

HEARTH, INC. AND AFFILIATES
CONSOLIDATING FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
TOGETHER WITH
INDEPENDENT AUDITOR'S REPORT

HEARTH, INC. AND AFFILIATES

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DECEMBER 31, 2013 AND 2012**

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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 Hearth, Inc. (a Massachusetts corporation, not for profit) and Affiliates (collectively, the Agency), which comprise the consolidating statements of financial position as of December 31, 2013 and 2012, and the related consolidating statements of activities, changes in entities' equity (deficit), cash flows and functional expenses for the years then ended, and the related notes to the consolidating financial statements.

Management's Responsibility for the Consolidating Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidating financial statements referred to on page 1 present fairly, in all material respects, the financial position of Hearth, Inc. and Affiliates as of December 31, 2013 and 2012, 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.

Supplementary Information

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 36 is presented for purposes of additional analysis and is not a required part of the consolidating financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidating financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidating financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidating financial statements or to the consolidating financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidating financial statements as a whole.

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

Boston, Massachusetts
April 16, 2014

HEARTH, INC. AND AFFILIATES

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2013

(With Summarized Comparative Totals as of December 31, 2012)

	2013							2012		
	HEARTH, INC.									
ASSETS	OPERATING	REAL ESTATE DEVELOPMENT	PROPERTY MANAGEMENT	NON-SYNDICATED RENTAL PROPERTIES (EXHIBIT A)	ELIMINATIONS	SUB-TOTAL	HOLP	ELIMINATIONS	TOTAL	TOTAL
CURRENT ASSETS:										
Cash and cash equivalents	\$ 1,592,679	\$ -	\$ -	\$ 56,038	\$ -	\$ 1,648,717	\$ 75,375	\$ -	\$ 1,724,092	\$ 841,879
Funds held in trust	72,580	-	-	11,397	-	83,977	-	-	83,977	74,376
Accounts and current portion of pledges receivable, net	566,850	-	-	2,466	-	569,316	5,030	-	574,346	377,677
Prepaid expenses and deposits	46,676	-	1,366	20,754	-	68,796	45,925	-	114,721	122,799
Current portion of due (to) from affiliates, net	176,924	-	-	(72,597)	-	104,327	(1,701)	-	102,626	105,035
Current portion of reserves and deposits	-	-	-	-	-	-	59,479	-	59,479	26,972
Total current assets	2,455,709	-	1,366	18,058	-	2,475,133	184,108	-	2,659,241	1,548,738
PROPERTY AND EQUIPMENT:										
Land	-	-	-	542,600	-	542,600	1,140,806	-	1,683,406	1,683,406
Buildings and improvements	190,756	-	-	9,293,055	(1,321,173)	8,162,638	13,896,188	(2,195,094)	19,863,732	19,836,332
Furniture and equipment	572,810	-	-	316,840	-	889,650	241,134	-	1,130,784	1,080,116
	763,566	-	-	10,152,495	(1,321,173)	9,594,888	15,278,128	(2,195,094)	22,677,922	22,599,854
Less - accumulated depreciation	648,338	-	-	3,983,913	(769,566)	3,862,685	709,204	(108,251)	4,463,638	3,863,920
Net property and equipment	115,228	-	-	6,168,582	(551,607)	5,732,203	14,568,924	(2,086,843)	18,214,284	18,735,934
OTHER ASSETS:										
Accounts and pledges receivable, net of current portion	81,046	-	-	-	-	81,046	-	-	81,046	100,000
Reserves and deposits, net of current portion	-	-	-	402,084	-	402,084	742,856	-	1,144,940	1,096,331
Investments	311,267	-	-	-	-	311,267	-	-	311,267	306,341
Due (to) from affiliates, net of current portion	95,899	382,316	333,168	(313,891)	-	497,492	-	-	497,492	469,689
Investments in affiliates	-	291,942	-	-	(240,000)	51,942	-	(51,942)	-	-
Financing fees, net	-	-	-	50,868	-	50,868	134,509	-	185,377	196,069
Total other assets	488,212	674,258	333,168	139,061	(240,000)	1,394,699	877,365	(51,942)	2,220,122	2,168,430
Total assets	\$ 3,059,149	\$ 674,258	\$ 334,534	\$ 6,325,701	\$ (791,607)	\$ 9,602,035	\$ 15,630,397	\$ (2,138,785)	\$ 23,093,647	\$ 22,453,102
LIABILITIES AND ENTITIES' EQUITY (DEFICIT)										
CURRENT LIABILITIES:										
Current portion of long-term debt	\$ -	\$ -	\$ -	\$ 76,357	\$ -	\$ 76,357	\$ 55,605	\$ -	\$ 131,962	\$ 96,864
Accounts payable and accrued expenses	320,725	5,532	2,811	52,639	-	381,707	58,862	-	440,569	535,373
Funds held in trust	72,580	-	-	11,397	-	83,977	-	-	83,977	74,376
Total current liabilities	393,305	5,532	2,811	140,393	-	542,041	114,467	-	656,508	706,613
OTHER LIABILITIES:										
Long-term debt, net of current portion	-	-	-	72,731	-	72,731	734,620	-	807,351	1,068,052
Contingent debt, net of current portion	-	-	-	2,750,000	-	2,750,000	6,408,235	-	9,158,235	9,172,148
Notes payable and deferred interest - affiliates	-	-	-	2,406,727	(2,406,727)	-	1,780,136	(1,780,136)	-	-
Deferred interest	-	-	-	435,959	-	435,959	-	-	435,959	410,959
Developer and overhead fees payable and deferred interest	-	-	-	388,599	(388,599)	-	-	-	-	-
Total other liabilities	-	-	-	6,054,016	(2,795,326)	3,258,690	8,922,991	(1,780,136)	10,401,545	10,651,159
Total liabilities	393,305	5,532	2,811	6,194,409	(2,795,326)	3,800,731	9,037,458	(1,780,136)	11,058,053	11,357,772
ENTITIES' EQUITY (DEFICIT):										
Unrestricted:										
Operating	1,898,533	(5,532)	331,723	(359,869)	-	1,864,855	826,171	(742,093)	1,948,933	2,053,373
Board designated	107,351	-	-	-	-	107,351	-	-	107,351	107,351
Property and equipment	115,228	-	-	491,161	2,243,719	2,850,108	5,766,768	(5,766,768)	2,850,108	2,777,039
Real estate development	-	630,856	-	-	(240,000)	390,856	-	(390,856)	-	-
Total unrestricted	2,121,112	625,324	331,723	131,292	2,003,719	5,213,170	6,592,939	(6,899,717)	4,906,392	4,937,763
Temporarily restricted	544,732	43,402	-	-	-	588,134	-	-	588,134	361,218
Total Hearst entities' equity (deficit)	2,665,844	668,726	331,723	131,292	2,003,719	5,801,304	6,592,939	(6,899,717)	5,494,526	5,298,981
Non-controlling interest	-	-	-	-	-	-	-	6,541,068	6,541,068	5,796,349
Total entities' equity (deficit)	2,665,844	668,726	331,723	131,292	2,003,719	5,801,304	6,592,939	(358,649)	12,035,594	11,095,330
Total liabilities and entities' equity (deficit)	\$ 3,059,149	\$ 674,258	\$ 334,534	\$ 6,325,701	\$ (791,607)	\$ 9,602,035	\$ 15,630,397	\$ (2,138,785)	\$ 23,093,647	\$ 22,453,102

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

HEARTH, INC. AND AFFILIATES

CONSOLIDATING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2012

ASSETS	HEARTH, INC.		PROPERTY MANAGE- MENT	NON- SYDICATED RENTAL PROPERTIES (EXHIBIT B)	ELIMI- NATIONS	SUB- TOTAL	HOLP	ELIMI- NATIONS	TOTAL
	OPERATING	REAL ESTATE DEVELOPMENT							
CURRENT ASSETS:									
Cash and cash equivalents	\$ 732,675	\$ -	\$ -	\$ 25,325	\$ -	\$ 758,000	\$ 83,879	\$ -	\$ 841,879
Funds held in trust	63,127	-	-	11,249	-	74,376	-	-	74,376
Accounts and pledges receivable, net	342,425	-	-	3,392	-	345,817	31,860	-	377,677
Prepaid expenses and deposits	51,010	-	1,282	22,346	-	74,638	48,161	-	122,799
Current portion of due (to) from affiliates, net	426,481	-	-	-	-	426,481	(321,446)	-	105,035
Current portion of reserves and deposits	-	-	-	-	-	-	26,972	-	26,972
Developer and overhead fees receivable	800,000	-	-	-	-	800,000	-	(800,000)	-
Total current assets	<u>2,415,718</u>	<u>-</u>	<u>1,282</u>	<u>62,312</u>	<u>-</u>	<u>2,479,312</u>	<u>(130,574)</u>	<u>(800,000)</u>	<u>1,548,738</u>
PROPERTY AND EQUIPMENT:									
Land	-	-	-	542,600	-	542,600	1,140,806	-	1,683,406
Buildings and improvements	173,781	-	-	9,282,630	(1,321,173)	8,135,238	13,896,188	(2,195,094)	19,836,332
Furniture and equipment	546,338	-	-	292,644	-	838,982	241,134	-	1,080,116
	<u>720,119</u>	<u>-</u>	<u>-</u>	<u>10,117,874</u>	<u>(1,321,173)</u>	<u>9,516,820</u>	<u>15,278,128</u>	<u>(2,195,094)</u>	<u>22,599,854</u>
Less - accumulated depreciation	634,183	-	-	3,728,675	(746,536)	3,616,322	283,682	(36,084)	3,863,920
Net property and equipment	<u>85,936</u>	<u>-</u>	<u>-</u>	<u>6,389,199</u>	<u>(574,637)</u>	<u>5,900,498</u>	<u>14,994,446</u>	<u>(2,159,010)</u>	<u>18,735,934</u>
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
Investments	306,341	-	-	-	-	306,341	-	-	306,341
Due (to) from affiliates, net of current portion	(98,961)	484,572	297,772	(213,694)	-	469,689	-	-	469,689
Investments in affiliates	-	291,942	-	-	(240,000)	51,942	-	(51,942)	-
Financing fees, net	-	-	-	53,509	-	53,509	142,560	-	196,069
Total other assets	<u>307,380</u>	<u>776,514</u>	<u>297,772</u>	<u>190,286</u>	<u>(240,000)</u>	<u>1,331,952</u>	<u>888,420</u>	<u>(51,942)</u>	<u>2,168,430</u>
Total assets	<u>\$ 2,809,034</u>	<u>\$ 776,514</u>	<u>\$ 299,054</u>	<u>\$ 6,641,797</u>	<u>\$ (814,637)</u>	<u>\$ 9,711,762</u>	<u>\$ 15,752,292</u>	<u>\$ (3,010,952)</u>	<u>\$ 22,453,102</u>
LIABILITIES AND ENTITIES' EQUITY (DEFICIT)									
CURRENT LIABILITIES:									
Current portion of long-term debt	\$ -	\$ -	\$ -	\$ 15,992	\$ -	\$ 15,992	\$ 80,872	\$ -	\$ 96,864
Accounts payable and accrued expenses	335,628	71,801	24,150	58,679	-	490,258	45,115	-	535,373
Funds held in trust	63,127	-	-	11,249	-	74,376	-	-	74,376
Current portion of developer and overhead fees payable	-	-	-	-	-	-	800,000	(800,000)	-
Total current liabilities	<u>398,755</u>	<u>71,801</u>	<u>24,150</u>	<u>85,920</u>	<u>-</u>	<u>580,626</u>	<u>925,987</u>	<u>(800,000)</u>	<u>706,613</u>
OTHER LIABILITIES:									
Long-term debt, net of current portion	-	-	-	292,286	-	292,286	775,766	-	1,068,052
Contingent debt, net of current portion	-	-	-	2,750,000	-	2,750,000	6,422,148	-	9,172,148
Notes payable and deferred interest - affiliates	-	-	-	2,254,762	(2,254,762)	-	1,780,136	(1,780,136)	-
Deferred interest	-	-	-	410,959	-	410,959	-	-	410,959
Developer and overhead fees payable and deferred interest, net of current portion	-	-	-	366,603	(366,603)	-	-	-	-
Total other liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,074,610</u>	<u>(2,621,365)</u>	<u>3,453,245</u>	<u>8,978,050</u>	<u>(1,780,136)</u>	<u>10,651,159</u>
Total liabilities	<u>398,755</u>	<u>71,801</u>	<u>24,150</u>	<u>6,160,530</u>	<u>(2,621,365)</u>	<u>4,033,871</u>	<u>9,904,037</u>	<u>(2,580,136)</u>	<u>11,357,772</u>
ENTITIES' EQUITY (DEFICIT):									
Unrestricted:									
Operating	1,931,176	(71,801)	274,904	(163,966)	-	1,970,313	870,981	(787,921)	2,053,373
Board designated	107,351	-	-	-	-	107,351	-	-	107,351
Property and equipment	85,936	-	-	644,375	2,046,728	2,777,039	4,977,274	(4,977,274)	2,777,039
Real estate development	-	701,970	-	-	(240,000)	461,970	-	(461,970)	-
Total unrestricted	<u>2,124,463</u>	<u>630,169</u>	<u>274,904</u>	<u>480,409</u>	<u>1,806,728</u>	<u>5,316,673</u>	<u>5,848,255</u>	<u>(6,227,165)</u>	<u>4,937,763</u>
Temporarily restricted	285,816	74,544	-	858	-	361,218	-	-	361,218
Total Hearth entities' equity (deficit)	<u>2,410,279</u>	<u>704,713</u>	<u>274,904</u>	<u>481,267</u>	<u>1,806,728</u>	<u>5,677,891</u>	<u>5,848,255</u>	<u>(6,227,165)</u>	<u>5,298,981</u>
Non-controlling interest	-	-	-	-	-	-	-	5,796,349	5,796,349
Total entities' equity (deficit)	<u>2,410,279</u>	<u>704,713</u>	<u>274,904</u>	<u>481,267</u>	<u>1,806,728</u>	<u>5,677,891</u>	<u>5,848,255</u>	<u>(430,816)</u>	<u>11,095,330</u>
Total liabilities and entities' equity (deficit)	<u>\$ 2,809,034</u>	<u>\$ 776,514</u>	<u>\$ 299,054</u>	<u>\$ 6,641,797</u>	<u>\$ (814,637)</u>	<u>\$ 9,711,762</u>	<u>\$ 15,752,292</u>	<u>\$ (3,010,952)</u>	<u>\$ 22,453,102</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, 2013

(With Summarized Comparative Totals for the Year Ended December 31, 2012)

	2013							2012			
	HEARTH, INC.				NON-SYNDICATED RENTAL PROPERTIES (EXHIBIT C)	ELIMI-NATIONS	SUB-TOTAL	HOLP	ELIMI-NATIONS	TOTAL	TOTAL
	OPERATING	REAL ESTATE DEVELOPMENT	PROPERTY MANAGEMENT								
CHANGES IN UNRESTRICTED NET ASSETS:											
OPERATING REVENUES:											
Fee income and other revenue:											
Rental fees, net	\$ -	\$ -	\$ -	\$ 982,576	\$ (33,141)	\$ 949,435	\$ 840,412	\$ -	\$ 1,789,847	\$ 1,292,053	
Program revenues	1,522,755	-	-	-	-	1,522,755	-	-	1,522,755	1,330,332	
Government grants and other contracts	978,208	-	-	-	-	978,208	-	-	978,208	974,084	
Management and service fees	104,979	-	133,550	-	(121,140)	117,389	-	-	117,389	103,732	
Other	25,863	-	-	-	-	25,863	-	-	25,863	31,998	
Investment income	8,813	-	-	331	-	9,144	1,225	-	10,369	17,030	
Developer fee revenue	-	-	-	-	-	-	-	-	-	59,678	
Net fee income and other revenue	2,640,618	-	133,550	982,907	(154,281)	3,602,794	841,637	-	4,444,431	3,808,907	
Support revenue:											
Private grants, contributions and special events, net	609,773	-	-	-	-	609,773	-	-	609,773	565,135	
Net assets released from purpose restrictions	171,747	41,103	-	858	-	213,708	-	-	213,708	241,019	
Donated goods and services	21,363	-	-	-	-	21,363	-	-	21,363	45,804	
Net support revenue	802,883	41,103	-	858	-	844,844	-	-	844,844	851,958	
Total operating revenues	3,443,501	41,103	133,550	983,765	(154,281)	4,447,638	841,637	-	5,289,275	4,660,865	
OPERATING EXPENSES:											
Outreach	501,302	-	-	-	-	501,302	-	-	501,302	433,735	
Housing and supportive services	2,221,061	60,939	-	876,043	(154,281)	3,003,762	712,492	-	3,716,254	3,371,643	
Property management	-	-	76,731	-	-	76,731	-	-	76,731	59,036	
General and administration	399,628	8,430	10,615	156,869	-	575,542	-	-	575,542	534,391	
Institutional advancement	230,647	-	-	-	-	230,647	-	-	230,647	302,388	
Total operating expenses before depreciation and amortization	3,352,638	69,369	87,346	1,032,912	(154,281)	4,387,984	712,492	-	5,100,476	4,701,193	
Depreciation and amortization	16,209	-	-	257,878	(23,030)	251,057	433,573	(72,167)	612,463	507,532	
Total operating expenses	3,368,847	69,369	87,346	1,290,790	(177,311)	4,639,041	1,146,065	(72,167)	5,712,939	5,208,725	
Changes in unrestricted net assets from operations	74,654	(28,266)	46,204	(307,025)	23,030	(191,403)	(304,428)	72,167	(423,664)	(547,860)	
OTHER REVENUES (EXPENSES):											
Net assets released from capital restrictions	7,830	-	-	-	-	7,830	-	-	7,830	556,468	
Predevelopment and capital grants	42,740	5,040	-	-	-	47,780	-	-	47,780	16,000	
Change in discount of affiliate advances	20,519	-	-	-	-	20,519	-	-	20,519	(68,378)	
Incentive management and tax credit compliance fees	42,765	-	-	-	-	42,765	(42,765)	-	-	-	
General partner operating expenses	-	(2,106)	-	-	-	(2,106)	-	-	(2,106)	(1,317)	
Unrealized gain (loss) on investments	(3,888)	-	-	-	-	(3,888)	-	-	(3,888)	28,238	
Interest on deferred debt	-	-	-	(198,961)	173,961	(25,000)	-	-	(25,000)	(25,000)	
Total other revenues (expenses)	109,966	2,934	-	(198,961)	173,961	87,900	(42,765)	-	45,135	506,011	
Changes in unrestricted net assets	184,620	(25,332)	46,204	(505,986)	196,991	(103,503)	(347,193)	72,167	(378,529)	(41,849)	
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:											
Grants	438,493	9,961	-	-	-	448,454	-	-	448,454	294,712	
Net assets released from restrictions	(179,577)	(41,103)	-	(858)	-	(221,538)	-	-	(221,538)	(797,487)	
Changes in temporarily restricted net assets	258,916	(31,142)	-	(858)	-	226,916	-	-	226,916	(502,775)	
Changes in net assets	443,536	(56,474)	46,204	(506,844)	196,991	123,413	(347,193)	72,167	(151,613)	(544,624)	
CHANGES IN NET ASSETS ATTRIBUTABLE TO NON-CONTROLLING INTEREST											
	-	-	-	-	-	-	347,158	-	347,158	356,047	
Changes in net assets attributable to Hearst	\$ 443,536	\$ (56,474)	\$ 46,204	\$ (506,844)	\$ 196,991	\$ 123,413	\$ (35)	\$ 72,167	\$ 195,545	\$ (188,577)	

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, 2012

	<u>HEARTH, INC.</u>			NON- SYNDICATED RENTAL PROPERTIES (EXHIBIT D)	ELIMI- NATIONS	SUB- TOTAL	HOLP	ELIMI- NATIONS	TOTAL
	<u>OPERATING</u>	<u>REAL ESTATE DEVELOPMENT</u>	<u>PROPERTY MANAGEMENT</u>						
CHANGES IN UNRESTRICTED NET ASSETS:									
OPERATING REVENUES:									
Fee income and other revenue:									
Rental fees, net	\$ -	\$ -	\$ -	\$ 951,933	\$ (32,176)	\$ 919,757	\$ 372,296	\$ -	\$ 1,292,053
Program revenues	1,330,332	-	-	-	-	1,330,332	-	-	1,330,332
Government grants and other contracts	974,084	-	-	-	-	974,084	-	-	974,084
Management and service fees	91,386	-	130,410	-	(118,064)	103,732	-	-	103,732
Other	27,590	-	-	4,408	-	31,998	-	-	31,998
Investment income	7,142	-	-	793	-	7,935	9,095	-	17,030
Development fees	-	374,656	-	-	-	374,656	-	(314,978)	59,678
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>
Support Revenue:									
Private grants, contributions and special events, net	565,135	-	-	-	-	565,135	-	-	565,135
Net assets released from purpose restrictions	219,019	-	-	22,000	-	241,019	-	-	241,019
Donated goods and services	45,804	-	-	-	-	45,804	-	-	45,804
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>
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>
OPERATING EXPENSES:									
Outreach	433,735	-	-	-	-	433,735	-	-	433,735
Housing and supportive services	2,158,350	74,448	-	840,660	(150,240)	2,923,218	448,425	-	3,371,643
Property management	-	-	59,036	-	-	59,036	-	-	59,036
General and administration	368,637	9,974	7,909	147,871	-	534,391	-	-	534,391
Institutional advancement	302,388	-	-	-	-	302,388	-	-	302,388
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>
Depreciation and amortization	27,851	-	-	263,079	(36,363)	254,567	289,049	(36,084)	507,532
Total operating expenses	<u>3,290,961</u>	<u>84,422</u>	<u>66,945</u>	<u>1,251,610</u>	<u>(186,603)</u>	<u>4,507,335</u>	<u>737,474</u>	<u>(36,084)</u>	<u>5,208,725</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>36,363</u>	<u>87,117</u>	<u>(356,083)</u>	<u>(278,894)</u>	<u>(547,860)</u>
OTHER REVENUES (EXPENSES):									
Net assets released from capital restrictions	-	556,468	-	-	-	556,468	-	-	556,468
Predevelopment and capital grants	-	16,000	-	-	-	16,000	-	-	16,000
Change in provision of affiliate advances	(67,010)	-	-	-	(1,368)	(68,378)	-	-	(68,378)
General partner operating expenses	-	(1,317)	-	-	-	(1,317)	-	-	(1,317)
Unrealized gain on investments	28,238	-	-	-	-	28,238	-	-	28,238
Interest on deferred debt	-	-	-	(188,102)	163,102	(25,000)	-	-	(25,000)
Reserve on development grants	-	(763,213)	-	-	-	(763,213)	-	763,213	-
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>
Changes in unrestricted net assets	<u>(69,241)</u>	<u>98,172</u>	<u>63,465</u>	<u>(460,578)</u>	<u>198,097</u>	<u>(170,085)</u>	<u>(356,083)</u>	<u>484,319</u>	<u>(41,849)</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:									
Grants	268,877	25,835	-	-	-	294,712	-	-	294,712
Net assets released from restrictions	(219,019)	(556,468)	-	(22,000)	-	(797,487)	-	-	(797,487)
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>
Changes in net assets	<u>(19,383)</u>	<u>(432,461)</u>	<u>63,465</u>	<u>(482,578)</u>	<u>198,097</u>	<u>(672,860)</u>	<u>(356,083)</u>	<u>484,319</u>	<u>(544,624)</u>
CHANGES IN NET ASSETS ATTRIBUTABLE TO NON-CONTROLLING INTEREST									
Changes in net assets attributable to Hearth	<u>\$ (19,383)</u>	<u>\$ (432,461)</u>	<u>\$ 63,465</u>	<u>\$ (482,578)</u>	<u>\$ 198,097</u>	<u>\$ (672,860)</u>	<u>\$ (36)</u>	<u>\$ 484,319</u>	<u>\$ (188,577)</u>

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

HEARTH, INC. AND AFFILIATES

**CONSOLIDATING STATEMENTS OF CHANGES IN ENTITIES' EQUITY (DEFICIT)
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

	<u>HEARTH, INC.</u>			NON- SYNDICATED RENTAL PROPERTIES	ELIMI- NATIONS	SUB- TOTAL	SYNDICATED RENTAL PROPERTIES	ELIMI- NATIONS	TOTAL	NON- CONTROLLING INTEREST	TOTAL
	<u>OPERATING</u>	<u>REAL ESTATE DEVELOPMENT</u>	<u>PROPERTY MANAGE- MENT</u>								
ENTITIES' EQUITY (DEFICIT), December 31, 2011	\$ 2,429,736	\$ 1,240,938	\$ 203,530	\$ (13,808)	\$ 462,422	\$ 4,322,818	\$ 829,782	\$ (486,526)	\$ 4,666,074	\$ 821,484	\$ 5,487,558
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)	198,097	(672,860)	(356,083)	840,366	(188,577)	(356,047)	(544,624)
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>
ENTITIES' EQUITY (DEFICIT), December 31, 2012	2,410,279	704,713	274,904	481,267	1,806,728	5,677,891	5,848,255	(6,227,165)	5,298,981	5,796,349	11,095,330
Capital contributions	-	-	-	-	-	-	1,091,877	(1,091,877)	-	1,091,877	1,091,877
Changes in net assets	443,536	(56,474)	46,204	(506,844)	196,991	123,413	(347,193)	419,325	195,545	(347,158)	(151,613)
Transfers	<u>(187,971)</u>	<u>20,487</u>	<u>10,615</u>	<u>156,869</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
ENTITIES' EQUITY (DEFICIT), December 31, 2013	<u>\$ 2,665,844</u>	<u>\$ 668,726</u>	<u>\$ 331,723</u>	<u>\$ 131,292</u>	<u>\$ 2,003,719</u>	<u>\$ 5,801,304</u>	<u>\$ 6,592,939</u>	<u>\$ (6,899,717)</u>	<u>\$ 5,494,526</u>	<u>\$ 6,541,068</u>	<u>\$ 12,035,594</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, 2013**

	<u>HEARTH</u>	<u>HOLP</u>	<u>ELIMI- NATIONS</u>	<u>TOTAL</u>
CASH FLOWS FROM OPERATING ACTIVITIES:				
Changes in net assets	\$ 123,413	\$ (347,193)	\$ 72,167	\$ (151,613)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:				
Loss on disposal of property and equipment	3,227	-	-	3,227
Depreciation and amortization	251,057	433,573	(72,167)	612,463
Predevelopment and capital grants	(57,741)	-	-	(57,741)
Change in discount of affiliate advances	(20,519)	-	-	(20,519)
Interest on deferred debt	25,000	-	-	25,000
Unrealized loss on investments	3,888	-	-	3,888
Bad debt	1,457	2,491	-	3,948
Changes in operating assets and liabilities:				
Accounts and pledges receivable	(206,002)	24,339	-	(181,663)
Prepaid expenses and deposits	5,842	2,236	-	8,078
Due from affiliates	5,125	(10,000)	-	(4,875)
Accounts payable and accrued expenses	(108,551)	13,747	-	(94,804)
Net cash provided by operating activities	<u>26,196</u>	<u>119,193</u>	<u>-</u>	<u>145,389</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Deposits to and interest earned on reserves and deposits	(51,613)	(29,503)	-	(81,116)
Acquisition of property and equipment	(83,348)	-	-	(83,348)
Proceeds from sale of investments	321,821	-	-	321,821
Proceeds from developer and overhead fee receivable	800,000	-	(800,000)	-
Purchases of investments	(330,635)	-	-	(330,635)
Net cash provided by (used in) investing activities	<u>656,225</u>	<u>(29,503)</u>	<u>(800,000)</u>	<u>(173,278)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:				
Capital contributions received	-	1,091,877	-	1,091,877
Payment of developer and overhead fee payable	-	(800,000)	800,000	-
Principal payments of long-term debt	(159,190)	(39,315)	-	(198,505)
Principal payments of contingent debt	-	(41,011)	-	(41,011)
Receipt (payment) on construction related due to affiliates	309,745	(309,745)	-	-
Predevelopment and capital grants received	57,741	-	-	57,741
Net cash provided by (used in) financing activities	<u>208,296</u>	<u>(98,194)</u>	<u>800,000</u>	<u>910,102</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	890,717	(8,504)	-	882,213
CASH AND CASH EQUIVALENTS, beginning of year	<u>758,000</u>	<u>83,879</u>	<u>-</u>	<u>841,879</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 1,648,717</u>	<u>\$ 75,375</u>	<u>\$ -</u>	<u>\$ 1,724,092</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Cash paid for interest	<u>\$ 11,850</u>	<u>\$ 36,265</u>	<u>\$ -</u>	<u>\$ 48,115</u>
Cost basis of property and equipment disposed of	<u>\$ 5,280</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,280</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>HOLP</u>	<u>ELIMI- NATIONS</u>	<u>TOTAL</u>
CASH FLOWS FROM OPERATING ACTIVITIES:				
Changes in net assets	\$ (672,860)	\$ (356,083)	\$ 484,319	\$ (544,624)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:				
Depreciation and amortization	254,567	289,049	(36,084)	507,532
Predevelopment and capital grants	(41,835)	-	-	(41,835)
Reserve on development grants and investment in affiliates	763,213	-	(763,213)	-
Recovery of affiliate advances and change in discount	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 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 provided by (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 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>\$ 89,503</u>	<u>\$ -</u>	<u>\$ 111,090</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 finance 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 FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2013

	PROGRAM SERVICES						SUPPORT SERVICES						ELIMI-NATIONS	SUB-TOTAL	HOLP	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	HOLP						ELIMI-NATIONS	TOTAL
	OUTREACH	HEARTH	REAL ESTATE DEVELOPMENT																
EXPENSES:																			
Personnel and related:																			
Salaries	\$ 311,339	\$ 1,603,134	\$ 13,182	\$ 206,899	\$ 1,823,215	\$ 57,064	\$ 2,191,618	\$ 388,251	\$ 158,261	\$ 546,512	\$ -	\$ 2,738,130	\$ 152,953	\$ -	\$ 2,891,083				
Fringe benefits	32,911	170,374	801	19,002	190,177	5,682	228,770	38,313	17,066	55,379	-	284,149	43,562	-	327,711				
Payroll taxes	25,812	144,971	813	19,585	165,369	4,880	196,061	40,261	11,944	52,205	-	248,266	12,194	-	260,460				
Consultants and contracted services	7,846	34,587	-	-	34,587	1,551	43,984	26,964	5,690	32,654	-	76,638	-	-	76,638				
Total personnel and related	<u>377,908</u>	<u>1,953,066</u>	<u>14,796</u>	<u>245,486</u>	<u>2,213,348</u>	<u>69,177</u>	<u>2,660,433</u>	<u>493,789</u>	<u>192,961</u>	<u>686,750</u>	<u>-</u>	<u>3,347,183</u>	<u>208,709</u>	<u>-</u>	<u>3,555,892</u>				
Occupancy:																			
Utilities	-	315	-	166,637	166,952	-	166,952	-	-	-	-	166,952	118,409	-	285,361				
Repairs and maintenance	1,215	7,186	-	175,934	183,120	-	184,335	490	941	1,431	-	185,766	87,048	-	272,814				
Real estate taxes	-	-	-	54,002	54,002	-	54,002	-	-	-	-	54,002	31,325	-	85,327				
Insurance	1,370	1,944	-	26,574	28,518	1,452	31,340	-	1,370	1,370	-	32,710	30,338	-	63,048				
Mortgage interest	-	-	-	11,850	11,850	-	11,850	-	-	-	-	11,850	36,265	-	48,115				
Rent	12,408	-	-	-	-	1,657	14,065	14,913	4,971	19,884	(33,141)	808	-	-	808				
Total occupancy	<u>14,993</u>	<u>9,445</u>	<u>-</u>	<u>434,997</u>	<u>444,442</u>	<u>3,109</u>	<u>462,544</u>	<u>15,403</u>	<u>7,282</u>	<u>22,685</u>	<u>(33,141)</u>	<u>452,088</u>	<u>303,385</u>	<u>-</u>	<u>755,473</u>				
Other:																			
Professional fees	-	847	46,143	45,881	92,871	1,146	94,017	62,835	5,233	68,068	-	162,085	35,518	-	197,603				
Food and household supplies	8,816	92,408	-	179	92,587	134	101,537	48	21	69	-	101,606	-	-	101,606				
Resident services	-	-	-	-	-	-	-	-	-	-	-	-	80,004	-	80,004				
Program supplies and client expenses	61,690	16,710	-	29	16,739	-	78,429	-	-	-	-	78,429	-	-	78,429				
Office expense	1,281	7,866	-	12,987	20,853	1,423	23,557	12,676	3,502	16,178	-	39,735	14,764	-	54,499				
Miscellaneous	1,192	10,906	-	11,790	22,696	113	24,001	12,462	1,901	14,363	-	38,364	15,664	-	54,028				
Management and administrative fees	-	-	-	121,140	121,140	-	121,140	-	-	-	(121,140)	-	51,957	-	51,957				
Telephone	7,256	31,534	-	21	31,555	499	39,310	7,444	1,632	9,076	-	48,386	-	-	48,386				
Travel and training	17,302	3,910	-	35	3,945	272	21,519	8,504	483	8,987	-	30,506	-	-	30,506				
Printing and copying	3,013	6,000	-	201	6,201	515	9,729	9,135	9,605	18,740	-	28,469	-	-	28,469				
Insurance	-	18,265	-	-	18,265	-	18,265	8,884	-	8,884	-	27,149	-	-	27,149				
Postage	1,247	459	-	563	1,022	254	2,523	1,768	6,928	8,696	-	11,219	-	-	11,219				
Meetings and events	5,493	-	-	-	-	-	5,493	2,824	367	3,191	-	8,684	-	-	8,684				
Licenses and dues	75	4,805	-	1,277	6,082	89	6,246	1,074	-	1,074	-	7,320	-	-	7,320				
Recruitment	1,036	2,148	-	-	2,148	-	3,184	1,388	95	1,483	-	4,667	-	-	4,667				
Bad debt	-	-	-	1,457	1,457	-	1,457	-	-	-	-	1,457	2,491	-	3,948				
Fundraising expense	-	-	-	-	-	-	-	-	637	637	-	637	-	-	637				
Total other	<u>108,401</u>	<u>195,858</u>	<u>46,143</u>	<u>195,560</u>	<u>437,561</u>	<u>4,445</u>	<u>550,407</u>	<u>129,042</u>	<u>30,404</u>	<u>159,446</u>	<u>(121,140)</u>	<u>588,713</u>	<u>200,398</u>	<u>-</u>	<u>789,111</u>				
Total expenses before allocations	501,302	2,158,369	60,939	876,043	3,095,351	76,731	3,673,384	638,234	230,647	868,881	(154,281)	4,387,984	712,492	-	5,100,476				
DIRECT SERVICE ALLOCATION	-	62,692	-	-	62,692	-	62,692	(62,692)	-	(62,692)	-	-	-	-	-				
GENERAL AND ADMINISTRATION ALLOCATION	69,491	307,975	8,430	156,869	473,274	10,615	553,380	(585,327)	31,947	(553,380)	-	-	-	-	-				
Total expenses before depreciation and amortization	570,793	2,529,036	69,369	1,032,912	3,631,317	87,346	4,289,456	(9,785)	262,594	252,809	(154,281)	4,387,984	712,492	-	5,100,476				
DEPRECIATION AND AMORTIZATION	1,009	5,128	-	257,878	263,006	-	264,015	9,785	287	10,072	(23,030)	251,057	433,573	(72,167)	612,463				
Total expenses	<u>\$ 571,802</u>	<u>\$ 2,534,164</u>	<u>\$ 69,369</u>	<u>\$ 1,290,790</u>	<u>\$ 3,894,323</u>	<u>\$ 87,346</u>	<u>\$ 4,553,471</u>	<u>\$ -</u>	<u>\$ 262,881</u>	<u>\$ 262,881</u>	<u>\$ (177,311)</u>	<u>\$ 4,639,041</u>	<u>\$ 1,146,065</u>	<u>\$ (72,167)</u>	<u>\$ 5,712,939</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**

	PROGRAM SERVICES						SUPPORT SERVICES						ELIMI- NATIONS	SUB- TOTAL	HOLP	ELIMI- NATIONS	TOTAL	
	HOUSING AND SUPPORTIVE SERVICES			TOTAL PROGRAM SERVICES	PROPERTY MANAGEMENT	GENERAL AND ADMINIS- TRATION	INSTITUTIONAL ADVANCEMENT	TOTAL SUPPORT SERVICES	ELIMI- NATIONS	SUB- TOTAL	HOLP	ELIMI- NATIONS						TOTAL
	OUTREACH	HEARTH	REAL ESTATE DEVELOPMENT															
EXPENSES:																		
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	<u>370,887</u>	<u>1,856,728</u>	<u>-</u>	<u>247,420</u>	<u>2,104,148</u>	<u>52,566</u>	<u>2,527,601</u>	<u>412,549</u>	<u>250,339</u>	<u>662,888</u>	<u>-</u>	<u>3,190,489</u>	<u>137,985</u>	<u>-</u>	<u>3,328,474</u>			
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	17,778	-	187,613			
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			
Mortgage interest	-	-	-	21,587	21,587	-	21,587	-	-	-	-	21,587	89,503	-	111,090			
Rent	11,262	-	-	-	-	1,609	12,871	14,593	4,826	19,419	(32,176)	114	-	-	114			
Total occupancy	<u>12,580</u>	<u>11,166</u>	<u>-</u>	<u>416,966</u>	<u>428,132</u>	<u>3,017</u>	<u>443,729</u>	<u>15,278</u>	<u>6,342</u>	<u>21,620</u>	<u>(32,176)</u>	<u>433,173</u>	<u>198,069</u>	<u>-</u>	<u>631,242</u>			
Other:																		
Professional fees	-	834	71,395	29,944	102,173	910	103,083	89,576	15,470	105,046	-	208,129	14,885	-	223,014			
Food and household supplies	2,788	122,793	-	57	122,850	-	125,638	514	-	514	-	126,152	-	-	126,152			
Resident services	-	-	-	-	-	-	-	-	-	-	-	-	49,776	-	49,776			
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			
Miscellaneous	683	8,278	2,533	10,400	21,211	145	22,039	22,830	2,015	24,845	-	46,884	26,744	-	73,628			
Management and administrative fees	-	-	-	118,064	118,064	-	118,064	-	-	-	(118,064)	-	10,815	-	10,815			
Telephone	7,637	29,006	-	126	29,132	542	37,311	6,873	1,596	8,469	-	45,780	-	-	45,780			
Travel and training	10,096	4,136	-	465	4,601	205	14,902	8,301	1,229	9,530	-	24,432	-	-	24,432			
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			
Postage	1,133	482	-	500	982	127	2,242	2,573	7,272	9,845	-	12,087	-	-	12,087			
Meetings and events	5,360	236	-	-	236	-	5,596	2,109	330	2,439	-	8,035	-	-	8,035			
Licenses and dues	75	4,556	520	1,312	6,388	89	6,552	11,919	-	11,919	-	18,471	-	-	18,471			
Recruitment	95	2,382	-	-	2,382	-	2,477	120	-	120	-	2,597	-	-	2,597			
Bad debt	-	-	-	3,842	3,842	-	3,842	-	-	-	-	3,842	-	-	3,842			
Fundraising expense	-	-	-	-	-	-	-	-	945	945	-	945	-	-	945			
Total other	<u>50,268</u>	<u>227,878</u>	<u>74,448</u>	<u>176,274</u>	<u>478,600</u>	<u>3,453</u>	<u>532,321</u>	<u>169,142</u>	<u>45,707</u>	<u>214,849</u>	<u>(118,064)</u>	<u>629,106</u>	<u>112,371</u>	<u>-</u>	<u>741,477</u>			
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	<u>58,278</u>	<u>289,978</u>	<u>9,974</u>	<u>147,871</u>	<u>447,823</u>	<u>7,909</u>	<u>514,010</u>	<u>(554,564)</u>	<u>40,554</u>	<u>(514,010)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>			
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	<u>1,265</u>	<u>6,100</u>	<u>-</u>	<u>263,079</u>	<u>269,179</u>	<u>-</u>	<u>270,444</u>	<u>20,173</u>	<u>313</u>	<u>20,486</u>	<u>(36,363)</u>	<u>254,567</u>	<u>289,049</u>	<u>(36,084)</u>	<u>507,532</u>			
Total expenses	<u>\$ 493,278</u>	<u>\$ 2,454,428</u>	<u>\$ 84,422</u>	<u>\$ 1,251,610</u>	<u>\$ 3,790,460</u>	<u>\$ 66,945</u>	<u>\$ 4,350,683</u>	<u>\$ -</u>	<u>\$ 343,255</u>	<u>\$ 343,255</u>	<u>\$ (186,603)</u>	<u>\$ 4,507,335</u>	<u>\$ 737,474</u>	<u>\$ (36,084)</u>	<u>\$ 5,208,725</u>			

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

HEARTH, INC. AND AFFILIATES
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

(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 (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 consolidated with its general partner (see Note 2) and included in the accompanying consolidating financial statements of Hearth, Inc.

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 HOLP (collectively, the Agency) (see Note 2).

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

Low-Income Housing Tax Credits

HOLP has been awarded low-income housing tax credits (LIHTCs) under Internal Revenue Code Section 42. As a condition of receiving these credits, HOLP 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 in June, 2027.

HEARTH, INC. AND AFFILIATES

NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

(Continued)

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

The Agency 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.

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 \$191,000 and \$174,000 at December 31, 2013 and 2012, respectively. Depreciation expense, net of eliminations, during 2013 and 2012 was \$601,771 and \$492,410, respectively.

The Agency 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 2013 and 2012.

HEARTH, INC. AND AFFILIATES

NOTES TO CONSOLIDATING FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

(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 as of December 31, 2013 and 2012. Accumulated amortization of financing fees is \$38,345 and \$27,653 as of December 31, 2013 and 2012, respectively. Amortization during 2013 and 2012 was \$10,692 and \$15,122, respectively. Amortization expense for the next five years is \$10,692 per year.

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

The Agency 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 the Agency fails to comply with other conditions. It is the intention of the Board of Directors and management of the Agency 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 \$49,213 and \$184,667 for 2013 and 2012, 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, 2013 AND 2012

(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 \$81 and \$569 at December 31, 2013 and 2012, respectively.

Donated Goods and Services

The Agency receives goods and services from various donating organizations for use in its programs. The Agency received approximately \$21,000 and \$46,000 of donated legal services and food during 2013 and 2012, 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.

The Agency 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.

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, 2013 and 2012, the General Partners have, for Federal income tax purposes, net operating loss carryforwards of approximately \$293,000 and \$288,000, respectively, available to offset future taxable income. Also, at December 31, 2013 and 2012, 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 2033. The tax benefit of the net operating loss carryforwards has been fully reserved as of December 31, 2013 and 2012, due to the uncertainty of realization.

HEARTH, INC. AND AFFILIATES

NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

(Continued)

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Uncertainty in Income Taxes

The Agency accounts for uncertainty in income taxes in accordance with ASC Topic, *Income Taxes*. This standard clarifies the accounting for uncertainty in tax positions and prescribes a recognition threshold and measurement attribute for the consolidating financial statement regarding a tax position taken or expected to be taken in a tax return. The Agency has determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the consolidating financial statements at December 31, 2013 and 2012. The Agency's information and income tax returns are subject to examination by the Federal and state jurisdictions and generally remain open for the most recent three years.

Fair Value Measurements

The Agency 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. The Agency 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 16, 2014, 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 the Agency relating to program services and other operating activities that the Agency is engaged in. Unrestricted net assets also consist of the net book value of the Agency'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. Real estate development represents those assets and liabilities related to the Agency's project developments, completed and uncompleted, which are long-term in nature and are not expected to be available for operations for at least one year from the consolidating statement of financial position date.

HEARTH, INC. AND AFFILIATES
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(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>2013</u>	<u>2012</u>
Restricted for programs	\$365,625	\$ 75,816
Time restricted	175,000	200,000
Restricted for real estate development activities	43,402	74,544
Restricted for equipment and maintenance	<u>4,107</u>	<u>10,858</u>
Total temporarily restricted net assets	<u>\$588,134</u>	<u>\$361,218</u>

Non-controlling interest represents the interest of the investor limited partner in HOLP.

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

AFFILIATES

The Agency'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. Hearth, Inc. is not a majority owner in NCS; accordingly, it has not been consolidated in the accompanying consolidating financial statements.

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, 2013 AND 2012

(Continued)

(2) AFFILIATES AND RELATED PARTY TRANSACTIONS (Continued)

AFFILIATES (Continued)

Non-Syndicated Rental Properties

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

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

Hearth at Burroughs, LLC (Burroughs) is a Massachusetts limited liability company, with Hearth, Inc. 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 99% interest in the capital, income, losses, and cash flow of ECLP from the former limited partner.

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, Inc. 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, 2013 and 2012, was \$221,899 and \$199,903, respectively, including \$21,996 and \$20,751 of interest for 2013 and 2012, 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, Hearth, Inc. has reserved the entire balance of principal and accrued interest.

Effective March, 2011, Hearth, Inc. 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.

HEARTH, INC. AND AFFILIATES
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(Continued)

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

RELATED PARTY TRANSACTIONS (Continued)

Developer Fees (Continued)

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

	<u>2013</u>	<u>2012</u>
HOLP - overhead fee	\$ -	\$ 400,000
HOLP - developer fee	-	400,000
Beacon - developer fee	<u>166,700</u>	<u>166,700</u>
	166,700	966,700
Accrued interest	<u>221,899</u>	<u>199,903</u>
	388,599	1,166,603
Less - reserve	<u>388,599</u>	<u>366,603</u>
	-	800,000
Less - current portion	<u>-</u>	<u>800,000</u>
	<u>\$ -</u>	<u>\$ -</u>

Notes

During the development of ECLP's property, Hearth, Inc. 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 third 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 2013 and 2012, 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, Inc. does not expect to receive any payments under these agreements. Accordingly, these notes and accrued interest are fully reserved. The interest income due for 2013 and 2012 was \$151,965 and \$142,351, respectively.

HEARTH, INC. AND AFFILIATES

**NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

(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:

	2013		2012	
	<u>Principal</u>	<u>Accrued Interest</u>	<u>Principal</u>	<u>Accrued Interest</u>
ECLP - Linkage (see Notes 2 and 9)	\$ 335,213	\$ 757,776	\$ 335,213	\$ 686,272
ECLP - Acquisition	320,000	652,201	320,000	594,084
ECLP - Foundations	99,260	242,278	99,260	219,934
HOLP - Sponsor loans	<u>1,780,136</u>	<u>-</u>	<u>1,780,136</u>	<u>-</u>
	2,534,609	1,652,255	2,534,609	1,500,290
Less - reserve	<u>2,534,609</u>	<u>1,652,255</u>	<u>2,534,609</u>	<u>1,500,290</u>
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Rental Fees

ECLP rents office space to Hearth, Inc. at an annual rent under a tenant at will agreement.

Personnel, Management and Service Fees

Hearth, Inc. maintains the central payroll and pays the payroll and related payroll taxes and benefits for Hearth Mgmt., the non-syndicated rental properties (see page 17), and Ruggles (see page 16). Hearth, Inc. 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. The fee is also limited to 2% of gross rents. There was no fee earned during 2013 and 2012.

Hearth, Inc. entered into an agreement with Ruggles to provide supportive services to the tenants of Ruggles. Ruggles operates a forty-three unit assisted living facility. Hearth, Inc. 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, 2013 AND 2012**

(Continued)

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

RELATED PARTY TRANSACTIONS (Continued)

Personnel, Management and Service Fees (Continued)

Additionally, Hearth, Inc. 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, Inc. and reimbursed monthly. In order to pay the expenses for Ruggles, Hearth, Inc. 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 the *Wall Street Journal* (WSJ) prime rate.

HOM has 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 commenced in January, 2013.

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

<u>2013</u>	<u>Hearth, Inc.</u>	<u>Hearth Management</u>	<u>Ruggles</u>	<u>Rental Properties</u>		<u>Total</u>
				<u>Non- Syndicated</u>	<u>HOLP</u>	
Personnel and related	\$ -	\$67,626	\$144,395	\$245,486	\$ -	\$475,507
Management fees	\$ -	\$ -	\$ 81,046	\$ 59,710	\$ -	\$140,756
Administrative fees	-	-	-	61,430	-	61,430
Incentive management and tax credit compliance fees	-	-	-	-	42,765	42,765
Rent	33,141	-	-	-	-	33,141
Interest expense	-	-	23,431	-	-	23,431
Service provider fee	-	-	21,636	-	-	21,636
Sub-total	<u>\$33,141</u>	<u>\$ -</u>	<u>\$126,113</u>	<u>\$121,140</u>	<u>\$42,765</u>	323,159
Less - eliminations						<u>197,046</u>
Total						<u>\$126,113</u>

HEARTH, INC. AND AFFILIATES
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(Continued)

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

RELATED PARTY TRANSACTIONS (Continued)

Personnel, Management and Service Fees (Continued)

<u>2012</u>	<u>Hearth, Inc.</u>	<u>Hearth Management</u>	<u>Ruggles</u>	<u>Non- Syndicated Rental Properties</u>	<u>Total</u>
Personnel and related	\$ -	\$50,776	\$131,418	\$241,116	\$423,310
Management fees	\$ -	\$ -	\$ 78,311	\$ 58,423	\$136,734
Administrative fees	-	-	-	59,641	59,641
Rent	32,176	-	-	-	32,176
Interest expense	-	-	24,081	-	24,081
Service provider fee	-	-	21,636	-	21,636
Sub-total	<u>\$32,176</u>	<u>\$ -</u>	<u>\$124,028</u>	<u>\$118,064</u>	274,268
Less - eliminations					<u>150,240</u>
Total					<u>\$124,028</u>

Due (To) From Affiliates

ECLP owes \$72,597 and \$65,246 to Hearth, Inc. at December 31, 2013 and 2012, respectively, which are included in due (to) from affiliates, net in the accompanying consolidating statements of financial position. Based on cash flow projections, ECLP expects to repay Hearth, Inc. during 2014.

Hearth, Inc. is owed the following amounts noted below from Ruggles at December 31, 2013, which are included in due (to) from affiliates, net in the accompanying consolidating statement of financial position. During 2013 and 2012, Hearth, Inc. received approximately \$105,000 and \$157,000, respectively, of these amounts from Ruggles' 2013 and 2012 available cash flows. Hearth, Inc. expects to receive approximately \$103,000 in 2014 from Ruggles' 2014 available cash flow. Based on cash flow projections, Ruggles expects to repay Hearth, Inc. between \$6,000 and \$38,000 annually from 2014 through 2056. This receivable has been discounted using a 2% rate.

During 2012, Hearth, Inc. 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. Hearth, Inc. is owed \$58,687 from HOLP at December 31, 2013, which relates to incentive management and tax credit compliance fees, and operating expense advances. Hearth Inc. also owes HOLP \$56,986 pertaining to energy rebates at project inception.

HEARTH, INC. AND AFFILIATES

**NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

(Continued)

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

RELATED PARTY TRANSACTIONS (Continued)

Due (To) From Affiliates (Continued)

A summary of amounts due to Hearth, Inc. are as follows at December 31:

	2013			
	<u>Ruggles</u>	<u>ECLP</u>	<u>HOLP</u>	<u>Total</u>
Gross receivable	\$822,267	\$72,597	\$ 58,687	\$ 953,551
Less - discount	<u>222,149</u>	<u>-</u>	<u>-</u>	<u>222,149</u>
	<u>\$600,118</u>	<u>\$72,597</u>	<u>\$ 58,687</u>	731,402
Less - elimination of ECLP and HOLP				<u>131,284</u>
				600,118
Less - current portion				<u>102,626</u>
				<u>\$ 497,492</u>

	2012			
	<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>

Guaranties and Obligations

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.

Hearth, Inc. has entered into a guaranty agreement with HOLP to induce the investor limited partner of HOLP to loan an amount of \$727,917 to HOLP. Hearth, Inc. had guaranteed the full, timely and unconditional payment of the loan. This loan was converted to equity during 2012.

HEARTH, INC. AND AFFILIATES
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(Continued)

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

RELATED PARTY TRANSACTIONS (Continued)

Purchase Options

ECLP had granted Hearth, Inc. 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, Inc.'s rights under this agreement were not assignable without the consent of the limited partner. During April, 2012, Hearth, Inc. exercised the option and paid approximately \$10,000 to the limited partner in accordance with the partnership agreement.

HOLP has granted Hearth, Inc. 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.

Investments in Affiliates

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

Donated Legal

A member of the Board of Directors is also a Director of a law firm who provided donated legal services to Hearth, Inc. totaling approximately \$20,000 and \$12,000 in 2013 and 2012, respectively (see page 14).

(3) **RESERVES AND DEPOSITS**

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

	<u>2013</u>		
	<u>Non-Syndicated Rental Properties</u>	<u>HOLP</u>	<u>Total</u>
Operating and investor services reserves	\$ -	\$700,925	\$ 700,925
Replacement reserves	402,084	41,931	444,015
Insurance and real estate tax escrow	-	59,479	59,479
	<u>402,084</u>	<u>802,335</u>	<u>1,204,419</u>
Less - current portion	-	59,479	59,479
	<u>\$402,084</u>	<u>\$742,856</u>	<u>\$1,144,940</u>

HEARTH, INC. AND AFFILIATES
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(Continued)

(3) **RESERVES AND DEPOSITS** (Continued)

	2012		
	Non-Syndicated Rental Properties	HOLP	Total
Operating and investor services reserves	\$ 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 tax escrow	-	26,972	26,972
	350,471	772,832	1,123,303
Less - current portion	-	26,972	26,972
	\$350,471	\$745,860	\$1,096,331

(4) **ACCOUNTS AND PLEDGES RECEIVABLE**

Included in accounts and pledges receivable are the following pledges at December 31, 2013 and 2012, which are expected to be collected as follows:

	2013	2012
Less than one year	\$317,613	\$100,000
One to two years	81,046	100,000
	398,659	200,000
Less - current portion	317,613	100,000
Long-term accounts and pledges receivable, net	\$ 81,046	\$100,000

There was no discount rate applied to pledges receivable as of December 31, 2013 and 2012, as the effect on the consolidating financial statements is immaterial.

(5) **INVESTMENTS**

Investments are recorded at fair value using Level 1 inputs (see Note 1) and consist of the following at December 31:

	2013	Cost	Market Value	Unrealized Appreciation (Depreciation)
Fixed income mutual funds		\$310,854	\$311,267	\$ 413
Unrealized appreciation at December 31, 2012				4,301
Unrealized loss on investments				\$ (3,888)

HEARTH, INC. AND AFFILIATES
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(Continued)

(5) **INVESTMENTS** (Continued)

<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>

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.

(6) **LONG-TERM DEBT**

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

	<u>2013</u>	<u>2012</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.	76,357	86,572
<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 was secured by a first mortgage on the property and was paid off during 2013.	<u>-</u>	<u>148,975</u>
Total Non-Syndicated Rental Properties (see page 26)	<u>149,088</u>	<u>308,278</u>

HEARTH, INC. AND AFFILIATES
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(Continued)

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

	<u>2013</u>	<u>2012</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. 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.	776,312	815,627
Total Non-Syndicated Rental Properties (see page 25)	<u>149,088</u>	<u>308,278</u>
Total long-term debt	925,400	1,123,905
Plus - current portion of contingent debt at December 31 (see Note 7)	<u>13,913</u>	<u>41,011</u>
Less - current portion	<u>939,313</u> <u>131,962</u>	1,164,916 <u>96,864</u>
	<u>\$807,351</u>	<u>\$1,068,052</u>

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

2014	\$131,962
2015	\$ 43,607
2016	\$145,611
2017	\$ 47,706
2018	\$ 49,897

The Agency'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. The Agency was in compliance with these covenants as of December 31, 2013 and 2012.

HEARTH, INC. AND AFFILIATES

**NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

(Continued)

(7) CONTINGENT DEBT

Contingent debt consists of the following at December 31:

	<u>2013</u>	<u>2012</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, 2013 and 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.	\$ 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, 2013 and 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.	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, 2013 AND 2012**

(Continued)

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

	<u>2013</u>	<u>2012</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, 2013 and 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 \$435,959 and \$410,959 at December 31, 2013 and 2012, respectively. This note is secured by a first mortgage on the property and an assignment of leases and rents on the property.	500,000	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>100,000</u>
Subtotal ECLP	<u>600,000</u>	<u>600,000</u>
Total Non-Syndicated Rental Properties (see page 30)	<u>2,750,000</u>	<u>2,750,000</u>
<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 were no payments due in 2013 based on 2012 cash flow. There is a payment of \$6,957 due in 2014 based on 2013 cash flow.	1,992,793	1,992,793
Non-interest bearing note payable to the Commonwealth of Massachusetts through the Department of Housing and Community Development's (DHCD) 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

HEARTH, INC. AND AFFILIATES
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(Continued)

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

	<u>2013</u>	<u>2012</u>
<i>HOLP</i> (Continued)		
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	976,293
Non-interest bearing note payable to the Commonwealth of Massachusetts through DHCD's 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. HOLP repaid \$41,011 during 2013 due to cost savings during construction.	958,989	1,000,000
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	750,000
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 is a payment of \$6,956 due in 2014 based on 2013 cash flow.	500,000	500,000

HEARTH, INC. AND AFFILIATES
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(Continued)

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

	<u>2013</u>	<u>2012</u>
<i>HOLP</i> (Continued)		
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>244,073</u>
Subtotal HOLP	6,422,148	6,463,159
Less - current portion included with long-term debt – HOLP	<u>13,913</u>	<u>41,011</u>
Total contingent debt - HOLP, net	6,408,235	6,422,148
Total contingent debt - Non-Syndicated Rental Properties (see page 28)	<u>2,750,000</u>	<u>2,750,000</u>
Total contingent debt	<u>\$9,158,235</u>	<u>\$9,172,148</u>

(8) **NOTE PAYABLE TO A BANK**

Hearth, Inc. 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, 2013 and 2012). The line of credit is secured by substantially all assets of Hearst, Inc. There was no balance outstanding as of December 31, 2013 and 2012.

(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, the Agency has not recorded a liability in the accompanying consolidating financial statements.

During 1995, Hearst, Inc. 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, Inc. is required to pay the City of Boston any amounts repaid by ECLP. Hearst, Inc. does not anticipate any payments from ECLP and, accordingly, Hearst, Inc. has not recorded a liability to the City of Boston in the accompanying consolidating financial statements.

HEARTH, INC. AND AFFILIATES

**NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

(Continued)

(9) CONTINGENCIES (Continued)

In the ordinary course of the Agency's business, the Agency is, from time-to-time, involved in disputes concerning individuals' employment and other matters with the Agency. The Agency 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, 2013 and 2012.

(10) CONCENTRATIONS

Funding

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

<u>Funding Source</u>	<u>2013</u>		<u>2012</u>	
	<u>Operating Revenue</u>	<u>Accounts and Pledges Receivable</u>	<u>Operating Revenue</u>	<u>Accounts and Pledges Receivable</u>
A	32%	10%	32%	15%
B	21%	20%	23%	15%

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 the Agency as of December 31, 2013 and 2012, or on the changes in their net assets for the years then ended.

Cash and Cash Equivalents

The Agency 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. The Agency has not experienced any losses in such accounts. The Agency's management believes it is not exposed to any significant credit risk on cash and cash equivalents

(11) FUNDS HELD IN TRUST

Hearth, Inc. 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, Inc. 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, Inc. does not make contributions to the plan.

HEARTH, INC. AND AFFILIATES
NOTES TO CONSOLIDATING FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(Continued)

(13) MANAGEMENT AND OTHER FEES

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 2013 and 2012 was \$41,957 and \$10,815, respectively.

Asset Management Fee

HOLP has entered into an asset management services agreement with its limited partner. The fee is \$10,000 per year increasing by 3% each year commencing in 2013. 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 2012 consolidating financial statements have been reclassified to conform with the 2013 presentation.

HEARTH, INC. AND AFFILIATES

**SUPPLEMENTARY CONSOLIDATING STATEMENT OF FINANCIAL POSITION -
NON-SYNDICATED RENTAL PROPERTIES
DECEMBER 31, 2013**

<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	\$ 3,956	\$ 2,835	\$ 7,348	\$ 41,899	\$ 56,038
Funds held in trust	-	-	-	11,397	11,397
Accounts and pledges receivable, net	(163)	(778)	60	3,347	2,466
Prepaid expenses and deposits	2,476	3,222	4,271	10,785	20,754
Current portion of due to affiliates	-	-	-	(72,597)	(72,597)
Total current assets	<u>6,269</u>	<u>5,279</u>	<u>11,679</u>	<u>(5,169)</u>	<u>18,058</u>
PROPERTY AND EQUIPMENT:					
Land	25,600	67,500	297,500	152,000	542,600
Buildings and improvements	698,748	1,371,583	1,277,537	5,945,187	9,293,055
Furniture and equipment	67,682	39,769	68,061	141,328	316,840
	<u>792,030</u>	<u>1,478,852</u>	<u>1,643,098</u>	<u>6,238,515</u>	<u>10,152,495</u>
Less - accumulated depreciation	478,720	500,013	324,628	2,680,552	3,983,913
Net property and equipment	<u>313,310</u>	<u>978,839</u>	<u>1,318,470</u>	<u>3,557,963</u>	<u>6,168,582</u>
OTHER ASSETS:					
Reserves and deposits	3,991	18,328	50,846	328,919	402,084
Due to affiliates	(54,549)	(71,252)	(188,090)	-	(313,891)
Financing fees, net	-	2,139	48,729	-	50,868
Total other assets	<u>(50,558)</u>	<u>(50,785)</u>	<u>(88,515)</u>	<u>328,919</u>	<u>139,061</u>
Total assets	<u>\$ 269,021</u>	<u>\$ 933,333</u>	<u>\$ 1,241,634</u>	<u>\$ 3,881,713</u>	<u>\$ 6,325,701</u>
<u>LIABILITIES AND ENTITIES' EQUITY (DEFICIT)</u>					
CURRENT LIABILITIES:					
Current portion of long-term debt	\$ -	\$ 76,357	\$ -	\$ -	\$ 76,357
Accounts payable and accrued expenses	6,293	6,909	9,870	29,567	52,639
Funds held in trust	-	-	-	11,397	11,397
Total current liabilities	<u>6,293</u>	<u>83,266</u>	<u>9,870</u>	<u>40,964</u>	<u>140,393</u>
OTHER LIABILITIES:					
Long-term debt, net of current portion	72,731	-	-	-	72,731
Contingent debt	-	775,000	1,375,000	600,000	2,750,000
Notes payable and deferred interest - affiliates	-	-	-	2,406,727	2,406,727
Deferred interest	-	-	-	435,959	435,959
Developer and overhead fees payable and deferred interest	-	388,599	-	-	388,599
Total other liabilities	<u>72,731</u>	<u>1,163,599</u>	<u>1,375,000</u>	<u>3,442,686</u>	<u>6,054,016</u>
Total liabilities	<u>79,024</u>	<u>1,246,865</u>	<u>1,384,870</u>	<u>3,483,650</u>	<u>6,194,409</u>
ENTITIES' EQUITY (DEFICIT):					
Unrestricted:					
Operating	(54,573)	(72,882)	(186,281)	(46,133)	(359,869)
Property and equipment	244,570	(240,650)	43,045	444,196	491,161
Total unrestricted	<u>189,997</u>	<u>(313,532)</u>	<u>(143,236)</u>	<u>398,063</u>	<u>131,292</u>
Temporarily restricted					
Total entities' equity (deficit)	<u>189,997</u>	<u>(313,532)</u>	<u>(143,236)</u>	<u>398,063</u>	<u>131,292</u>
Total liabilities and entities' equity (deficit)	<u>\$ 269,021</u>	<u>\$ 933,333</u>	<u>\$ 1,241,634</u>	<u>\$ 3,881,713</u>	<u>\$ 6,325,701</u>

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, net	-	-	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	8,198	11,574	32,181	58,679
Funds held in trust	-	-	-	11,249	11,249
Total current liabilities	<u>6,726</u>	<u>18,593</u>	<u>17,171</u>	<u>43,430</u>	<u>85,920</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 - affiliate	-	-	-	2,254,762	2,254,762
Deferred interest	-	-	-	410,959	410,959
Developer and overhead fees payable and deferred interest	-	366,603	-	-	366,603
Total other liabilities	<u>72,731</u>	<u>1,217,780</u>	<u>1,518,378</u>	<u>3,265,721</u>	<u>6,074,610</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)	(54,660)	(34,297)	(10,608)	(163,966)
Property and equipment	268,702	(195,719)	(65,520)	636,912	644,375
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 ACTIVITIES -
NON-SYNDICATED RENTAL PROPERTIES
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<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	\$ 90,868	\$ 110,434	\$ 130,854	\$ 650,420	\$ 982,576
Investment income	3	4	5	319	331
Net assets released from purpose restrictions	<u>858</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>858</u>
Total operating revenues	<u>91,729</u>	<u>110,438</u>	<u>130,859</u>	<u>650,739</u>	<u>983,765</u>
OPERATING EXPENSES:					
Housing and supportive services	81,901	114,999	126,883	552,260	876,043
General and administration	<u>14,669</u>	<u>20,972</u>	<u>24,110</u>	<u>97,118</u>	<u>156,869</u>
Total operating expenses before depreciation and amortization	96,570	135,971	150,993	649,378	1,032,912
Depreciation and amortization	<u>24,132</u>	<u>36,596</u>	<u>47,395</u>	<u>149,755</u>	<u>257,878</u>
Total operating expenses	<u>120,702</u>	<u>172,567</u>	<u>198,388</u>	<u>799,133</u>	<u>1,290,790</u>
Changes in unrestricted net assets from operations	(28,973)	(62,129)	(67,529)	(148,394)	(307,025)
OTHER EXPENSES:					
Interest on deferred debt	<u>-</u>	<u>(21,996)</u>	<u>-</u>	<u>(176,965)</u>	<u>(198,961)</u>
Changes in unrestricted net assets	<u>(28,973)</u>	<u>(84,125)</u>	<u>(67,529)</u>	<u>(325,359)</u>	<u>(505,986)</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:					
Net assets released from restrictions	<u>(858)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(858)</u>
Changes in temporarily restricted net assets	<u>(858)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(858)</u>
Changes in net assets	<u>\$ (29,831)</u>	<u>\$ (84,125)</u>	<u>\$ (67,529)</u>	<u>\$ (325,359)</u>	<u>\$ (506,844)</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
Other	-	299	930	3,179	4,408
Investment income	72	14	20	687	793
Net assets released from purpose restrictions	-	-	22,000	-	22,000
Total operating revenues	<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
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
Total operating expenses	<u>122,129</u>	<u>167,176</u>	<u>188,361</u>	<u>773,944</u>	<u>1,251,610</u>
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)
Changes in unrestricted net assets	<u>(35,320)</u>	<u>(77,159)</u>	<u>(53,184)</u>	<u>(294,915)</u>	<u>(460,578)</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:					
Net assets released from restrictions	-	-	(22,000)	-	(22,000)
Changes in temporarily restricted net assets	-	-	(22,000)	-	(22,000)
Changes in net assets	<u>\$ (35,320)</u>	<u>\$ (77,159)</u>	<u>\$ (75,184)</u>	<u>\$ (294,915)</u>	<u>\$ (482,578)</u>