469	8,999	14,618	23,617	-	30,086	110	-	30,196
Travel and training	14,219	2,903	-	2,903	102	17,224	9,827	365	10,192	-	27,416	-	-	27,416
Insurance	-	17,737	-	17,737	-	17,737	7,269	-	7,269	-	25,006	-	-	25,006
Fundraising expense	-	-	-	-	-	-	-	14,683	14,683	-	14,683	-	-	14,683
Management and administrative fees	-	-	65,008	65,008	-	65,008	-	-	-	(65,008)	-	63,228	(50,110)	13,118
Postage	920	349	285	634	164	1,718	1,987	8,780	10,767	-	12,485	184	-	12,669
Licenses and dues	25	5,821	-	5,821	85	5,931	3,590	30	3,620	-	9,551	-	-	9,551
Meetings and events	7,335	-	-	-	-	7,335	978	161	1,139	-	8,474	-	-	8,474
Recruitment	752	1,396	-	1,396	-	2,148	-	110	110	-	2,258	-	-	2,258
Bad debt	-	-	99	99	-	99	-	-	-	-	99	1,248	-	1,347
Total other	<u>63,229</u>	<u>192,193</u>	<u>87,619</u>	<u>279,812</u>	<u>3,780</u>	<u>346,821</u>	<u>182,327</u>	<u>53,401</u>	<u>235,728</u>	<u>(65,008)</u>	<u>517,541</u>	<u>98,228</u>	<u>(50,110)</u>	<u>565,659</u>
Total expenses before allocations	453,930	1,903,123	326,022	2,229,145	80,017	2,763,092	645,128	278,524	923,652	(65,008)	3,621,736	529,931	(81,349)	4,070,318
DIRECT SERVICE ALLOCATION	-	57,849	-	57,849	-	57,849	(57,849)	-	(57,849)	-	-	-	-	-
GENERAL AND ADMINISTRATION ALLOCATION	86,235	372,985	83,509	456,494	15,159	557,888	(610,729)	52,841	(557,888)	-	-	-	-	-
Total expenses before depreciation and amortization	540,165	2,333,957	409,531	2,743,488	95,176	3,378,829	(23,450)	331,365	307,915	(65,008)	3,621,736	529,931	(81,349)	4,070,318
DEPRECIATION AND AMORTIZATION	1,266	7,844	114,783	122,627	-	123,893	23,450	403	23,853	-	147,746	161,902	(26,667)	282,981
Total expenses	<u>\$ 541,431</u>	<u>\$ 2,341,801</u>	<u>\$ 524,314</u>	<u>\$ 2,866,115</u>	<u>\$ 95,176</u>	<u>\$ 3,502,722</u>	<u>\$ -</u>	<u>\$ 331,768</u>	<u>\$ 331,768</u>	<u>\$ (65,008)</u>	<u>\$ 3,769,482</u>	<u>\$ 691,833</u>	<u>\$ (108,016)</u>	<u>\$ 4,353,299</u>

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

HEARTH, INC. AND AFFILIATES
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
DECEMBER 31, 2011

(1) OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES

OPERATIONS AND NONPROFIT STATUS

Hearth, Inc. is a nonprofit organization, which was formed in 1991 to eliminate elder homelessness in Boston, Massachusetts. Hearth, Inc. works with other agencies and Boston's homeless shelters to provide outreach, housing, and supportive services to homeless elders or elders at risk of becoming homeless.

Hearth, Inc. is exempt from Federal income taxes as an organization (not a private foundation) formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code. Hearth, Inc. is also exempt from state income taxes. Contributions made to Hearth, Inc. are deductible within the requirements of the Internal Revenue Code.

SIGNIFICANT ACCOUNTING POLICIES

Hearth, Inc. prepares its consolidating financial statements in accordance with generally accepted accounting standards and principles established by the Financial Accounting Standards Board (FASB). References to U.S. GAAP in these footnotes are to the FASB Accounting Standards Codification.

Principles of Consolidation

Hearth Inc. owns controlling interests in the general partners and managing member: CEEH East Concord, Inc. and Hearth Olmsted Manager, LLC and owns 50% of the common stock of NCS Ruggles, Inc. (collectively, the General Partners). The activity of the General Partners is reflected in the accompanying consolidating financial statements. The accompanying consolidating financial statements do not reflect the non-controlling interest in the General Partners, since the amount is not material to the accompanying consolidating financial statements.

East Concord Street Limited Partnership and Hearth Olmsted Limited Partnership (collectively, the Syndicated Rental Properties) are considered to be variable interest entities (VIE) within the meaning of standards pertaining to the consolidation of variable interest entities.

An entity considered to be the primary beneficiary of the VIE has both (a) the power to direct activities of the VIE that most significantly impact the VIE's economic performance and (b) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE.

Under this guidance, the General Partners, except for NCS Ruggles, Inc., are considered to be the primary beneficiaries. Accordingly, the Syndicated Rental Properties are combined with their respective general partners (see Note 2) and included in the accompanying consolidating financial statements of Hearth, Inc. East Concord Street Limited Partnership has been consolidated into the consolidating financial statements beginning January 1, 2011, in the consolidating statement of changes in net assets on the adoption of accounting principle line.

The consolidating financial statements include the accounts of Hearth, Inc., its wholly-owned and majority-owned subsidiaries: Hearth Management, Inc., Hearth Beacon, Inc., 4 Bishop Street, Inc., and Hearth at Burroughs, LLC; the General Partners and the Syndicated Rental Properties (collectively, Hearth) (see Note 2).

All significant balances between classes of net assets, intercompany balances and transactions have been eliminated in the accompanying consolidating financial statements.

HEARTH, INC. AND AFFILIATES
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Low-Income Housing Tax Credits

The Syndicated Rental Properties have been awarded low-income housing tax credits (LIHTCs) under Internal Revenue Code Section 42. As a condition of receiving these credits, the Syndicated Rental Properties must operate their properties in the manner prescribed by this Code Section and by the Tax Regulatory Agreement for a minimum of fifteen years, expiring at various dates through June, 2027.

Cash and Cash Equivalents

Hearth considers all short-term, highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Accounts and Pledges Receivable

Accounts and pledges receivable are recorded at their net present value when unconditionally committed. The allowance for uncollectible accounts and accounts and pledges receivable is based on management's estimate of amounts that may be uncollectible, if any. There is no allowance for doubtful accounts at December 31, 2011.

Property and Equipment and Depreciation

Property and equipment are recorded at cost, if purchased, or at fair market value at the time of the donation. Renewals and betterments are capitalized as additions to the related asset accounts, while repairs and maintenance costs are expensed as incurred. Costs of locating and analyzing potential development sites are expensed as incurred. If a site is located and eventually developed, recoverable costs are capitalized and included in project under development in the accompanying consolidating financial statements (see page 10).

Depreciation is provided using the straight-line method over the following estimated useful lives:

Buildings and improvements	5 – 40 years
Furniture and equipment	3 – 10 years

Buildings and improvements in the accompanying consolidating statement of financial position include leasehold improvements of approximately \$174,000 at December 31, 2011. Depreciation expense, net of eliminations, during 2011 was \$267,716.

Hearth reviews its investment in 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 comparison of the carrying amount of the real estate to the future net undiscounted cash flow expected to be generated by the rental 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 was no impairment loss recognized in 2011.

HEARTH, INC. AND AFFILIATES

NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
DECEMBER 31, 2011

(Continued)

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financing Fees and Amortization

Financing fees consist of legal and other expenses that are being amortized over the life of the related debt (fifteen and forty years) (see Notes 5 and 6). Financing fees have a cost of \$265,158 as of December 31, 2011. Accumulated amortization of financing fees is \$201,893 as of December 31, 2011. Amortization during 2011 was \$15,265.

Investments

Interest and dividends are recognized when earned. Gains and losses are recognized as incurred upon sale or maturity of investments or based on market value changes during the period.

Contingent Debt

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

Revenue Recognition

Rental fees, program revenues, developer fees, and management and service fees are recorded as services are provided and costs are incurred. However, due to the contingent nature of certain developer fees, some fees are not recognized until received or when it is deemed to be certain. Rental fees are recorded net of vacancies of \$44,111 for 2011.

Government grants and other contracts are recorded over the period covered by the grant or contract as services are provided and costs are incurred. Unrestricted grants and contributions are recorded when received or unconditionally committed. Special event revenue is recorded at the time of the event. Investment and other income are recorded as earned. Donor restricted grants and contributions designated for a specific time period or specific purpose are recognized as temporarily restricted revenue and net assets when received or unconditionally committed. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying consolidating statements of activities as net assets released from restrictions. Donor restricted grants received and satisfied in the same period are included in unrestricted net assets.

Reserve for Uncollectible Accounts

Reserve for uncollectible accounts is recorded based on management's analysis of specific accounts and their estimate of amounts that may become uncollectible, if any. Accounts are written off against the allowance when they are determined to be uncollectible.

HEARTH, INC. AND AFFILIATES
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Project Under Development

Hearth Olmsted Limited Partnership incurred predevelopment costs of approximately \$10,500,000 as of December 31, 2011, to develop fifty-nine units of low-income elderly housing in Boston, Massachusetts (see page 13). These costs include, among others, construction, labor, interest, ground lease payments (see Note 9), and property taxes, which are capitalized as incurred.

Special Events Revenue

Special events revenue in the accompanying consolidating statement of activities includes private grants, contributions and special events and includes the following at December 31, 2011:

Event revenue	\$137,096
Less - direct expenses	<u>(52,486)</u>
Total special events	<u>\$ 84,610</u>

Donated Goods and Services

Hearth receives goods and services from various donating organizations for use in its programs. Hearth received approximately \$81,000 of donated legal services and food during 2011. These goods and services are reflected in donated goods and services and professional fees in the accompanying consolidating financial statements at fair market value.

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

Allocation Method

Expenses related directly to a function are distributed to that function, while other expenses are allocated based upon management's estimate of the percentage attributable to each function.

Estimates

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

HEARTH, INC. AND AFFILIATES
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

As described on page 7, Hearth, Inc. and its not-for-profit affiliates, Hearth Management, Inc., Hearth Beacon, Inc., and 4 Bishop Street, Inc. (see Note 2) are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Hearth, Inc. has for-profit corporate affiliates, the General Partners (see Note 2). At December 31, 2011, the General Partners have, for Federal income tax purposes, net operating loss carryforwards of approximately \$283,000 available to offset future taxable income. Also, at December 31, 2011, the General Partners have, for state income tax purposes, net operating loss carryforwards of approximately \$16,000 to offset future taxable income. These carryforwards expire at various dates through 2031. The tax benefit of the net operating loss carryforwards has been fully reserved as of December 31, 2011, due to the uncertainty of realization.

Uncertainty in Income Taxes

Hearth follows the *Accounting for Uncertainty in Income Taxes* standards, which requires Hearth to report uncertain tax positions, related interest and penalties, and to adjust its consolidating financial statements for the impact thereof. As of December 31, 2011, Hearth determined that it had no material unrecognized tax benefits to report. Hearth does not expect a significant increase or decrease to the total amounts of unrecognized tax benefits in 2011. Hearth files tax and information returns in the United States Federal and Massachusetts state jurisdictions. These returns are generally subject to examination by tax authorities for the last three years.

Fair Value Measurements

Hearth follows the *Fair Value Measurements and Disclosure* standards. These standards define fair value, establish a framework for measuring fair value under U.S. GAAP, and mandate disclosures about fair value measurements. This policy establishes a fair value hierarchy that prioritizes the inputs and assumptions used to measure fair value. Hearth values its qualifying assets and liabilities using Level I inputs. Level I inputs reflect unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date. A qualifying asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement.

Subsequent Events

Subsequent events have been evaluated through April 12, 2012, which is the date the consolidating financial statements were available to be issued. Events that have occurred through April 12, 2012, that met the criteria for recognition and disclosure in the consolidating financial statements have been properly disclosed (see Note 14 and also page 18).

Net Asset Classifications

Unrestricted net assets consist of the undesignated net assets of Hearth relating to program services and other operating activities that it is engaged in. Unrestricted net assets also consist of the net book value of Hearth's property and equipment, net of related debt, and Board designated net assets. Board designated net assets may be used with the approval of the Board of Directors.

HEARTH, INC. AND AFFILIATES
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Asset Classifications (Continued)

Temporarily restricted net assets include grants and contributions which are designated by donors for specific purposes and designated time periods. These grants and contributions are recorded as temporarily restricted net assets until they are expended for their designated purposes or when the designated time periods expire. Temporarily restricted net assets consist of the following at December 31, 2011:

Restricted for programs	\$235,958
Restricted for predevelopment activities (see page 10)	605,177
Restricted for equipment and maintenance	22,858
Total temporarily restricted	\$863,993

Non-controlling interest represents the interests of investor limited partners in the Syndicated Rental Properties.

(2) **AFFILIATES AND RELATED PARTY TRANSACTIONS**

AFFILIATES

Hearth's consolidating financial statements include the following entities:

General Partners

CEEH East Concord, Inc. (CEC) is a Massachusetts corporation and has a 1% interest in the capital, income, losses, and cash flow of East Concord Street Limited Partnership, as its general partner. Hearst, Inc. owns 79% of the outstanding shares of the common stock of CEC.

Hearth Olmsted Manager, LLC (HOM) is a Massachusetts limited liability company and has a 0.01% interest in the capital, income, losses, and cash flow of the Hearst Olmsted Limited Partnership, as its general partner. Hearst, Inc. is the sole-member of HOM.

NCS Ruggles, Inc. (NCS) is a Massachusetts corporation and has a 0.1% interest in the capital, income, losses, and cash flow of Ruggles Assisted Living Limited Partnership (Ruggles) (see page 16), as its general partner. Hearst, Inc. owns 50% of the outstanding shares of the common stock of NCS.

Property Management

Hearth Management, Inc. (Hearth Mgmt.) is a Massachusetts not-for-profit corporation. Hearst, Inc. appoints all of Hearst Mgmt.'s Board of Directors. Hearst Mgmt. provides property management services to the Non-Syndicated Properties, East Concord Street Limited Partnership and Ruggles.

HEARTH, INC. AND AFFILIATES
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)

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

AFFILIATES (Continued)

Non-Syndicated Rental Properties

Hearth Beacon, Inc. (Beacon) is a Massachusetts not-for-profit corporation, affiliated with Hearth through common Board of Director membership, formed to operate eight units of housing for formerly homeless elders.

4 Bishop Street, Inc. (Bishop) is a Massachusetts not-for-profit corporation, affiliated with Hearth through common Board of Director membership, formed to operate nine units of housing for formerly homeless women.

Heart at Burroughs, LLC (Burroughs) is a Massachusetts limited liability company, with Hearth as its sole member, formed to operate fourteen units of housing for formerly homeless elders.

Syndicated Rental Properties

East Concord Street Limited Partnership (ECLP) is a Massachusetts limited partnership formed in September, 1995. ECLP operates forty-one low-income housing units located in the South End neighborhood of Boston, Massachusetts.

Hearth Olmsted Limited Partnership (HOLP) is a Massachusetts limited partnership formed in March, 2011. During 2011, HOLP entered into a land lease with an unrelated entity for land in Mattapan, on which it is in the process of constructing a building that consists of fifty-nine low-income housing units as of December 31, 2011. HOLP also received a loan from its limited partner which will convert to a capital contribution at a specified time in HOLP's limited partnership agreement (see Note 5). The costs associated with the construction of the building are included in project under development in the consolidating statement of financial position (see page 10).

RELATED PARTY TRANSACTIONS

Developer Fees

Hearth has a \$166,700 developer fee note receivable from Beacon for services provided during the development of the project. The note accrues interest at 6%, compounded annually. Principal and interest payments are due annually if a certain cash flow level, as defined in the agreement, is achieved. Accrued interest on this note at December 31, 2011, was \$179,153, including \$19,572 of interest for 2011. Beacon has not made any payments on the note since the cash flow level has not been achieved. In addition, Beacon does not expect to generate the level of cash flow to make future payments on this note and, accordingly, has reserved the entire balance of principal and accrued interest.

Hearth also has developer fee agreement with Burroughs, which includes development fees and overhead with a maximum amount of \$85,000 provided there were enough funds to cover the fee. As of December 31, 2011, \$53,569 of the developer fee has been earned by Hearth. Any unpaid amounts bear no interest.

HEARTH, INC. AND AFFILIATES

NOTES TO CONSOLIDATING FINANCIAL STATEMENTS

DECEMBER 31, 2011

(Continued)

(2) NET ASSETS AND RELATED PARTY TRANSACTIONS (Continued)

RELATED PARTY TRANSACTIONS (Continued)

Developer Fees (Continued)

Effective March, 2011, Hearth entered into a developer fee agreement with HOLP, which includes developer and overhead fees totaling \$800,000. The fees are payable from capital contributions in accordance with the limited partnership agreement after payment of all third party development costs. Any unpaid amounts will be converted into a note receivable to be paid from cash flow on or before December 31, 2026. If any amounts remain unpaid after December 31, 2026, HOM shall advance to HOLP an amount equal to the unpaid balance and HOLP shall immediately pay Hearth with the proceeds from the advance.

Developer and overhead fees receivable consist of the following as of December 31, 2011:

HOLP – Overhead fee	\$247,071
HOLP – Developer fee	199,959
Beacon – Developer fee	166,700
Burroughs – Developer fee	<u>53,569</u>
	667,299
Accrued interest	<u>179,153</u>
	846,452
Less – reserve	<u>445,832</u>
	400,620
Less – current portion	<u>247,071</u>
	<u>\$153,549</u>

The above developer and overhead fees receivable and accrued interest have been eliminated in the accompanying consolidating financial statements.

Notes

During the development of ECLP's property, Hearth provided loans to ECLP to fund development costs and also sold the building to ECLP in exchange for notes receivable. These notes are secured by shared fourth mortgages on the land and building. Payment of these notes will be applied to accrued interest and then to principal from available cash flow. Interest on these notes compounds annually, and on one note semi-annually, at rates ranging from 6.26% to 7%. There were no payments due for 2011, since there was no available cash flow. All unpaid principal and accrued interest are due on dates ranging from September, 2025, to July, 2026.

During the development of HOLP's property, Hearth provided non-interest bearing sponsor loans to HOLP to fund development costs totaling a maximum of \$1,828,845. Principal amounts due on these notes are due in March, 2042. These loans are secured by shared fourth mortgages on the land and building.

Hearth does not expect to receive any payments under these agreements. Accordingly, these notes and accrued interest are fully reserved. The interest income due for 2011 was \$133,346 and is eliminated in the accompanying consolidating statement of activities.

HEARTH, INC. AND AFFILIATES
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)

(2) **NET ASSETS AND RELATED PARTY TRANSACTIONS** (Continued)

RELATED PARTY TRANSACTIONS (Continued)

Notes (Continued)

The notes receivable and accrued interest that have been fully reserved in the accompanying consolidating financial statements at December 31, 2011, consist of the following:

	<u>Principal</u>	<u>Accrued Interest</u>	<u>Total</u>
ECLP - Linkage (see Note 8)	\$ 335,213	\$ 619,445	\$ 954,658
ECLP - Acquisition	320,000	539,441	859,441
ECLP - Foundations	99,260	199,052	298,312
HOLP - Sponsor loans	<u>1,068,865</u>	<u>-</u>	<u>1,068,865</u>
Total	<u>\$1,823,338</u>	<u>\$1,357,939</u>	<u>\$3,181,276</u>

The above notes receivable and accrued interest and related notes and interest payable – affiliates are eliminated on the accompanying consolidating statement of financial position.

Management and Service Fees

Hearth maintains the central payroll and pays the payroll and related payroll taxes and benefits for Hearth Mgmt. and the rental properties. Hearth is reimbursed for these amounts. The amounts relating to Hearth Mgmt. and the non-syndicated rental properties during 2011 were \$72,103 and \$41,307, respectively. Hearth Mgmt. provides property management and administrative services to its rental properties. These amounts are shown as rental fees, net and program revenues in the accompanying consolidating financial statements and consist of the following for 2011:

	<u>Management Services</u>	<u>Administrative Services</u>	<u>Total</u>
Burroughs	\$13,662	\$14,308	\$27,970
Beacon	9,042	9,477	18,519
Bishop	<u>9,042</u>	<u>9,477</u>	<u>18,519</u>
	<u>\$31,746</u>	<u>\$33,262</u>	<u>\$65,008</u>

Management and administrative fees are paid based upon available cash flow. Management fees have a first priority in payment from available cash flow. The above management and administrative service fees have been eliminated in the accompanying consolidating statement of activities.

Hearth provides maintenance and security staff to ECLP and charged ECLP approximately \$186,000 during 2011, for salaries, payroll taxes and related benefits.

HEARTH, INC. AND AFFILIATES
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)

(2) **NET ASSETS AND RELATED PARTY TRANSACTIONS** (Continued)

RELATED PARTY TRANSACTIONS (Continued)

Management and Services Fees (Continued)

Hearth Mgmt. has an agreement with ECLP to provide property management services. The management fee is 4% of total effective income, as defined in the agreement, and either party can terminate the agreement with ninety days written notice. ECLP also pays an administrative fee to Hearth Mgmt., as defined in the agreement. Hearth Mgmt. charged ECLP approximately \$25,500 for management and administrative staff (including payroll taxes and fringe benefits) during 2011. Hearth Mgmt. also charged an administrative fee of approximately \$24,600 during 2011. ECLP owes Hearth Mgmt. \$28,392 for these services at December 31, 2011, which is included in due (to) from affiliates on the accompanying consolidating statement of financial position. These fees have been eliminated in the accompanying consolidating financial statements.

CEC and ECLP have entered into an incentive management fee agreement. The fee is for 49.5% of distributable cash flow, as defined in the agreement. No fee can be paid during the low-income housing tax credit compliance period. Accordingly, there was no fee owed for 2011. The fee is also limited to 2% of gross rents.

Hearth entered into an agreement with Ruggles (see page 12) to provide supportive services to the tenants of Ruggles. Ruggles operates a forty-three unit assisted living facility. Hearth was entitled to a service provider fee for its services at Ruggles. The fee was \$20,000 per year, beginning in 2001, and increased by 3% annually until cancelled by either party. This agreement was amended effective January 1, 2008, and Hearth agreed to waive charging Ruggles the service provider fee through December 31, 2011. The fee was reinstated effective April 1, 2010, subject to an annual cash flow review, and the fee for 2011 was approximately \$21,600, which is included in due from (to) affiliates in the accompanying consolidating statement of financial position as of December 31, 2011. This agreement expires on June 30, 2016.

Additionally, Hearth is to be reimbursed for expenses and overhead applicable to Ruggles, as approved by Ruggles' Board of Directors in the annual operating budget. Hearth billed Ruggles \$76,444 during 2011, which is included in management and service fees in the accompanying consolidating statement of activities. All operating expenses of Ruggles are also paid through Hearth and reimbursed monthly. In order to pay the expenses for Ruggles, Hearth has, from time-to-time, borrowed on its note payable to a bank (see Note 7). In turn, Ruggles agreed to pay accrued interest on their outstanding balance at Hearth's prevailing short-term borrowing rate, *Wall Street Journal* (WSJ) prime rates, which ranged from 7.25% to 8.25%, at the time of the borrowings. Hearth agreed to waive interest beginning January 1, 2008, through December 31, 2011.

Effective March 1, 2011, HOM entered into an incentive management fee and a tax credit compliance fee agreement with HOLP. The fees for each of these agreements is based on a calculation as defined in HOLP's partnership agreement. The fees under these agreements commence in January, 2013.

HEARTH, INC. AND AFFILIATES
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)

(2) **NET ASSETS AND RELATED PARTY TRANSACTIONS** (Continued)

RELATED PARTY TRANSACTIONS (Continued)

Due From (To) Affiliates

ECLP owes \$97,055 to Hearth and Hearth Mgmt. at December 31, 2011, which are included in due from (to) affiliates, net in the accompanying consolidating statement of financial position. ECLP continues to revise its operating projections each year, which has enabled ECLP to repay Hearth earlier than previously expected. Under the revised projections, ECLP expects to repay Hearth between \$19,000 and \$46,000 annually through 2014. This receivable has been discounted using a 2% rate.

Hearth and Hearth Mgmt. are owed the following amounts noted below from Ruggles at December 31, 2011, which are included in due from (to) affiliates, net in the accompanying consolidating statement of financial position. During 2011, Hearth received approximately \$68,000 of these amounts from Ruggles' 2010 available cash flow, and expects to receive approximately \$157,000 in 2012 from Ruggles 2011 available cash flow. Each year Ruggles revises its operating projections. Under the revised projections for 2011, Ruggles expects to repay Hearth between \$12,000 and \$26,000 annually from 2013 through 2041. This receivable has been discounted using a 2% rate.

A summary of the amount due at December 31, 2011, is as follows:

	<u>Ruggles</u>	<u>ECLP</u>	<u>HOLP</u>	<u>Total</u>
Gross receivable	\$877,729	\$97,055	\$10,240	\$985,024
Less – discount	<u>174,311</u>	<u>1,368</u>	<u>-</u>	<u>175,679</u>
	<u>\$703,418</u>	<u>\$95,687</u>	<u>\$10,240</u>	<u>809,345</u>
Less - elimination of ECLP and HOLP				<u>105,927</u>
				<u>\$703,418</u>

Rental Fees

ECLP rents office space to Hearth at an annual rental of \$31,239 in 2011 and is eliminated in the accompanying consolidating financial statements.

Guaranties and Obligations

Hearth is obligated to repay the City of Boston any amounts received from ECLP on the Linkage loan. Since Hearth does not anticipate any payments from ECLP, this amount has not been recorded as a liability in the accompanying consolidating financial statements (see above).

CEC is obligated to contribute funds to ECLP to cover operating deficits for the benefit of ECLP's limited partner. If there is future cash flow, contributions are repayable to CEC, without interest. Hearth has guaranteed the full, timely and unconditional payment and performance of all of CEC's obligations under ECLP's Partnership Agreement. Hearth's guarantee of CEC's obligation to make operating deficit contributions is limited to \$400,000.

HEARTH, INC. AND AFFILIATES
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)

(2) **NET ASSETS AND RELATED PARTY TRANSACTIONS** (Continued)

RELATED PARTY TRANSACTIONS (Continued)

Guaranties and Obligations (Continued)

Effective March, 2011, HOM is obligated to advance funds to HOLP to cover constructions costs, provided that remaining sources of funding from capital contributions and mortgage loans are insufficient to cover the costs of construction, less any outstanding developer fees owed to Hearth (see page 14). Any advances under this obligation shall not be repaid and shall not change each partner's interest in HOLP.

Effective March, 2011, HOM is obligated to cover all operating deficits beginning on the date the first unit is available for use and ending the later of certain events occurring as defined in HOLP's partnership agreement. Thereafter, operating deficit advances are limited to a maximum obligation of \$728,692 through five years after certain events occurring as defined in HOLP's partnership agreement.

Effective March, 2011, Hearth entered into a guaranty agreement with HOLP to induce the investor limited partner of HOLP to loan an amount of \$727,917 to HOLP (see page 13 and Note 5). Hearth has guaranteed the full, timely and unconditional payment of the loan.

Purchase Options

ECLP had granted Hearth an option to purchase the limited partner's interest in ECLP at the end of the LIHTC compliance period (December, 2012). The purchase price was based upon a formula as defined in ECLP's partnership agreement. Hearth's rights under this agreement were not assignable without the consent of the limited partner. During April, 2012, Hearth exercised the option and paid approximately \$10,000 to the limited partner in accordance with the partnership agreement.

HOLP has granted Hearth an option to purchase the limited partner's interest in HOLP at the end of the LIHTC compliance period (June, 2027). The purchase price will be the greater of the fair market value, based on an appraisal or negotiation or a formula defined in HOLP's partnership agreement.

Right to First Refusal

At the end of the LIHTC compliance period, Hearth is granted a right of first refusal option to purchase HOLP's property. The purchase price will be based upon the formula defined in HOLP's partnership agreement.

Investment in Affiliate

Investment in affiliate is recorded at cost and consists of CEC's investment in ECLP.

HEARTH, INC. AND AFFILIATES
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)

(3) RESERVES AND DEPOSITS

Restricted deposits are for project development activities and consist of the following at December 31, 2011:

	<u>Hearth, Inc.</u>	<u>Non- Syndicated Rental Properties</u>	<u>Syndicated Rental Properties</u>	<u>Total</u>
Replacement reserves	\$ -	\$73,083	\$ 88,957	\$162,040
Debt service and working capital Reserves	-	-	103,741	103,741
Construction escrow (see Note 9)	50,000	-	-	50,000
Operating and investor services reserve	-	-	47,431	47,431
Insurance and real estate escrow	-	-	5,020	5,020
	<u>\$50,000</u>	<u>\$73,083</u>	<u>\$245,149</u>	368,232
Less - current portion				<u>50,000</u>
				<u>\$318,232</u>

HOLP will also be required fund certain reserves at certain times throughout the completion of the project (see page 10) and upon receipt of certain proceeds.

(4) INVESTMENTS

Investments with readily determinable fair value are reported at their fair market value. Investments are as follows at December 31, 2011:

	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Fixed income mutual funds	\$124,245	\$127,247	\$ 3,002
Equities mutual funds	<u>170,653</u>	<u>143,714</u>	<u>(26,939)</u>
	<u>\$294,898</u>	<u>\$270,961</u>	(23,937)
Unrealized depreciation at December 31, 2010			<u>(18,286)</u>
Unrealized loss on investments			<u>\$ (5,651)</u>

Investments are reported in the accompanying consolidating statements of financial position as long-term assets based on management's intent with respect to the use of investments. Investments are not insured and are subject to ongoing market fluctuations. All of Hearth's investments are valued using Level 1 inputs (see Note 1).

HEARTH, INC. AND AFFILIATES
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)

(5) LONG-TERM DEBT

Long-term debt consists of the following at December 31, 2011:

Non-Syndicated Rental Properties

Beacon

9.27% note payable to a bank, due in monthly principal and interest installments of \$1,486, through May, 2014. During June, 2014, a balloon payment of approximately \$76,000 is due. This note is secured by a first mortgage on land and a building. \$ 95,901

Bishop

1% note payable to the City of Boston, which had a balloon payment due in June, 2007. In lieu of the balloon payment, the lender proposed and the borrower is considering a modification to extend the term of the note and to modify the interest rate and repayment terms in exchange for an extension on the affordability restriction on the property. During the negotiation period, payments on the note were suspended. The note is secured by a mortgage on land and a building. 72,731

Burroughs

7% note payable to a bank, payable in equal monthly principal and interest installments of \$1,320, with a maturity date of May, 2028. This note is secured by a first mortgage on the property. 154,057

Total Non-Syndicated Rental Properties (see page 21) 322,689

Syndicated Rental Properties

ECLP

8.63% note payable to a trust, from taxable bond proceeds provided by Massachusetts Housing Finance Agency, payable in equal monthly principal and interest installments of \$4,962, with a maturity date of December, 2012. This note is secured by a first mortgage on the property, a security interest in all furnishings and equipment, and by an assignment of leases and rent. 52,295

HEARTH, INC. AND AFFILIATES
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)

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

Syndicated Rental Properties (Continued)

HOLP

<p>4.5% construction note payable to a bank that allows for advances up to \$7,400,000. The note will convert to permanent financing of a maximum outstanding balance of \$825,000, with proceeds from capital contributions and other financing made to reduce the construction loan balance to the maximum permanent financing balance (see Note 14). The conversion date will be the earlier of April 1, 2012, or when HOLP's investor limited partner makes a specified capital contribution in accordance with the partnership agreement. Interest only payments will be made through the conversion date and will convert to equal monthly principal and interest installments through the maturity date of the earlier of September, 2027, or the fifteenth anniversary of the conversion date. This note is secured by a first mortgage on the property, a security interest in all furnishings and equipment, and by an assignment of leases and rents.</p>	2,037,915
<p>0.54% note payable to its investor limited partner, with principal and accrued interest that will convert to a capital contribution, as defined in the partnership agreement. Any unpaid amounts after April 1, 2012, will accrue interest at the original interest rate plus 5%. This note was not paid or converted to a capital contribution as of April 1, 2012. This note is secured by a third mortgage on the property (see Note 14).</p>	<u>727,917</u>
<p>Subtotal HOLP</p>	<u>2,765,832</u>
<p>Total Syndicated Rental Properties</p>	2,818,127
<p>Total Non-Syndicated Rental Properties (see page 20)</p>	<u>322,689</u>
<p>Total long-term debt</p>	3,140,816
<p>Less - current portion</p>	<u>66,963</u>
	<u><u>\$3,073,853</u></u>

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

2012	\$66,963
2013	\$15,992
2014	\$82,031
2015	\$ 6,438
2016	\$ 6,878

Hearth's debt agreements contain covenants that require certain financial ratios be maintained and the consolidating financial statements be issued within a certain time period after year-end. Hearth was in compliance with these covenants as of December 31, 2011.

HEARTH, INC. AND AFFILIATES
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)

(6) CONTINGENT DEBT

Contingent debt consists of the following at December, 31, 2011:

Beacon

Non-interest bearing note payable to Community Economic Development Assistance Corporation (CEDAC). All unpaid principal is due in June, 2029. This note is secured by a third mortgage on land and a building. Payments are due annually from surplus cash as defined in the agreement. There were no payments due from surplus cash as of December 31, 2011. CEDAC may extend the maturity date of this note for one or more additional periods up to ten years provided that the property continues to be used for low-income housing.	\$ 426,000
Non-interest bearing note payable to the Town of Brookline. This note is due in June, 2039, and is secured by a second mortgage on land and a building.	<u>349,000</u>
Subtotal Beacon	<u>775,000</u>

Burroughs

Non-interest bearing note payable to CEDAC. All unpaid principal is due in August, 2038. This note is secured by a shared second mortgage on land and a building. Payments are due annually from surplus cash as defined in the agreement. There were no payments due from surplus cash as of December 31, 2011. CEDAC may extend the maturity date of this note for one or more additional periods up to ten years provided that the property continues to be used for low-income housing.	750,000
Non-interest bearing note payable to the City of Boston. This note is due in February, 2038. This note is secured by a shared second mortgage on land and a building, an assignment in lease and rents, and interest in all assets related to the land and building.	<u>625,000</u>
Subtotal Burroughs	<u>1,375,000</u>
Total Non-Syndicated Rental Properties (see page 24)	<u>2,150,000</u>

HEARTH, INC. AND AFFILIATES
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)

(6) **CONTINGENT DEBT** (Continued)

Syndicated Rental Properties

ECLP

5% note payable to CEDAC. Interest accrues annually through July, 2016. All unpaid principal and accrued interest are due in July, 2026. This note is secured by a shared second mortgage on land and a building. Payments are due annually from surplus cash as defined in the agreement. There were no payments due from surplus cash as of December 31, 2011. CEDAC may extend the maturity date of this note for one or more additional periods up to ten years provided that the property continues to be used for low-income housing. Accrued interest on the note is \$385,959 at December 31, 2011. This note is secured by a second mortgage on the property and assignment of leases and rent on the property. 500,000

Non-interest bearing note payable to the City of Boston. This note is due in March, 2016, or at such time when the property ceases to be used to provide housing to low or moderate income families or individuals. This note is secured by a third mortgage on land and a building. 100,000

Subtotal ECLP 600,000

HOLP

Non-interest bearing note payable to the Commonwealth of Massachusetts through the Department of Housing and Community Development (DHCD). This note is due in March, 2042. DHCD may extend the maturity date of this note until March, 2061, provided that the property continues to be used for low-income housing. This note is secured by a shared second mortgage on the property. 1,000,000

Non-interest bearing note payable to CEDAC that allows borrowings up to \$1,992,793. All unpaid principal is due in March, 2042. This note is secured by a shared second mortgage on property. Payments are due annually from surplus cash as defined in the agreement. There were no payments due from surplus cash as of December 31, 2011. CEDAC may extend the maturity date of this note for one or more additional ten-year periods for a maximum of fifty years provided that the property continues to be used for low-income housing. 978,356

HEARTH, INC. AND AFFILIATES
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)

(6) **CONTINGENT DEBT** (Continued)

Syndicated Rental Properties (Continued)

HOLP (Continued)

<p>Non-interest bearing note payable to the City of Boston through the Department of Neighborhood Development (DND) that allows for borrowings up to \$1,000,000. This note is due in March, 2042. DND may extend the maturity date of this note until March, 2061, provided that the property continues to be used for low-income housing. This note is secured by a shared second mortgage on the property.</p>	950,000
<p>Non-interest bearing note payable to the Commonwealth of Massachusetts through DHCD that allows for borrowings up to \$1,000,000. This note is due in March, 2042. DHCD may extend the maturity date of this note until March, 2061, provided that the property continues to be used for low-income housing. This note is secured by a shared second mortgage on the property.</p>	750,000
<p>Non-interest bearing note payable to the City of Boston that allows for borrowings up to \$750,000, with principal payable in full on the maturity date of March, 2042. This note is secured by a shared second mortgage on the property.</p>	712,500
<p>Non-interest bearing note payable to the City of Boston through DND that allows for borrowings up to \$250,000. This note is due in March, 2042. DND may extend the maturity date of this note until March, 2061, provided that the property continues to be used for low-income housing. This note is secured by a shared second mortgage on the property.</p>	237,500
<p>Non-interest bearing note payable to CEDAC that allows for borrowings up to \$500,000. No amounts have been advanced as of December 31, 2011. All unpaid principal is due in March, 2042. This note is secured by a shared second mortgage on property. Payments are due annually from surplus cash as defined in the agreement. There were no payments due from surplus cash as of December 31, 2011. CEDAC may extend the maturity date of this note for one or more additional ten-year periods for a maximum of fifty years provided that the property continues to be used for low-income housing.</p>	-
<p>Subtotal HOLP</p>	<u>4,628,356</u>
<p>Total Syndicated Rental Properties</p>	5,228,356
<p>Total Non-Syndicated Rental Properties (see page 22)</p>	<u>2,150,000</u>
<p>Total contingent debt</p>	<u>\$7,378,356</u>

HEARTH, INC. AND AFFILIATES

NOTES TO CONSOLIDATING FINANCIAL STATEMENTS

DECEMBER 31, 2011

(Continued)

(7) NOTE PAYABLE TO A BANK

Hearth has a \$500,000 line of credit agreement with a bank, which is renewable annually in October. Borrowings under the agreement are due on demand, and interest is payable monthly at the bank's prime rate (3.25% at December 31, 2011). The line of credit is secured by substantially all assets of Hearth. There was no balance outstanding as of December 31, 2011.

(8) CONTINGENCIES

Beacon received a grant from a funding source to fund certain development costs. Beacon has received \$67,500 under this agreement in previous years. The agreement requires the residences to be occupied by low-income individuals for fifteen year periods ending on various dates through June 22, 2014. This agreement is secured by mortgages on the properties. If these conditions are not met, the total amount of the grant is due on demand. In the opinion of management, the conditions of this agreement, as defined, will be met. Accordingly, Hearth has not recorded a liability in the accompanying consolidating financial statements.

During 1995, Hearth received \$335,213 in Linkage funds from the City of Boston that it loaned to ECLP (see page 15). Under the terms of the Linkage program, Hearth is required to pay to the City of Boston any amounts repaid by ECLP. Hearth does not anticipate any payments from ECLP and, accordingly, Hearth has not recorded a liability to the City of Boston in the accompanying consolidating financial statements.

In the ordinary course of Hearth's business, Hearth is, from time-to-time, involved in disputes concerning individuals' employment and other matters with Hearth. Hearth denies any wrong doing in these cases and takes the appropriate legal steps in defense of any disputes. It is management's opinion that any potential settlement would not be material to the accompanying consolidating financial statements as of December 31, 2011.

(9) GROUND LEASE

In March, 2011, HOLP entered into a lease agreement for the land on which its building and improvements are being constructed (see page 10) from an unrelated entity (the landlord). The lease term is for ninety-nine years and required HOLP to pay \$1,050,000 as a lump-sum payment at the time of the closing to the landlord. The ground lease payment was capitalized and is included in project under development on the accompanying consolidating statement of financial position. In accordance with the lease agreement, Hearth, Inc. entered into an escrow agreement with the landlord which required Hearth, Inc. to deposit \$50,000 into a construction escrow (see Note 3), which shall be returned to Hearth upon completion of the construction of the property. HOLP is required to pay all expenses related to this property, including taxes, utilities, and insurance. HOLP has an option to purchase the property for one dollar. The landlord may also exercise a put option requiring HOLP to purchase the land for one dollar at any time during the lease term.

HEARTH, INC. AND AFFILIATES
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)

(10) CONCENTRATIONS

Funding

The following table reflects the two largest funding sources related to total operating revenue and accounts receivable for Hearth, Inc. as of December 31, 2011:

<u>Funding Source</u>	<u>Operating Revenue</u>	<u>Accounts and Pledges Receivable</u>
A	28%	30%
B	20%	16%

These reimbursements are subject to audit by government agencies. In the opinion of management, the results of such audit, if any, will not have a material effect on the consolidating financial position of Hearth as of December 31, 2011, or on the changes in their net assets for the years then ended.

Cash and Cash Equivalents

Hearth maintains its cash and cash equivalents balances in Massachusetts banks and is insured with the limits of the Federal Deposit Insurance Corporation (FDIC). At certain times during the year, cash and cash equivalents balances exceed the insured amounts. Hearth has not experienced any losses in such accounts. Hearth's management believes it is not exposed to any significant credit risk on cash and cash equivalents.

(11) FUNDS HELD IN TRUST

Hearth acts as a representative/payee for certain clients. The funds and corresponding liabilities related to these clients are included in funds held in trust in the accompanying consolidating statement of financial position.

(12) PENSION PLAN

Hearth operates a voluntary defined contribution retirement plan in accordance within Internal Revenue Code (IRC) Section 403(b). Employees may withhold contributions from their salaries on a tax-deferred basis within IRC limits. All employees that work at least 20 hours per week are eligible for the plan. Hearth does not make contributions to the plan.

(13) MANAGEMENT AND OTHER FEES

Investor Service Fee

ECLP has entered into an investor services agreement with its limited partner. The fee for 2011 was \$13,118 and increases by 4% annually, until terminated by either party upon thirty days written notice. This fee is included in management and administrative fees on the accompanying consolidating statement of functional expenses. The limited partner must approve termination of this agreement. ECLP has established an investor services reserve (see Note 3). The investor services fee is payable from available interest earned on the operating reserve and from the investor services fee reserve. In 2011, the limited partner waived \$20,000 of the accrued investor service fees owed, which is included in forgiveness of debt on the accompanying consolidating statement of activities.

HEARTH, INC. AND AFFILIATES
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)

(13) MANAGEMENT AND OTHER FEES (Continued)

Management Fee

HOLP has an agreement with Peabody Property Management, Inc. (the Company) to carry out the day-to-day operations of HOLP. In addition, the Company also provides bookkeeping, accounting and rental management services. This agreement is for three years beginning in March, 2012. The agreement can be terminated by either party with thirty days written notice. There was no management fee expense for 2011.

Asset Management Fee

HOLP has entered into an asset management services agreement with its limited partner. The fee will be \$10,000 beginning in 2013 and increase 3% annually thereafter. Any unpaid portions will accrue and become payable on a cumulative basis in the first year in which there is sufficient operating income.

(14) SUBSEQUENT EVENTS

Hearth at Olmsted Limited Partnership

The project was completed subsequent to year-end when a temporary certificate of occupancy was issued. A limited and a special limited partner will be admitted shortly and the note payable to a bank up to \$727,917 will be converted to equity (see Note 5). The Limited Partner is also expected to make a second capital contribution of \$5,459,479 later during 2012.

HEARTH, INC. AND AFFILIATES

**SUPPLEMENTARY CONSOLIDATING STATEMENT OF FINANCIAL POSITION -
NON-SYNDICATED RENTAL PROPERTIES
DECEMBER 31, 2011**

<u>ASSETS</u>	<u>BISHOP</u>	<u>BEACON</u>	<u>BURROUGHS</u>	<u>TOTAL NON- SYNDICATED RENTAL PROPERTIES</u>
CURRENT ASSETS:				
Cash and cash equivalents	\$ 8,618	\$ 4,132	\$ 48,046	\$ 60,796
Accounts and pledges receivable	3,053	-	-	3,053
Prepaid expenses and deposits	2,035	2,050	3,672	7,757
Total current assets	<u>13,706</u>	<u>6,182</u>	<u>51,718</u>	<u>71,606</u>
PROPERTY AND EQUIPMENT:				
Land	25,600	67,500	297,500	390,600
Buildings and improvements	698,748	1,362,828	1,270,557	3,332,133
Furniture and equipment	67,682	39,769	47,549	155,000
	<u>792,030</u>	<u>1,470,097</u>	<u>1,615,606</u>	<u>3,877,733</u>
Less - accumulated depreciation	430,457	428,534	234,451	1,093,442
Net property and equipment	<u>361,573</u>	<u>1,041,563</u>	<u>1,381,155</u>	<u>2,784,291</u>
OTHER ASSETS:				
Reserves and deposits	3,943	18,319	50,821	73,083
Due from (to) affiliates	(72,259)	(38,443)	10,001	(100,701)
Financing fees, net	-	4,526	51,624	56,150
Total other assets	<u>(68,316)</u>	<u>(15,598)</u>	<u>112,446</u>	<u>28,532</u>
Total assets	<u>\$ 306,963</u>	<u>\$ 1,032,147</u>	<u>\$ 1,545,319</u>	<u>\$ 2,884,429</u>
<u>LIABILITIES AND ENTITIES' EQUITY (DEFICIT)</u>				
CURRENT LIABILITIES:				
Current portion of long-term debt	\$ -	\$ 9,478	\$ 5,190	\$ 14,668
Accounts payable and accrued expenses	8,182	8,364	9,580	26,126
Total current liabilities	<u>8,182</u>	<u>17,842</u>	<u>14,770</u>	<u>40,794</u>
OTHER LIABILITIES:				
Long-term debt, net of current portion	72,731	86,423	148,867	308,021
Contingent debt	-	775,000	1,375,000	2,150,000
Deferred interest	-	179,153	-	179,153
Developer and overhead fees payable	-	166,700	53,569	220,269
Total other liabilities	<u>72,731</u>	<u>1,207,276</u>	<u>1,577,436</u>	<u>2,857,443</u>
Total liabilities	<u>80,913</u>	<u>1,225,118</u>	<u>1,592,206</u>	<u>2,898,237</u>
ENTITIES' EQUITY (DEFICIT):				
Unrestricted:				
Operating	(67,593)	(40,625)	30,139	(78,079)
Property and equipment	292,785	(152,346)	(99,026)	41,413
Total unrestricted	<u>225,192</u>	<u>(192,971)</u>	<u>(68,887)</u>	<u>(36,666)</u>
Temporarily restricted	858	-	22,000	22,858
Total Hearth entities' equity (deficit)	<u>226,050</u>	<u>(192,971)</u>	<u>(46,887)</u>	<u>(13,808)</u>
Total liabilities and entities' equity (deficit)	<u>\$ 306,963</u>	<u>\$ 1,032,147</u>	<u>\$ 1,545,319</u>	<u>\$ 2,884,429</u>

HEARTH, INC. AND AFFILIATES

**SUPPLEMENTARY CONSOLIDATING STATEMENT OF ACTIVITIES -
NON-SYNDICATED RENTAL PROPERTIES
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>BISHOP</u>	<u>BEACON</u>	<u>BURROUGHS</u>	<u>TOTAL NON- SYNDICATED RENTAL PROPERTIES</u>
CHANGES IN UNRESTRICTED NET ASSETS:				
OPERATING REVENUES:				
Rental fees, net and program revenues	\$ 88,938	\$ 96,744	\$ 131,933	\$ 317,615
Investment income	<u>83</u>	<u>7</u>	<u>25</u>	<u>115</u>
Total operating revenues	<u>89,021</u>	<u>96,751</u>	<u>131,958</u>	<u>317,730</u>
OPERATING EXPENSES:				
Housing and supportive services	80,020	117,387	128,615	326,022
General and administration	<u>19,572</u>	<u>29,394</u>	<u>34,543</u>	<u>83,509</u>
Total operating expenses before depreciation and amortization	99,592	146,781	163,158	409,531
Depreciation and amortization	<u>23,292</u>	<u>37,768</u>	<u>53,723</u>	<u>114,783</u>
Total operating expenses	<u>122,884</u>	<u>184,549</u>	<u>216,881</u>	<u>524,314</u>
Changes in unrestricted net assets from operations	<u>(33,863)</u>	<u>(87,798)</u>	<u>(84,923)</u>	<u>(206,584)</u>
OTHER REVENUES (EXPENSES):				
Net assets released from capital restriction	800	-	-	800
Interest on deferred debt	<u>-</u>	<u>(19,572)</u>	<u>-</u>	<u>(19,572)</u>
Total other revenues (expenses)	<u>800</u>	<u>(19,572)</u>	<u>-</u>	<u>(18,772)</u>
Changes in unrestricted net assets	<u>(33,063)</u>	<u>(107,370)</u>	<u>(84,923)</u>	<u>(225,356)</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:				
Grants	1,658	-	22,000	23,658
Net assets released from restrictions	<u>(800)</u>	<u>-</u>	<u>-</u>	<u>(800)</u>
Changes in temporarily restricted net assets	<u>858</u>	<u>-</u>	<u>22,000</u>	<u>22,858</u>
Changes in net assets	<u>\$ (32,205)</u>	<u>\$ (107,370)</u>	<u>\$ (62,923)</u>	<u>\$ (202,498)</u>

HEARTH, INC. AND AFFILIATES

**SUPPLEMENTARY CONSOLIDATING STATEMENT OF FINANCIAL POSITION -
SYNDICATED RENTAL PROPERTIES
DECEMBER 31, 2011**

<u>ASSETS</u>	<u>HOLP</u>	<u>ECLP</u>	<u>TOTAL SYNDICATED RENTAL PROPERTIES</u>
CURRENT ASSETS:			
Cash and cash equivalents	\$ 1,071,688	\$ 22,051	\$ 1,093,739
Funds held in trust	-	10,932	10,932
Accounts and pledges receivable	-	2,485	2,485
Prepaid expenses and deposits	-	11,183	11,183
Current portion of due (to) from affiliates, net	-	(45,700)	(45,700)
Total current assets	1,071,688	951	1,072,639
PROPERTY AND EQUIPMENT:			
Land	-	152,000	152,000
Buildings and improvements	-	5,945,187	5,945,187
Furniture and equipment	-	117,132	117,132
	-	6,214,319	6,214,319
Less - accumulated depreciation	-	2,381,908	2,381,908
Net property and equipment	-	3,832,411	3,832,411
PROJECT UNDER DEVELOPMENT	10,502,758	-	10,502,758
OTHER ASSETS:			
Reserves and deposits	-	245,149	245,149
Due to affiliates, net of current portion	(10,240)	(51,355)	(61,595)
Financing fees, net	-	7,115	7,115
Total other assets	(10,240)	200,909	190,669
Total assets	\$ 11,564,206	\$ 4,034,271	\$ 15,598,477
<u>LIABILITIES AND ENTITIES' EQUITY (DEFICIT)</u>			
CURRENT LIABILITIES:			
Current portion of long-term debt	\$ -	\$ 52,295	\$ 52,295
Accounts payable and accrued expenses	2,754,092	42,892	2,796,984
Funds held in trust	-	10,932	10,932
Total current liabilities	2,754,092	106,119	2,860,211
OTHER LIABILITIES:			
Long-term debt, net of current portion	2,765,832	-	2,765,832
Contingent debt	4,628,356	600,000	5,228,356
Notes payable and deferred interest - affiliates	1,068,865	2,112,411	3,181,276
Deferred interest	-	385,959	385,959
Developer and overhead fees payable	347,061	-	347,061
Total other liabilities	8,810,114	3,098,370	11,908,484
Total liabilities	11,564,206	3,204,489	14,768,695
ENTITIES' EQUITY (DEFICIT):			
Unrestricted:			
Operating	-	(51,777)	(51,777)
Property and equipment	-	881,559	881,559
Total unrestricted	-	829,782	829,782
Total liabilities and entities' equity (deficit)	\$ 11,564,206	\$ 4,034,271	\$ 15,598,477

HEARTH, INC. AND AFFILIATES

**SUPPLEMENTARY CONSOLIDATING STATEMENT OF ACTIVITIES -
SYNDICATED RENTAL PROPERTIES
FOR THE YEAR ENDED DECEMBER 31, 2011**

ECLP**CHANGES IN UNRESTRICTED NET ASSETS:****OPERATING REVENUES:**

Rental fees, net and program revenues	\$ 636,081
Investment income	597

Total operating revenues	636,678
--------------------------	---------

OPERATING EXPENSES:

Housing and supportive services	529,931
Depreciation and amortization	161,902

Total operating expenses	691,833
--------------------------	---------

Changes in unrestricted net assets from operations	(55,155)
--	----------

OTHER EXPENSES:

Forgiveness of debt	20,000
Interest on deferred debt	(158,346)

Total other revenues (expenses)	(138,346)
---------------------------------	-----------

Changes in net assets	(193,501)
-----------------------	-----------

**CHANGES IN NET ASSETS ATTRIBUTABLE TO
NON-CONTROLLING INTEREST**

	191,566
--	---------

Changes in net assets attributable to Hearth	\$ (1,935)
--	------------