

HEARTH, INC. AND AFFILIATES
CONSOLIDATING FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
TOGETHER WITH
INDEPENDENT AUDITOR'S REPORT

HEARTH, INC. AND AFFILIATES

**CONTENTS
DECEMBER 31, 2012 AND 2011**

	<u>PAGES</u>
INDEPENDENT AUDITOR'S REPORT	1 - 1A
CONSOLIDATING FINANCIAL STATEMENTS:	
Consolidating Statements of Financial Position	2 - 3
Consolidating Statements of Activities	4 - 5
Consolidating Statements of Changes in Entities' Equity (Deficit)	6
Consolidating Statements of Cash Flows	7 - 8
Consolidating Statements of Functional Expenses	9 - 10
Notes to Consolidating Financial Statements	11 - 32
SUPPLEMENTARY INFORMATION:	
Supplementary Consolidating Statements of Financial Position – Non-Syndicated Rental Properties (Exhibits A and B)	33 - 34
Supplementary Consolidating Statements of Activities – Non-Syndicated Rental Properties (Exhibits C and D)	35 - 36
Supplementary Consolidating Statements of Financial Position – Syndicated Rental Properties (Exhibits E and F)	37 - 38
Supplementary Consolidating Statements of Activities – Syndicated Rental Properties (Exhibits G and H)	39 - 40

INDEPENDENT AUDITOR'S REPORT

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

Report on the Consolidating Financial Statements

We have audited the accompanying consolidating financial statements of Hearst, Inc. (a Massachusetts corporation, not for profit) and Affiliates (collectively, Hearst), which comprise the consolidating statements of financial position as of December 31, 2012 and 2011, and the related consolidating statements of activities, changes in entities' equity (deficit), cash flows and functional expenses for the years then ended, and the related notes to the consolidating financial statements.

Management's Responsibility for the Consolidating Financial Statements

Management is responsible for the preparation and fair presentation of these consolidating financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidating financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidating financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidating financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidating financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidating financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidating financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidating financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidating financial statements referred to above present fairly, in all material respects, the consolidating financial position of Hearst, Inc. and Affiliates as of December 31, 2012 and 2011, and the changes in their entities' equity (deficit) and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Directors of
Hearth, Inc. and Affiliates
Page II

Other Matters

Our audits were conducted for the purpose of forming an opinion on the consolidating financial statements as a whole. The accompanying supplementary information shown on pages 33 through 40 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, Fenning & Co., P.C.

Boston, Massachusetts
April 24, 2013

HEARTH, INC. AND AFFILIATES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2012
(With summarized totals as of December 31, 2011)

	2012							2011		
	HEARTH, INC.									
ASSETS	OPERATING	REAL ESTATE DEVELOPMENT	PROPERTY MANAGE- MENT	NON- SYNDICATED RENTAL PROPERTIES (EXHIBIT A)	ELIMI- NATIONS	SUB- TOTAL	SYNDICATED RENTAL PROPERTY (EXHIBIT E)	ELIMI- NATIONS	TOTAL	TOTAL
CURRENT ASSETS:										
Cash and cash equivalents	\$ 732,675	\$ -	\$ -	\$ 25,325	\$ -	\$ 758,000	\$ 83,879	\$ -	\$ 841,879	\$ 2,808,730
Funds held in trust	63,127	-	-	11,249	-	74,376	-	-	74,376	50,003
Accounts and current portion of pledges receivable	342,425	-	-	3,392	-	345,817	31,860	-	377,677	488,972
Prepaid expenses and deposits	51,010	-	1,282	22,346	-	74,638	48,161	-	122,799	83,723
Current portion of due (to) from affiliates, net	426,481	-	-	-	-	426,481	(321,446)	-	105,035	157,000
Current portion reserves and deposits	-	-	-	-	-	-	26,972	-	26,972	50,000
Developer and overhead fees receivable	800,000	-	-	-	-	800,000	-	(800,000)	-	-
Total current assets	2,415,718	-	1,282	62,312	-	2,479,312	(130,574)	(800,000)	1,548,738	3,638,428
PROPERTY AND EQUIPMENT:										
Land	-	-	-	542,600	-	542,600	1,140,806	-	1,683,406	542,600
Buildings and improvements	173,781	-	-	9,282,630	(534,506)	8,921,905	13,896,188	(1,523,083)	21,295,010	8,823,026
Furniture and equipment	546,338	-	-	292,644	-	838,982	241,134	-	1,080,116	813,189
	720,119	-	-	10,117,874	(534,506)	10,303,487	15,278,128	(1,523,083)	24,058,532	10,178,815
Less - accumulated depreciation	634,183	-	-	3,728,675	(400,000)	3,962,858	283,682	(13,832)	4,232,708	4,468,350
Net property and equipment	85,936	-	-	6,389,199	(934,506)	5,540,629	14,994,446	(1,536,915)	18,998,160	5,710,465
PROJECT UNDER DEVELOPMENT	-	-	-	-	-	-	-	-	-	9,333,903
OTHER ASSETS:										
Accounts and pledges receivable, net of current portion	100,000	-	-	-	-	100,000	-	-	100,000	-
Reserves and deposits, net of current portion	-	-	-	350,471	-	350,471	745,860	-	1,096,331	318,232
Investments	306,341	-	-	-	-	306,341	-	-	306,341	270,961
Due (to) from affiliates, net of current portion	(98,961)	484,572	297,772	(213,694)	-	469,689	-	-	469,689	546,418
Investments in affiliates	-	291,942	-	-	(240,000)	51,942	-	(51,942)	-	-
Financing fees, net	-	-	-	53,509	-	53,509	142,560	-	196,069	63,265
Total other assets	307,380	776,514	297,772	190,286	(240,000)	1,331,952	888,420	(51,942)	2,168,430	1,198,876
Total assets	\$ 2,809,034	\$ 776,514	\$ 299,054	\$ 6,641,797	\$ (1,174,506)	\$ 9,351,893	\$ 15,752,292	\$ (2,388,857)	\$ 22,715,328	\$ 19,881,672
LIABILITIES AND ENTITIES' EQUITY (DEFICIT)										
CURRENT LIABILITIES:										
Current portion of long-term debt	\$ -	\$ -	\$ -	\$ 15,992	\$ -	\$ 15,992	\$ 39,861	\$ -	\$ 55,853	\$ 66,963
Current portion of contingent debt	-	-	-	-	-	-	69,645	-	69,645	-
Accounts payable and accrued expenses	335,628	71,801	24,150	58,678	-	490,257	45,115	-	535,372	3,131,471
Funds held in trust	63,127	-	-	11,249	-	74,376	-	-	74,376	50,003
Current portion of developer and overhead fees payable	-	-	-	-	-	-	800,000	(800,000)	-	-
Total current liabilities	398,755	71,801	24,150	85,919	-	580,625	954,621	(800,000)	735,246	3,248,437
OTHER LIABILITIES:										
Long-term debt, net of current portion	-	-	-	292,286	-	292,286	775,766	-	1,068,052	3,073,853
Contingent debt, net of current portion	-	-	-	2,750,000	-	2,750,000	6,393,514	-	9,143,514	7,378,356
Notes payable and deferred interest - affiliates	-	-	-	2,454,666	(2,454,666)	-	1,780,136	(1,780,136)	-	-
Deferred interest	-	-	-	410,959	-	410,959	-	-	410,959	385,959
Developer and overhead fees payable, net of current portion	-	-	-	166,700	(166,700)	-	-	-	-	-
Total other liabilities	-	-	-	6,074,611	(2,621,366)	3,453,245	8,949,416	(1,780,136)	10,622,525	10,838,168
Total liabilities	398,755	71,801	24,150	6,160,530	(2,621,366)	4,033,870	9,904,037	(2,580,136)	11,357,771	14,086,605
ENTITIES' EQUITY (DEFICIT):										
Unrestricted:										
Operating	1,931,176	(71,801)	274,904	(163,965)	-	1,970,314	870,981	410,028	3,251,323	3,004,770
Board designated	107,351	-	-	-	-	107,351	-	-	107,351	107,351
Property and equipment	85,936	-	-	644,374	1,686,860	2,417,170	4,977,274	(5,553,128)	1,841,316	997,469
Real estate development	-	701,970	-	-	(240,000)	461,970	-	(461,970)	-	-
Total unrestricted	2,124,463	630,169	274,904	480,409	1,446,860	4,956,805	5,848,255	(5,605,070)	5,199,990	4,109,590
Temporarily restricted	285,816	74,544	-	858	-	361,218	-	-	361,218	863,993
Total Hearst entities' equity (deficit)	2,410,279	704,713	274,904	481,267	1,446,860	5,318,023	5,848,255	(5,605,070)	5,561,208	4,973,583
Non-controlling interest	-	-	-	-	-	-	-	5,796,349	5,796,349	821,484
Total entities' equity (deficit)	2,410,279	704,713	274,904	481,267	1,446,860	5,318,023	5,848,255	191,279	11,357,557	5,795,067
Total liabilities and entities' equity (deficit)	\$ 2,809,034	\$ 776,514	\$ 299,054	\$ 6,641,797	\$ (1,174,506)	\$ 9,351,893	\$ 15,752,292	\$ (2,388,857)	\$ 22,715,328	\$ 19,881,672

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

HEARTH, INC. AND AFFILIATES

CONSOLIDATING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2011

ASSETS	HEARTH, INC.		PROPERTY MANAGE- MENT	NON- SYNDICATED RENTAL PROPERTIES (EXHIBIT B)	ELIMI- NATIONS	SUB- TOTAL	SYNDICATED RENTAL PROPERTIES (EXHIBIT F)	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 portion of 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
Total current assets	<u>2,282,828</u>	<u>177,000</u>	<u>34,355</u>	<u>71,606</u>	<u>-</u>	<u>2,565,789</u>	<u>1,072,639</u>	<u>-</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	(407,806)	8,823,026
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	(407,806)	10,178,815
Less - accumulated depreciation	606,333	-	-	1,093,442	-	1,699,775	2,381,908	(386,667)	4,468,350
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, net of current portion	-	-	-	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
Investments in affiliate	-	240,000	-	-	-	240,000	-	(240,000)	-
Financing fees, net	-	-	-	56,150	-	56,150	7,115	-	63,265
Development and overhead fees receivable, net of current portion	-	400,620	-	-	(53,569)	347,051	-	(347,051)	-
Total other assets	<u>363,040</u>	<u>1,068,797</u>	<u>187,111</u>	<u>28,532</u>	<u>(53,569)</u>	<u>1,593,911</u>	<u>190,669</u>	<u>(585,704)</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 NET ASSETS									
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 and deferred interest, 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 - affiliate	-	-	-	179,153	(179,153)	-	3,181,276	(3,181,276)	-
Deferred interest	-	-	-	-	-	-	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>
NET ASSETS:									
Unrestricted:									
Operating	1,977,921	(4,859)	203,530	(78,079)	-	2,098,513	(51,777)	958,034	3,004,770
Board designated	107,351	-	-	-	-	107,351	-	-	107,351
Property and equipment	108,506	-	-	41,413	179,153	329,072	881,559	(213,162)	997,469
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 combining statements.

HEARTH, INC. AND AFFILIATES
CONSOLIDATING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012
(With summarized totals for the year ended December 31, 2011)

	2012							2011		
	HEARTH, INC.			NON-SYNDICATED RENTAL PROPERTIES (EXHIBIT C)	ELIMI-NATIONS	SUB-TOTAL	SYNDICATED RENTAL PROPERTY (EXHIBIT G)	ELIMI-NATIONS	TOTAL	TOTAL
	OPERATING	REAL ESTATE DEVELOPMENT	PROPERTY MANAGEMENT							
CHANGES IN UNRESTRICTED NET ASSETS:										
OPERATING REVENUES:										
Fee income and other revenue:										
Program revenues	\$ 1,330,332	\$ -	\$ -	\$ -	\$ -	\$ 1,330,332	\$ -	\$ -	\$ 1,330,332	\$ 1,280,821
Rental fees, net	-	-	-	951,933	(32,176)	919,757	372,296	-	1,292,053	922,457
Government grants and other contracts	974,084	-	-	-	-	974,084	-	-	974,084	926,003
Management and service fees	91,386	-	130,410	-	(118,064)	103,732	-	-	103,732	98,830
Developer fee revenue	-	374,656	-	-	-	374,656	-	(314,978)	59,678	-
Investment income	31,229	-	-	793	-	32,022	9,095	-	41,117	7,139
Other	3,503	-	-	4,408	-	7,911	-	-	7,911	-
Net fee income and other revenue	<u>2,430,534</u>	<u>374,656</u>	<u>130,410</u>	<u>957,134</u>	<u>(150,240)</u>	<u>3,742,494</u>	<u>381,391</u>	<u>(314,978)</u>	<u>3,808,907</u>	<u>3,235,250</u>
Support revenue:										
Private grants, contributions and special events, net	565,135	-	-	-	-	565,135	-	-	565,135	705,315
Donated goods and services	45,804	-	-	-	-	45,804	-	-	45,804	81,301
Net assets released from purpose restrictions	219,019	-	-	22,000	-	241,019	-	-	241,019	114,258
Net support revenue	<u>829,958</u>	<u>-</u>	<u>-</u>	<u>22,000</u>	<u>-</u>	<u>851,958</u>	<u>-</u>	<u>-</u>	<u>851,958</u>	<u>900,874</u>
Total operating revenues	<u>3,260,492</u>	<u>374,656</u>	<u>130,410</u>	<u>979,134</u>	<u>(150,240)</u>	<u>4,594,452</u>	<u>381,391</u>	<u>(314,978)</u>	<u>4,660,865</u>	<u>4,136,124</u>
OPERATING EXPENSES:										
Outreach	433,735	-	-	-	-	433,735	-	-	433,735	453,930
Housing and supportive services	2,158,350	74,448	-	840,660	(150,240)	2,923,218	448,425	-	3,371,643	2,670,568
Property management	-	-	59,036	-	-	59,036	-	-	59,036	80,017
General and administration	368,637	9,974	7,909	147,871	-	534,391	-	-	534,391	587,279
Institutional advancement	302,388	-	-	-	-	302,388	-	-	302,388	278,524
Total operating expenses before depreciation and amortization	<u>3,263,110</u>	<u>84,422</u>	<u>66,945</u>	<u>988,531</u>	<u>(150,240)</u>	<u>4,252,768</u>	<u>448,425</u>	<u>-</u>	<u>4,701,193</u>	<u>4,070,318</u>
Depreciation and amortization	<u>27,851</u>	<u>-</u>	<u>-</u>	<u>263,079</u>	<u>(13,333)</u>	<u>277,597</u>	<u>289,049</u>	<u>(13,832)</u>	<u>552,814</u>	<u>282,981</u>
Total operating expenses	<u>3,290,961</u>	<u>84,422</u>	<u>66,945</u>	<u>1,251,610</u>	<u>(163,573)</u>	<u>4,530,365</u>	<u>737,474</u>	<u>(13,832)</u>	<u>5,254,007</u>	<u>4,353,299</u>
Changes in unrestricted net assets from operations	<u>(30,469)</u>	<u>290,234</u>	<u>63,465</u>	<u>(272,476)</u>	<u>13,333</u>	<u>64,087</u>	<u>(356,083)</u>	<u>(301,146)</u>	<u>(593,142)</u>	<u>(217,175)</u>
OTHER REVENUES (EXPENSES):										
Net assets released from capital restrictions	-	556,468	-	-	-	556,468	-	-	556,468	800
Unrealized gain (loss) on investments	28,238	-	-	-	-	28,238	-	-	28,238	(5,651)
Predevelopment and capital grants	-	16,000	-	-	-	16,000	-	-	16,000	557,765
Reserve on development grants and investment in affiliates	-	(763,213)	-	-	-	(763,213)	-	763,213	-	-
General partner operating expenses	-	(1,317)	-	-	-	(1,317)	-	-	(1,317)	(1,062)
Interest on deferred debt	-	-	-	(188,102)	163,102	(25,000)	-	-	(25,000)	(25,000)
Change in provision of affiliate advances	(67,010)	-	-	-	(1,368)	(68,378)	-	-	(68,378)	83,492
Forgiveness of debt	-	-	-	-	-	-	-	-	-	20,000
Total other revenues (expenses)	<u>(38,772)</u>	<u>(192,062)</u>	<u>-</u>	<u>(188,102)</u>	<u>161,734</u>	<u>(257,202)</u>	<u>-</u>	<u>763,213</u>	<u>506,011</u>	<u>630,344</u>
Changes in unrestricted net assets	<u>(69,241)</u>	<u>98,172</u>	<u>63,465</u>	<u>(460,578)</u>	<u>175,067</u>	<u>(193,115)</u>	<u>(356,083)</u>	<u>462,067</u>	<u>(87,131)</u>	<u>413,169</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:										
Grants	268,877	25,835	-	-	-	294,712	-	-	294,712	656,106
Net assets released from restrictions	(219,019)	(556,468)	-	(22,000)	-	(797,487)	-	-	(797,487)	(115,058)
Changes in temporarily restricted net assets	<u>49,858</u>	<u>(530,633)</u>	<u>-</u>	<u>(22,000)</u>	<u>-</u>	<u>(502,775)</u>	<u>-</u>	<u>-</u>	<u>(502,775)</u>	<u>541,048</u>
Changes in net assets	(19,383)	(432,461)	63,465	(482,578)	175,067	(695,890)	(356,083)	462,067	(589,906)	954,217
CHANGES IN NET ASSETS ATTRIBUTABLE TO NON-CONTROLLING INTEREST										
	-	-	-	-	-	-	356,047	-	356,047	191,566
Changes in net assets attributable to Hearth	<u>\$ (19,383)</u>	<u>\$ (432,461)</u>	<u>\$ 63,465</u>	<u>\$ (482,578)</u>	<u>\$ 175,067</u>	<u>\$ (695,890)</u>	<u>\$ (36)</u>	<u>\$ 462,067</u>	<u>\$ (233,859)</u>	<u>\$ 1,145,783</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 D)	ELIMINATIONS	SUB-TOTAL	SYNDICATED RENTAL PROPERTIES (EXHIBIT H)	ELIMINATIONS	TOTAL
	OPERATING	REAL ESTATE DEVELOPMENT	PROPERTY MANAGEMENT						
CHANGES IN UNRESTRICTED NET ASSETS:									
OPERATING REVENUES:									
Fee income and other revenue:									
Program revenues	\$ 1,280,821	\$ -	\$ -	\$ -	\$ -	\$ 1,280,821	\$ -	\$ -	\$ 1,280,821
Rental fees, net	-	-	-	317,615	-	317,615	636,081	(31,239)	922,457
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
Development fee revenue	-	69,180	-	-	-	69,180	-	(69,180)	-
Investment income	5,224	1,203	-	115	-	6,542	597	-	7,139
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):									
Net assets released from capital restrictions	-	-	-	800	-	800	-	-	800
Unrealized loss on investments	(5,651)	-	-	-	-	(5,651)	-	-	(5,651)
Predevelopment and capital grants	-	557,765	-	-	-	557,765	-	-	557,765
Reserve on development grants	-	(1,068,865)	-	-	-	(1,068,865)	-	1,068,865	-
General partner operating expenses	-	(1,062)	-	-	-	(1,062)	-	-	(1,062)
Interest on deferred debt	-	-	-	(19,572)	19,572	-	(158,346)	133,346	(25,000)
Change in provision of affiliate advances	92,812	-	-	-	-	92,812	-	(9,320)	83,492
Forgiveness of debt	-	-	-	-	-	-	20,000	-	20,000
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 combining statements.

HEARTH, INC. AND AFFILIATES

**CONSOLIDATING STATEMENTS OF CHANGES IN ENTITIES' EQUITY (DEFICIT)
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

	<u>HEARTH, INC.</u>		<u>PROPERTY MANAGE- MENT</u>	NON-	<u>ELIMI- NATIONS</u>	<u>SUB- TOTAL</u>	SYNDICATED	<u>ELIMI- NATIONS</u>	<u>TOTAL</u>	NON-	<u>TOTAL</u>
	<u>OPERATING</u>	<u>REAL ESTATE DEVELOPMENT</u>		<u>SYNDICATED RENTAL PROPERTIES</u>			<u>RENTAL PROPERTIES</u>			<u>NON- CONTROLLING INTEREST</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	2,429,736	1,240,938	203,530	(13,808)	125,584	3,985,980	829,782	157,821	4,973,583	821,484	5,795,067
Capital contributions	-	51,942	-	-	-	51,942	6,239,338	(6,291,280)	-	6,187,396	6,187,396
Syndication costs	-	-	-	-	-	-	(35,000)	35,000	-	(35,000)	(35,000)
Changes in net assets	(19,383)	(432,461)	63,465	(482,578)	175,067	(695,890)	(356,083)	818,114	(233,859)	(356,047)	(589,906)
Purchase of controlling interest in ECLP	-	-	-	829,782	1,146,209	1,975,991	(829,782)	(324,725)	821,484	(821,484)	-
Transfers	<u>(74)</u>	<u>(155,706)</u>	<u>7,909</u>	<u>147,871</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET ASSETS , December 31, 2012	<u>\$ 2,410,279</u>	<u>\$ 704,713</u>	<u>\$ 274,904</u>	<u>\$ 481,267</u>	<u>\$ 1,446,860</u>	<u>\$ 5,318,023</u>	<u>\$ 5,848,255</u>	<u>\$ (5,605,070)</u>	<u>\$ 5,561,208</u>	<u>\$ 5,796,349</u>	<u>\$ 11,357,557</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, 2012**

	<u>HEARTH</u>	<u>SYNDICATED RENTAL PROPERTY</u>	<u>ELIMI- NATIONS</u>	<u>TOTAL</u>
CASH FLOWS FROM OPERATING ACTIVITIES:				
Changes in net assets	\$ (695,890)	\$ (356,083)	\$ 462,067	\$ (589,906)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:				
Depreciation and amortization	277,597	289,049	(13,832)	552,814
Predevelopment and capital grants	(41,835)	-	-	(41,835)
Reserve on development grants and investment in affiliates	763,213	-	(763,213)	-
Recovery of affiliate advances	68,378	-	-	68,378
Interest on deferred debt	25,000	-	-	25,000
Unrealized gain on investments	(28,238)	-	-	(28,238)
Bad debt	3,842	-	-	3,842
Changes in operating assets and liabilities:				
Accounts and pledges receivable	(140,172)	(16,660)	-	(156,832)
Prepaid expenses and deposits	14,115	(51,801)	-	(37,686)
Due from affiliates	(117,302)	-	-	(117,302)
Accounts payable and accrued expenses	113,546	33,555	-	147,101
Net cash provided by (used in) operating activities	<u>242,254</u>	<u>(101,940)</u>	<u>(314,978)</u>	<u>(174,664)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Deposits to and interest earned on other reserves and deposits	(36,767)	(772,832)	-	(809,599)
Change in developer and overhead fees receivable	(606,498)	-	314,978	(291,520)
Acquisition of property and equipment	(31,102)	(7,126,144)	-	(7,157,246)
Cash assumed upon receipt of ECLP limited partner share	22,051	(22,051)	-	-
Cash paid for capitalized costs	-	(147,927)	-	(147,927)
Purchases of investments	(7,142)	-	-	(7,142)
Net cash used in investing activities	<u>(659,458)</u>	<u>(8,068,954)</u>	<u>314,978</u>	<u>(8,413,434)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:				
Capital contributions received	-	5,459,479	-	5,459,479
Syndication costs	-	(35,000)	-	(35,000)
Principal payments of notes payable	(66,706)	(4,360,011)	-	(4,426,717)
Proceeds from contingent debt	-	-	-	-
Proceeds from notes payable	-	5,385,295	-	5,385,295
Proceeds (payments) on notes payable (receivable) - affiliates	(711,271)	711,271	-	-
Predevelopment and capital grants received	238,190	-	-	238,190
Net cash provided by (used in) financing activities	<u>(539,787)</u>	<u>7,161,034</u>	<u>-</u>	<u>6,621,247</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(956,991)	(1,009,860)	-	(1,966,851)
CASH AND CASH EQUIVALENTS, beginning of year	<u>1,714,991</u>	<u>1,093,739</u>	<u>-</u>	<u>2,808,730</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 758,000</u>	<u>\$ 83,879</u>	<u>\$ -</u>	<u>\$ 841,879</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Cash paid for interest, net of amounts capitalized of \$58,825	<u>\$ 21,587</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,587</u>
Property and equipment additions financed by capital contributions	<u>\$ -</u>	<u>\$ 51,942</u>	<u>\$ -</u>	<u>\$ 51,942</u>
Mortgage note payable converted to equity	<u>\$ -</u>	<u>\$ 727,917</u>	<u>\$ -</u>	<u>\$ 727,917</u>
Land, building and equipment paid for in 2012 from accounts payable and accrued expenses at December 31, 2011	<u>\$ -</u>	<u>\$ 2,754,092</u>	<u>\$ -</u>	<u>\$ 2,754,092</u>
Land, building and equipment financed by unpaid developer, overhead and advances from affiliate at December 31, 2012	<u>\$ -</u>	<u>\$ 764,145</u>	<u>\$ -</u>	<u>\$ 764,145</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 projects under development	-	(6,978,596)	-	(6,978,596)
Purchases of investments	(5,216)	-	-	(5,216)
Net cash 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 from mortgage and sponsor notes payable	-	-	-	-
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, 2012

EXPENSES:	PROGRAM SERVICES						SUPPORT SERVICES						ELIMI-NATIONS	SUB-TOTAL	SYNDICATED RENTAL PROPERTY	ELIMI-NATIONS	TOTAL		
	HOUSING AND SUPPORTIVE SERVICES			TOTAL	PROPERTY MANAGEMENT	TOTAL PROGRAM SERVICES	GENERAL AND ADMINIS-TRATION	INSTITUTIONAL ADVANCEMENT	TOTAL SUPPORT SERVICES	ELIMI-NATIONS	SUB-TOTAL	SYNDICATED RENTAL PROPERTY						ELIMI-NATIONS	TOTAL
	OUTREACH	HEARTH	REAL ESTATE DEVELOPMENT																
Personnel and related:																			
Salaries	\$ 312,422	\$ 1,561,074	\$ -	\$ 204,554	\$ 1,765,628	\$ 42,125	\$ 2,120,175	\$ 312,731	\$ 213,296	\$ 526,027	\$ -	\$ 2,646,202	\$ 85,465	\$ -	\$ 2,731,667				
Fringe benefits	25,067	131,531	-	17,283	148,814	4,995	178,876	27,813	15,905	43,718	-	222,594	12,639	-	235,233				
Payroll taxes	25,117	130,307	-	19,733	150,040	3,656	178,813	27,686	16,234	43,920	-	222,733	7,684	-	230,417				
Consultants and contracted services	8,281	33,816	-	5,850	39,666	1,790	49,737	44,319	4,904	49,223	-	98,960	32,197	-	131,157				
Total personnel and related	370,887	1,856,728	-	247,420	2,104,148	52,566	2,527,601	412,549	250,339	662,888	-	3,190,489	137,985	-	3,328,474				
Occupancy:																			
Utilities	-	286	-	156,384	156,670	-	156,670	-	-	-	-	156,670	55,735	-	212,405				
Repairs and maintenance	-	8,960	-	159,992	168,952	-	168,952	685	198	883	-	169,835	13,187	-	183,022				
Mortgage interest	-	-	-	21,587	21,587	-	21,587	-	-	-	-	21,587	89,503	-	111,090				
Real estate taxes	-	-	-	52,946	52,946	-	52,946	-	-	-	-	52,946	13,914	-	66,860				
Insurance	1,318	1,920	-	26,057	27,977	1,408	30,703	-	1,318	1,318	-	32,021	21,139	-	53,160				
Rent	11,262	-	-	-	-	1,609	12,871	14,593	4,826	19,419	(32,176)	114	-	-	114				
Total occupancy	12,580	11,166	-	416,966	428,132	3,017	443,729	15,278	6,342	21,620	(32,176)	433,173	193,478	-	626,651				
Other:																			
Professional fees	-	834	71,395	29,944	102,173	910	103,083	89,576	15,470	105,046	-	208,129	14,050	-	222,179				
Food and household supplies	2,788	122,793	-	57	122,850	-	125,638	514	-	514	-	126,152	-	-	126,152				
Miscellaneous	683	8,278	2,533	10,400	21,211	145	22,039	22,830	2,015	24,845	-	46,884	81,946	-	128,830				
Telephone	7,637	29,006	-	126	29,132	542	37,311	6,873	1,596	8,469	-	45,780	-	-	45,780				
Program supplies and client expenses	18,819	26,845	-	-	26,845	-	45,664	51	-	51	-	45,715	-	-	45,715				
Office expense	1,073	6,229	-	11,395	17,624	977	19,674	10,980	2,996	13,976	-	33,650	10,151	-	43,801				
Printing and copying	2,509	4,432	-	169	4,601	458	7,568	5,586	13,854	19,440	-	27,008	-	-	27,008				
Insurance	-	17,669	-	-	17,669	-	17,669	7,710	-	7,710	-	25,379	-	-	25,379				
Travel and training	10,096	4,136	-	465	4,601	205	14,902	8,301	1,229	9,530	-	24,432	-	-	24,432				
Licenses and dues	75	4,556	520	1,312	6,388	89	6,552	11,919	-	11,919	-	18,471	-	-	18,471				
Postage	1,133	482	-	500	982	127	2,242	2,573	7,272	9,845	-	12,087	-	-	12,087				
Management and administrative fees	-	-	-	118,064	118,064	-	118,064	-	-	-	(118,064)	-	10,815	-	10,815				
Meetings and events	5,360	236	-	-	236	-	5,596	2,109	330	2,439	-	8,035	-	-	8,035				
Bad debt	-	-	-	3,842	3,842	-	3,842	-	-	-	-	3,842	-	-	3,842				
Recruitment	95	2,382	-	-	2,382	-	2,477	120	-	120	-	2,597	-	-	2,597				
Fundraising expense	-	-	-	-	-	-	-	-	945	945	-	945	-	-	945				
Total other	50,268	227,878	74,448	176,274	478,600	3,453	532,321	169,142	45,707	214,849	(118,064)	629,106	116,962	-	746,068				
Total expenses before allocations	433,735	2,095,772	74,448	840,660	3,010,880	59,036	3,503,651	596,969	302,388	899,357	(150,240)	4,252,768	448,425	-	4,701,193				
DIRECT SERVICE ALLOCATION	-	62,578	-	-	62,578	-	62,578	(62,578)	-	(62,578)	-	-	-	-	-				
GENERAL AND ADMINISTRATION ALLOCATION	58,278	289,978	9,974	147,871	447,823	7,909	514,010	(554,564)	40,554	(514,010)	-	-	-	-	-				
Total expenses before depreciation and amortization	492,013	2,448,328	84,422	988,531	3,521,281	66,945	4,080,239	(20,173)	342,942	322,769	(150,240)	4,252,768	448,425	-	4,701,193				
DEPRECIATION AND AMORTIZATION	1,265	6,100	-	263,079	269,179	-	270,444	20,173	313	20,486	(13,333)	277,597	289,049	(13,832)	552,814				
Total expenses	\$ 493,278	\$ 2,454,428	\$ 84,422	\$ 1,251,610	\$ 3,790,460	\$ 66,945	\$ 4,350,683	\$ -	\$ 343,255	\$ 343,255	\$ (163,573)	\$ 4,530,365	\$ 737,474	\$ (13,832)	\$ 5,254,007				

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						SYNDICATED RENTAL PROJECTS	ELIMI-NATIONS	TOTAL
	HOUSING AND SUPPORTIVE SERVICES			PROPERTY MANAGEMENT	TOTAL PROGRAM SERVICES	GENERAL AND ADMINIS-TRATION	INSTITUTIONAL ADVANCEMENT	TOTAL SUPPORT SERVICES	ELIMI-NATIONS	SUB-TOTAL					
	OUTREACH	HEARTH	NON-SYNDICATED RENTAL PROPERTIES								TOTAL				
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	
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	
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	
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	
Mortgage interest	-	-	20,442	20,442	-	20,442	-	-	-	-	20,442	7,001	-	27,443	
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	
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	
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	
Program supplies and client expenses	23,573	20,118	-	20,118	-	43,691	28	794	822	-	44,513	-	-	44,513	
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	
Insurance	-	17,737	-	17,737	-	17,737	7,269	-	7,269	-	25,006	-	-	25,006	
Travel and training	14,219	2,903	-	2,903	102	17,224	9,827	365	10,192	-	27,416	-	-	27,416	
Licenses and dues	25	5,821	-	5,821	85	5,931	3,590	30	3,620	-	9,551	-	-	9,551	
Postage	920	349	285	634	164	1,718	1,987	8,780	10,767	-	12,485	184	-	12,669	
Management and administrative fees	-	-	65,008	65,008	-	65,008	-	-	-	(65,008)	-	63,228	(50,110)	13,118	
Meetings and events	7,335	-	-	-	-	7,335	978	161	1,139	-	8,474	-	-	8,474	
Bad debt	-	-	99	99	-	99	-	-	-	-	99	1,248	-	1,347	
Recruitment	752	1,396	-	1,396	-	2,148	-	110	110	-	2,258	-	-	2,258	
Fundraising expense	-	-	-	-	-	-	-	14,683	14,683	-	14,683	-	-	14,683	
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 combining statements.

HEARTH, INC. AND AFFILIATES

NOTES TO CONSOLIDATING FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 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 (IRC). Hearth, Inc. is also exempt from state income taxes. Contributions made to Hearth, Inc. are deductible within the requirements of the IRC.

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.

Hearth Olmsted Limited Partnership (HOLP) is considered to be a variable interest entity (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. In 2011, East Concord Street Limited Partnership (ECLP) was also a VIE, however in 2012, Hearth, Inc. purchased the limited partners' interest (see page 17).

Under this guidance, the General Partners, except for NCS Ruggles, Inc., are considered to be the primary beneficiaries. Accordingly, the Syndicated Rental Properties are consolidated with its 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 entities' equity (deficit) 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; East Concord Street Limited Partnership, the General Partners and the Syndicated Rental Property (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, 2012 AND 2011

(Continued)

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Low-Income Housing Tax Credits

The Syndicated Rental Property has been awarded low-income housing tax credits (LIHTCs) under Internal Revenue Code Section 42. As a condition of receiving these credits, the Syndicated Rental Property must operate its property 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 and cash equivalents.

Accounts and Pledges Receivable

Accounts and pledges receivable are recorded at their net present value when unconditionally committed.

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 14).

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 statements of financial position include leasehold improvements of approximately \$174,000 at December 31, 2012 and 2011. Depreciation expense, net of eliminations, during 2012 and 2011 was \$537,692 and \$267,716, respectively.

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 2012 and 2011.

HEARTH, INC. AND AFFILIATES

NOTES TO CONSOLIDATING FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 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 6 and 7). Financing fees have a cost of \$223,722 and \$265,158 as of December 31, 2012 and 2011, respectively. Accumulated amortization of financing fees is \$27,653 and \$201,893 as of December 31, 2012 and 2011, respectively. Amortization during 2012 and 2011 was \$15,122 and \$15,265, respectively.

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 statements 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 \$184,667 and \$44,111 for 2012 and 2011, respectively.

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. All other revenue is recognized when earned.

HEARTH, INC. AND AFFILIATES
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. The non-syndicated rental properties had an allowance for uncollectible accounts of \$569 and \$7,002 at December 31, 2012 and 2011, respectively.

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 17). These costs included, among others, construction, labor, interest, ground lease payments, and property taxes, which are capitalized as incurred. During 2012, the property was placed in service.

Donated Goods and Services

Hearth receives goods and services from various donating organizations for use in its programs. Hearth received approximately \$46,000 and \$81,000 of donated legal services and food during 2012 and 2011, respectively. 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, 2012 AND 2011

(Continued)

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

As described on page 11, 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 IRC. Hearth, Inc. has for-profit corporate affiliates, the General Partners (see Note 2). At December 31, 2012 and 2011, the General Partners have, for Federal income tax purposes, net operating loss carryforwards of approximately \$284,000 and \$283,000, respectively, available to offset future taxable income. Also, at December 31, 2012 and 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 2032. The tax benefit of the net operating loss carryforwards has been fully reserved as of December 31, 2012 and 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, 2012 and 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 2012 and 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 24, 2013, which is the date the consolidating financial statements were available to be issued. There were no events that met the criteria for recognition or disclosure in the consolidating financial statements.

Net Asset Classifications

Unrestricted net assets consist of the operating 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, 2012 AND 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:

	<u>2012</u>	<u>2011</u>
Time restricted	\$200,000	\$ -
Restricted for programs	75,816	235,958
Restricted for real estate development activities	74,544	605,177
Restricted for equipment and maintenance	<u>10,858</u>	<u>22,858</u>
Total temporarily restricted net assets	<u>\$361,218</u>	<u>\$863,993</u>

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. Hearth, 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 HOLP, as its general partner. Hearth, 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 19), as its general partner. Hearth, 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. Hearth, Inc. appoints all of Hearth Mgmt.'s Board of Directors. Hearth Mgmt. provides property management services to the Non-Syndicated Rental Properties and Ruggles.

HEARTH, INC. AND AFFILIATES

NOTES TO CONSOLIDATING FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 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.

Hearth 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.

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. Effective April 4, 2012, Hearth, Inc. assumed a majority interest in the capital, income, losses, and cash flow of ECLP from the former limited partner. As a result, ECLP was transferred from a syndicated rental property to non-syndicated rental properties in the accompanying 2012 consolidating financial statements.

Syndicated Rental Property

Hearth Olmsted Limited Partnership (HOLP) is a Massachusetts limited partnership formed in March, 2011. HOLP operates fifty-nine low-income housing units located in Mattapan, Massachusetts.

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, 2012 and 2011, was \$199,904 and \$179,153, respectively, including \$20,751 and \$19,572 of interest for 2012 and 2011, respectively. 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 a 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 and was owed to Hearth. During 2012, the developer fee receivable was paid.

HEARTH, INC. AND AFFILIATES
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)

(2) **AFFILIATES 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 were paid in full in March, 2013, from capital contributions in accordance with the limited partnership agreement.

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

	<u>2012</u>	<u>2011</u>
HOLP - overhead fee	\$ 400,000	\$247,071
HOLP - developer fee	400,000	199,959
Beacon - developer fee	166,700	166,700
Burroughs - developer fee	-	53,569
	<u>966,700</u>	<u>667,299</u>
Accrued interest	199,904	179,153
	<u>1,166,604</u>	<u>846,452</u>
Less – reserve	366,604	445,832
	<u>800,000</u>	<u>400,620</u>
Less - current portion	800,000	-
	<u>\$ -</u>	<u>\$400,620</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 2012 and 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.

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 2012 and 2011 was \$142,351 and \$133,346, respectively. These amounts are eliminated in the accompanying consolidating statements of activities.

HEARTH, INC. AND AFFILIATES
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)

(2) **AFFILIATES 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 consist of the following at December 31:

	<u>2012</u>		<u>2011</u>	
	<u>Principal</u>	<u>Accrued Interest</u>	<u>Principal</u>	<u>Accrued Interest</u>
ECLP - Linkage (see Note 9)	\$ 335,213	\$ 686,272	\$ 335,213	\$ 619,446
ECLP - Acquisition	320,000	594,084	320,000	539,441
ECLP - Foundations	99,260	219,934	99,260	199,052
HOLP - Sponsor loans	<u>1,780,136</u>	<u>-</u>	<u>1,068,865</u>	<u>-</u>
	2,534,609	1,500,290	1,823,338	1,357,939
Less - reserve	<u>2,534,609</u>	<u>1,500,290</u>	<u>1,823,338</u>	<u>1,357,939</u>
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

Personnel, 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. Hearth Mgmt. provides property management and administrative services to its rental properties.

Management and administrative fees are paid based upon available cash flow. Management fees have a first priority in payment from available cash flow.

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.

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 LIHTC compliance period. The fee is also limited to 2% of gross rents.

Hearth entered into an agreement with Ruggles (see page 16) to provide supportive services to the tenants of Ruggles. Ruggles operates a forty-three unit assisted living facility. Hearth is entitled to a service provider fee for its services at Ruggles, subject to an annual cash flow review. This agreement expires on June 30, 2016.

HEARTH, INC. AND AFFILIATES

**NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

(Continued)

(2) AFFILIATES AND RELATED PARTY TRANSACTIONS (Continued)

RELATED PARTY TRANSACTIONS (Continued)

Personnel, Management and Service Fees (Continued)

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. 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 8). 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. 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 are based on a calculation as defined in HOLP's partnership agreement. The fees under these agreements commence in January, 2013.

Transactions between these entities were as follows for the years ended December 31:

<u>2012</u>	<u>Hearth Management</u>	<u>Ruggles</u>	<u>Non- Syndicated Rental Properties</u>	<u>Total</u>
Personnel and related	<u>\$50,776</u>	<u>\$ 21,636</u>	<u>\$241,116</u>	<u>\$313,528</u>
Management fees	\$ -	\$ 78,311	\$ 58,423	\$136,734
Administrative fees	-	-	59,641	59,641
Service provider fee	-	25,421	-	25,421
Sub-total	<u>\$ -</u>	<u>\$103,732</u>	<u>\$118,064</u>	221,796
Less - intercompany				<u>118,064</u>
Total				<u>\$103,732</u>

<u>2011</u>	<u>Hearth Management</u>	<u>Ruggles</u>	<u>Rental Properties</u>		<u>Total</u>
			<u>Non- Syndicated</u>	<u>Syndicated</u>	
Personnel and related	<u>\$72,103</u>	<u>\$21,494</u>	<u>\$41,307</u>	<u>\$186,000</u>	<u>\$320,904</u>
Management fees	\$ -	\$76,444	\$31,746	\$ 25,467	\$133,657
Administrative fees	-	-	33,262	24,643	57,905
Service provider fee	-	22,386	-	-	22,386
Sub-total	<u>\$ -</u>	<u>\$98,830</u>	<u>\$65,008</u>	<u>\$ 50,110</u>	213,948
Less - intercompany					<u>115,118</u>
Total					<u>\$ 98,830</u>

HEARTH, INC. AND AFFILIATES

**NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

(Continued)

(2) AFFILIATES AND RELATED PARTY TRANSACTIONS (Continued)

RELATED PARTY TRANSACTIONS (Continued)

Due From (To) Affiliates

ECLP owes \$65,224 and \$97,055 to Hearth and Hearth Mgmt. at December 31, 2012 and 2011, respectively, which are included in due from (to) affiliates, net in the accompanying consolidating statements 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 \$29,000 and \$33,000 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, 2012, which are included in due from (to) affiliates, net in the accompanying consolidating statement of financial position. During 2012, Hearth received approximately \$157,000 of these amounts from Ruggles' 2012 available cash flow, and expects to receive approximately \$105,000 in 2013 from Ruggles' 2013 available cash flow. Each year Ruggles revises its operating projections. Under the revised projections for 2012, Ruggles expects to repay Hearth between \$8,000 and \$49,000 annually from 2013 through 2058. This receivable has been discounted using a 2% rate.

Hearth advanced HOLP \$321,446 related to the construction of HOLP's building. This amount was paid in March, 2013 with funds from the final capital contribution from HOLP's limited partner.

A summary of amounts due to Hearth and Hearth Mgmt. are as follows at December 31:

	<u>2012</u>			
	<u>Ruggles</u>	<u>ECLP</u>	<u>HOLP</u>	<u>Total</u>
Gross receivable	\$817,392	\$65,246	\$321,446	\$1,204,084
Less - discount	<u>242,668</u>	<u>-</u>	<u>-</u>	<u>242,668</u>
	<u>\$574,724</u>	<u>\$65,246</u>	<u>\$321,446</u>	961,416
Less - elimination of ECLP and HOLP				<u>386,692</u>
				574,724
Less - current portion				<u>105,035</u>
				<u>\$ 469,689</u>
	<u>2011</u>			
	<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>	809,345
Less - elimination of ECLP and HOLP				<u>105,927</u>
				703,418
Less - current portion				<u>157,000</u>
				<u>\$ 546,418</u>

HEARTH, INC. AND AFFILIATES
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)

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

RELATED PARTY TRANSACTIONS (Continued)

Rental Fees

ECLP rented office space to Hearth at an annual rental of \$32,176 and \$31,239 in 2012 and 2011, respectively. These amounts are 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 page 19).

CEC was obligated to contribute funds to ECLP to cover operating deficits for the benefit of ECLP's former 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 was limited to \$400,000 through April, 2012 (see page 18).

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 18). Any advances under this obligation shall not be repaid and shall not change each partner's interest in HOLP. There were no advances made under this agreement during 2012 and 2011.

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 Note 6). Hearth had guaranteed the full, timely and unconditional payment of the loan. This loan was converted to equity during 2012 (see Note 6).

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. 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.

HEARTH, INC. AND AFFILIATES

**NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

(Continued)

(2) AFFILIATES AND RELATED PARTY TRANSACTIONS (Continued)

RELATED PARTY TRANSACTIONS (Continued)

Investments in Affiliates

Investments in affiliates are recorded at cost and consist of CEC's investment in ECLP and HOM's investment in HOLP.

(3) RESERVES AND DEPOSITS

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

	2012			
	<u>Non-Syndicated Rental Properties</u>	<u>Syndicated Rental Property</u>		<u>Total</u>
Operating and investor services reserve	\$ 47,562	\$450,146		\$ 497,708
Debt service and working capital reserves	104,027	275,078		379,105
Replacement reserves	198,882	20,636		219,518
Insurance and real estate escrow	<u>-</u>	<u>26,972</u>		<u>26,972</u>
	<u>\$350,471</u>	<u>\$772,832</u>		<u>\$1,123,303</u>
	2011			
	<u>Hearth, Inc.</u>	<u>Non-Syndicated Rental Properties</u>	<u>Syndicated Rental Properties</u>	<u>Total</u>
Operating and investor services reserve	\$ -	\$ -	\$ 47,431	\$ 47,431
Debt service and working capital reserves	-	-	103,741	103,741
Replacement reserves	-	73,083	88,957	162,040
Insurance and real estate escrow	-	-	5,020	5,020
Construction escrow	<u>50,000</u>	<u>-</u>	<u>-</u>	<u>50,000</u>
	<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>

HEARTH, INC. AND AFFILIATES

**NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

(Continued)

(4) ACCOUNTS AND PLEDGES RECEIVABLE

Included in accounts and pledges receivable are the following pledges at December 31, 2012 and 2011, are expected to be collected as follows:

	<u>2012</u>	<u>2011</u>
Less than one year	\$100,000	\$277,000
One to five years	<u>100,000</u>	<u>-</u>
	200,000	277,000
Less - current portion	<u>100,000</u>	<u>277,000</u>
Long-term accounts and pledges receivable, net	<u>\$100,000</u>	<u>\$ -</u>

(5) INVESTMENTS

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

	<u>2012</u>	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Equity mutual funds		\$174,591	\$169,447	\$ (5,144)
Fixed income mutual funds		<u>127,449</u>	<u>136,894</u>	<u>9,445</u>
		<u>\$302,040</u>	<u>\$306,341</u>	4,301
Unrealized depreciation at December 31, 2011				<u>(23,937)</u>
Unrealized gain on investments				<u>\$ 28,238</u>
	<u>2011</u>	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Equity mutual funds		\$170,653	\$143,714	\$(26,939)
Fixed income mutual funds		<u>124,245</u>	<u>127,247</u>	<u>3,002</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, 2012 AND 2011
(Continued)

(6) LONG-TERM DEBT

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

	<u>2012</u>	<u>2011</u>
<u>Non-Syndicated Rental Properties</u>		
<i>Bishop</i>		
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	\$ 72,731
<i>Beacon</i>		
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.	86,572	95,901
<i>Burroughs</i>		
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.	<u>148,975</u>	<u>154,057</u>
Total Non-Syndicated Rental Properties (see page 26)	<u>308,278</u>	<u>322,689</u>
<u>Syndicated Rental Property</u>		
<i>ECLP</i>		
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 was secured by a first mortgage on the property, a security interest in all furnishings and equipment, and an assignment of leases and rent. The note was paid off in October, 2012.	-	52,295

HEARTH, INC. AND AFFILIATES
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)

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

	<u>2012</u>	<u>2011</u>
<u>Syndicated Rental Property</u>		
<i>HOLP</i>		
HOLP had a construction note payable to Eastern Bank that allowed for advances up to \$7,400,000. During the construction period, HOLP borrowed \$5,175,638, of which \$4,350,638 was repaid during 2012 from WNC Institutional Tax Credit Fund 32, L.P.'s second installment. This note accrues interest at 4.5%. Interest only payments were made through the conversion date of August 31, 2012. On August 31, 2012, the note converted to permanent financing with a maximum outstanding balance of \$825,000. Monthly principal and interest installments of \$6,311 are due through the maturity date of September, 2027. This note is secured by a first mortgage on the property, a security interest in all furnishings and equipment, and an assignment of leases and rents.	815,627	2,037,915
0.54% note payable to HOLP's 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, accrued interest at the original interest rate plus 5%. This note was converted to a capital contribution during 2012. This note was secured by a third mortgage on the property.	<u>-</u>	<u>727,917</u>
Total Syndicated Rental Property	815,627	2,818,127
Total Non-Syndicated Rental Properties (see page 25)	<u>308,278</u>	<u>322,689</u>
Total long-term debt	1,123,905	3,140,816
Less - current portion	<u>55,853</u>	<u>66,963</u>
	<u>\$1,068,052</u>	<u>\$3,073,853</u>

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

2013	\$ 55,853
2014	\$123,873
2015	\$ 50,039
2016	\$ 52,489
2017	\$ 55,109

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, 2012 and 2011.

HEARTH, INC. AND AFFILIATES

**NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

(Continued)

(7) CONTINGENT DEBT

Contingent debt consists of the following at December 31:

	<u>2012</u>	<u>2011</u>
<u>Non-Syndicated Rental Properties</u>		
<i>Beacon</i>		
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, 2012 and 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	\$ 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>	<u>349,000</u>
Subtotal Beacon	<u>775,000</u>	<u>775,000</u>
<i>Burroughs</i>		
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, 2012 and 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	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 leases and rents, and interest in all assets related to the land and building.	<u>625,000</u>	<u>625,000</u>
Subtotal Burroughs	<u>1,375,000</u>	<u>1,375,000</u>

HEARTH, INC. AND AFFILIATES
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)

(7) **CONTINGENT DEBT** (Continued)

	<u>2012</u>	<u>2011</u>
<u>Non-Syndicated Rental Properties</u> (Continued)		
<i>ECLP</i>		
5% note payable to CEDAC. Interest accrues annually through July, 2016. All unpaid principal and accrued interest are due in July, 2026. Payments are due annually from surplus cash as defined in the agreement. There were no payments due from surplus cash as of December 31, 2012. 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. Deferred interest on the note was \$410,959 at December 31, 2012. This note is secured by a first mortgage on the property and an assignment of leases and rents 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 second mortgage on land and a building.	<u>100,000</u>	<u>-</u>
Subtotal ECLP	<u>600,000</u>	<u>-</u>
Total Non-Syndicated Rental Properties (see page 30)	<u>2,750,000</u>	<u>2,150,000</u>

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, 2012. 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 was \$385,959 at December 31, 2011. This note is secured by a first mortgage on the property and an assignment of leases and rents 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 shared second mortgage on land and a building.	<u>-</u>	<u>100,000</u>
Subtotal ECLP	<u>-</u>	<u>600,000</u>

HEARTH, INC. AND AFFILIATES

**NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

(Continued)

(7) **CONTINGENT DEBT** (Continued)

	<u>2012</u>	<u>2011</u>
<u>Syndicated Rental Properties</u> (Continued)		
<i>HOLP</i>		
Non-interest bearing note payable to CEDAC, with unpaid principal due in March, 2042. Payments are due annually from surplus cash as defined in the agreement. 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. This note is secured by a shared second mortgage on the property. There are no payments due in 2013, based on 2012 cash flow.	1,992,793	978,356
Non-interest bearing note payable to the Commonwealth of Massachusetts through the Department of Housing and Community Development's (DHCD) HOME program. 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	750,000
Non-interest bearing note payable to the Commonwealth of Massachusetts through DHCD's Affordable Housing Trust (AHT) program, due upon maturity 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	1,000,000
Non-interest bearing note payable to the City of Boston (the City) through the Department of Neighborhood Development's (DND) HOME program. 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.	976,293	950,000
Non-interest bearing note payable to the City through its Neighborhood Housing Trust program (NHT), with principal due in full on the maturity date of March, 2042. This note is secured by a shared second mortgage on the property.	750,000	712,500

HEARTH, INC. AND AFFILIATES

**NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

(Continued)

(7) **CONTINGENT DEBT** (Continued)

	<u>2012</u>	<u>2011</u>
<u>Syndicated Rental Properties</u> (Continued)		
<i>HOLP</i> (Continued)		
Non-interest bearing note payable to CEDAC, with unpaid principal due in March, 2042. Payments are due annually from surplus cash as defined in the agreement. 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. This note is secured by a shared second mortgage on the property. There are no payments due in 2013 based on 2012 cash flow.	500,000	-
Non-interest bearing note payable to the City through DND's Leading the Way (LTW) program. Unpaid principal is due upon maturity in March, 2042, that allows for advances up to \$250,000. The City 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.	<u>244,073</u>	<u>237,500</u>
Subtotal HOLP	<u>6,463,159</u>	<u>4,628,356</u>
Total contingent debt	6,463,159	5,228,356
Less - current portion	<u>69,645</u>	<u>-</u>
Total Syndicated Rental Properties	6,393,514	5,228,356
Total Non-Syndicated Rental Properties (see page 28)	<u>2,750,000</u>	<u>2,150,000</u>
Total contingent debt	<u>\$9,143,514</u>	<u>\$7,378,356</u>

As part of determining the final project costs, HOLP determined that the actual project costs incurred were less than the projected costs for a total savings of \$118,353. Accordingly, the following amounts are due back to the lenders during 2013:

DHCD – HOME	\$40,011
DND - HOME	23,707
DND - LTW	<u>5,927</u>
	<u>\$69,645</u>

HEARTH, INC. AND AFFILIATES

**NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

(Continued)

(8) 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, 2012 and 2011). The line of credit is secured by substantially all assets of Hearst. There was no balance outstanding as of December 31, 2012 and 2011.

(9) 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, Hearst has not recorded a liability in the accompanying consolidating financial statements.

During 1995, Hearst received \$335,213 in Linkage funds from the City of Boston that it loaned to ECLP (see page 19). Under the terms of the Linkage program, Hearst is required to pay the City of Boston any amounts repaid by ECLP. Hearst does not anticipate any payments from ECLP and, accordingly, Hearst has not recorded a liability to the City of Boston in the accompanying consolidating financial statements.

In the ordinary course of Hearst's business, Hearst is, from time-to-time, involved in disputes concerning individuals' employment and other matters with Hearst. Hearst denies any wrongdoing 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, 2012 and 2011.

(10) CONCENTRATIONS

Funding

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

	2012		2011	
Funding Source	Operating Revenue	Accounts and Pledges Receivable	Operating Revenue	Accounts and Pledges Receivable
A	30%	15%	20%	16%
B	21%	15%	28%	30%

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 Hearst as of December 31, 2012 and 2011, or on the changes in their entities' equity (deficit) for the years then ended.

HEARTH, INC. AND AFFILIATES

NOTES TO CONSOLIDATING FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

(Continued)

(10) **CONCENTRATIONS** (Continued)

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 statements of financial position.

(12) **PENSION PLAN**

Hearth operates a voluntary defined contribution retirement plan in accordance within 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 twenty 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 had entered into an investor services agreement with its limited partner which ended when the limited partner withdrew from ECLP. No fee was recorded during 2012 as the agreement was terminated along with the limited partner's withdrawal from ECLP. The fee during 2011 was \$13,118 and is included in management and administrative fees on the accompanying consolidating statement of functional expenses.

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 that began in March, 2012 and is based on 5% of gross collected revenues. The agreement can be terminated by either party with thirty days written notice. The management fee earned by the Company during 2012 was \$10,815. 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 increases 3% annually thereafter. Any unpaid balance will accrue and become payable on a cumulative basis in the first year in which there is sufficient operating income.

(14) **RECLASSIFICATION**

Certain amounts in the 2011 consolidating financial statements have been reclassified to conform with the 2012 presentation.

HEARTH, INC. AND AFFILIATES

**SUPPLEMENTARY CONSOLIDATING STATEMENT OF FINANCIAL POSITION -
NON-SYNDICATED RENTAL PROPERTIES
DECEMBER 31, 2012**

<u>ASSETS</u>	<u>BISHOP</u>	<u>BEACON</u>	<u>BURROUGHS</u>	<u>ECLP</u>	<u>TOTAL NON- SYNDICATED RENTAL PROPERTIES</u>
CURRENT ASSETS:					
Cash and cash equivalents	\$ 5,821	\$ 4,409	\$ 3,353	\$ 11,742	\$ 25,325
Funds held in trust	-	-	-	11,249	11,249
Accounts and pledges receivable	-	-	215	3,177	3,392
Prepaid expenses and deposits	2,464	1,882	4,302	13,698	22,346
Total current assets	<u>8,285</u>	<u>6,291</u>	<u>7,870</u>	<u>39,866</u>	<u>62,312</u>
PROPERTY AND EQUIPMENT:					
Land	25,600	67,500	297,500	152,000	542,600
Buildings and improvements	698,748	1,368,138	1,270,557	5,945,187	9,282,630
Furniture and equipment	67,682	39,769	68,061	117,132	292,644
	<u>792,030</u>	<u>1,475,407</u>	<u>1,636,118</u>	<u>6,214,319</u>	<u>10,117,874</u>
Less - accumulated depreciation	454,588	464,610	278,680	2,530,797	3,728,675
Net property and equipment	<u>337,442</u>	<u>1,010,797</u>	<u>1,357,438</u>	<u>3,683,522</u>	<u>6,389,199</u>
OTHER ASSETS:					
Reserves and deposits	3,991	18,326	50,841	277,313	350,471
Due to affiliates	(65,102)	(52,753)	(30,593)	(65,246)	(213,694)
Financing fees, net	-	3,333	50,176	-	53,509
Total other assets	<u>(61,111)</u>	<u>(31,094)</u>	<u>70,424</u>	<u>212,067</u>	<u>190,286</u>
Total assets	<u>\$ 284,616</u>	<u>\$ 985,994</u>	<u>\$ 1,435,732</u>	<u>\$ 3,935,455</u>	<u>\$ 6,641,797</u>
<u>LIABILITIES AND ENTITIES' EQUITY (DEFICIT)</u>					
CURRENT LIABILITIES:					
Current portion of long-term debt	\$ -	\$ 10,395	\$ 5,597	\$ -	\$ 15,992
Accounts payable and accrued expenses	6,726	8,197	11,574	32,181	58,678
Funds held in trust	-	-	-	11,249	11,249
Total current liabilities	<u>6,726</u>	<u>18,592</u>	<u>17,171</u>	<u>43,430</u>	<u>85,919</u>
OTHER LIABILITIES:					
Long-term debt, net of current portion	72,731	76,177	143,378	-	292,286
Contingent debt	-	775,000	1,375,000	600,000	2,750,000
Notes payable and deferred interest - affiliates	-	199,904	-	2,254,762	2,454,666
Deferred interest	-	-	-	410,959	410,959
Developer and overhead fees payable	-	166,700	-	-	166,700
Total other liabilities	<u>72,731</u>	<u>1,217,781</u>	<u>1,518,378</u>	<u>3,265,721</u>	<u>6,074,611</u>
Total liabilities	<u>79,457</u>	<u>1,236,373</u>	<u>1,535,549</u>	<u>3,309,151</u>	<u>6,160,530</u>
ENTITIES' EQUITY (DEFICIT):					
Unrestricted:					
Operating	(64,401)	(54,659)	(34,297)	(10,608)	(163,965)
Property and equipment	268,702	(195,720)	(65,520)	636,912	644,374
Total unrestricted	<u>204,301</u>	<u>(250,379)</u>	<u>(99,817)</u>	<u>626,304</u>	<u>480,409</u>
Temporarily restricted					
	858	-	-	-	858
Total entities' equity (deficit)	<u>205,159</u>	<u>(250,379)</u>	<u>(99,817)</u>	<u>626,304</u>	<u>481,267</u>
Total liabilities and entities' equity (deficit)	<u>\$ 284,616</u>	<u>\$ 985,994</u>	<u>\$ 1,435,732</u>	<u>\$ 3,935,455</u>	<u>\$ 6,641,797</u>

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
Notes payable and deferred interest - affiliate	-	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 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, 2012**

	<u>BISHOP</u>	<u>BEACON</u>	<u>BURROUGHS</u>	<u>ECLP</u>	<u>TOTAL NON- SYNDICATED RENTAL PROPERTIES</u>
CHANGES IN UNRESTRICTED NET ASSETS:					
OPERATING REVENUES:					
Rental fees, net	\$ 86,737	\$ 110,455	\$ 112,227	\$ 642,514	\$ 951,933
Investment income	72	14	20	687	793
Other	-	299	930	3,179	4,408
Net assets released from purpose restrictions	-	-	22,000	-	22,000
	<u>86,809</u>	<u>110,768</u>	<u>135,177</u>	<u>646,380</u>	<u>979,134</u>
OPERATING EXPENSES:					
Housing and supportive services	83,569	110,156	120,431	526,504	840,660
General and administration	14,429	19,751	22,254	91,437	147,871
	<u>97,998</u>	<u>129,907</u>	<u>142,685</u>	<u>617,941</u>	<u>988,531</u>
Total operating expenses before depreciation and amortization	97,998	129,907	142,685	617,941	988,531
Depreciation and amortization	24,131	37,269	45,676	156,003	263,079
	<u>122,129</u>	<u>167,176</u>	<u>188,361</u>	<u>773,944</u>	<u>1,251,610</u>
Total operating expenses	122,129	167,176	188,361	773,944	1,251,610
Changes in unrestricted net assets from operations	(35,320)	(56,408)	(53,184)	(127,564)	(272,476)
OTHER EXPENSES:					
Interest on deferred debt	-	(20,751)	-	(167,351)	(188,102)
	<u>(35,320)</u>	<u>(77,159)</u>	<u>(53,184)</u>	<u>(294,915)</u>	<u>(460,578)</u>
Changes in unrestricted net assets	(35,320)	(77,159)	(53,184)	(294,915)	(460,578)
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:					
Net assets released from restrictions	-	-	(22,000)	-	(22,000)
	<u>-</u>	<u>-</u>	<u>(22,000)</u>	<u>-</u>	<u>(22,000)</u>
Changes in temporarily restricted net assets	-	-	(22,000)	-	(22,000)
	<u>-</u>	<u>-</u>	<u>(22,000)</u>	<u>-</u>	<u>(22,000)</u>
Changes in net assets	<u>\$ (35,320)</u>	<u>\$ (77,159)</u>	<u>\$ (75,184)</u>	<u>\$ (294,915)</u>	<u>\$ (482,578)</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	\$ 88,938	\$ 96,744	\$ 131,933	\$ 317,615
Investment income	83	7	25	115
	<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	19,572	29,394	34,543	83,509
	<u>99,592</u>	<u>146,781</u>	<u>163,158</u>	<u>409,531</u>
Total operating expenses before depreciation and amortization	99,592	146,781	163,158	409,531
Depreciation and amortization	23,292	37,768	53,723	114,783
	<u>122,884</u>	<u>184,549</u>	<u>216,881</u>	<u>524,314</u>
Total operating expenses	122,884	184,549	216,881	524,314
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	-	(19,572)	-	(19,572)
	<u>800</u>	<u>(19,572)</u>	<u>-</u>	<u>(18,772)</u>
Total other revenues (expenses)	800	(19,572)	-	(18,772)
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	(800)	-	-	(800)
	<u>858</u>	<u>-</u>	<u>22,000</u>	<u>22,858</u>
Changes in temporarily restricted net assets	858	-	22,000	22,858
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 PROPERTY
DECEMBER 31, 2012**

<u>ASSETS</u>	<u>HOLP</u>
CURRENT ASSETS:	
Cash and cash equivalents	\$ 83,879
Funds held in trust	
Accounts and pledges receivable	31,860
Prepaid expenses and deposits	48,161
Due to affiliates, net	(321,446)
Current portion reserves and deposits	26,972
Total current assets	<u>(130,574)</u>
PROPERTY AND EQUIPMENT:	
Land	1,140,806
Buildings and improvements	13,896,188
Furniture and equipment	241,134
	<u>15,278,128</u>
Less - accumulated depreciation	283,682
Net property and equipment	<u>14,994,446</u>
OTHER ASSETS:	
Reserves and deposits	745,860
Financing fees, net	142,560
Total other assets	<u>888,420</u>
Total assets	<u>\$ 15,752,292</u>
<u>LIABILITIES AND ENTITIES' EQUITY (DEFICIT)</u>	
CURRENT LIABILITIES:	
Current portion of long-term debt	\$ 39,861
Current portion of contingent debt	69,645
Accounts payable and accrued expenses	45,115
Developer and overhead fees payable	800,000
Total current liabilities	<u>954,621</u>
OTHER LIABILITIES:	
Long-term debt, net of current portion	775,766
Contingent debt, net of current portion	6,393,514
Notes payable and deferred interest - affiliate	1,780,136
Total other liabilities	<u>8,949,416</u>
Total liabilities	<u>9,904,037</u>
ENTITIES' EQUITY (DEFICIT):	
Unrestricted:	
Operating	870,981
Property and equipment	4,977,274
Total unrestricted	<u>5,848,255</u>
Total liabilities and entities' equity (deficit)	<u>\$ 15,752,292</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 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 - affiliate	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 PROPERTY
FOR THE YEAR ENDED DECEMBER 31, 2012**

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

Rental fees, net	\$ 372,296
Investment income	9,095
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Total operating revenues	381,391
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OPERATING EXPENSES:

Housing and supportive services	448,425
Depreciation and amortization	289,049
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Total operating expenses	737,474
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Changes in unrestricted net assets from operations	(356,083)
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**CHANGES IN NET ASSETS ATTRIBUTABLE TO
NON-CONTROLLING INTEREST**

	<hr/>
	356,047
	<hr/>
Changes in net assets attributable to Hearth	\$ (36)
	<hr/> <hr/>

HEARTH, INC. AND AFFILIATES

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

	<u>ECLP</u>
CHANGES IN UNRESTRICTED NET ASSETS:	
OPERATING REVENUES:	
Rental fees, net	\$ 636,081
Investment income	597
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Total operating revenues	636,678
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OPERATING EXPENSES:	
Housing and supportive services	529,931
Depreciation and amortization	161,902
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Total operating expenses	691,833
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Changes in unrestricted net assets from operations	(55,155)
	<hr/>
OTHER REVENUES (EXPENSES):	
Forgiveness of debt	20,000
Interest on deferred debt	(158,346)
	<hr/>
Total other revenues (expenses)	(138,346)
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Changes in net assets	(193,501)
	<hr/>
CHANGES IN NET ASSETS ATTRIBUTABLE TO NON-CONTROLLING INTEREST	191,566
	<hr/>
Changes in net assets attributable to Hearth	\$ (1,935)
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