

HEARTH, INC. AND AFFILIATES

**CONSOLIDATING FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

HEARTH, INC. AND AFFILIATES

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December 31, 2014 and 2013

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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, 2014 and 2013, and the related consolidating statements of activities, changes in entities' equity, 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 above present fairly, in all material respects, the consolidating financial position of Hearth, Inc. and Affiliates as of December 31, 2014 and 2013, and the changes in their entities' equity 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 31 through 34 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, Brown, Fenning & Co., P.C.

Boston, Massachusetts
April 29, 2015

HEARTH, INC. AND AFFILIATES

Consolidating Statement of Financial Position
 December 31, 2014
 (With Summarized Comparative Totals as of December 31, 2013)

	2014							2013		
	Hearth, Inc.			Non-Syndicated Rental Properties (Exhibit A)	Eliminations	Sub-Total	HOLP	Eliminations	Total	Total
Assets	Operating	Real Estate Development	Property Management							
Current Assets:										
Cash and cash equivalents	\$ 1,117,779	\$ -	\$ -	\$ 373,574	\$ -	\$ 1,491,353	\$ 78,295	\$ -	\$ 1,569,648	\$ 1,724,092
Funds held in trust	80,503	-	-	11,589	-	92,092	14,390	-	106,482	96,870
Current portion of accounts and pledges receivable, net	333,675	-	-	4,414	-	338,089	1,354	-	339,443	574,346
Prepaid expenses and deposits	52,045	-	1,390	13,621	-	67,056	32,815	-	99,871	101,828
Current portion of due (to) from affiliates, net	94,370	-	-	(30,563)	-	63,807	12,937	-	76,744	102,626
Current portion of reserves and deposits	-	-	-	-	-	-	60,595	-	60,595	59,479
Total current assets	1,678,372	-	1,390	372,635	-	2,052,397	200,386	-	2,252,783	2,659,241
Property and Equipment:										
Land	-	-	-	542,600	-	542,600	1,140,806	-	1,683,406	1,683,406
Buildings and improvements	190,756	-	-	9,329,101	(1,321,174)	8,198,683	13,896,188	(2,195,094)	19,899,777	19,863,731
Furniture and equipment	589,799	-	-	319,439	-	909,238	241,134	-	1,150,372	1,130,784
	780,555	-	-	10,191,140	(1,321,174)	9,650,521	15,278,128	(2,195,094)	22,733,555	22,677,921
Less - accumulated depreciation	670,302	-	-	4,240,239	(792,596)	4,117,945	1,134,726	(180,418)	5,072,253	4,463,638
Net property and equipment	110,253	-	-	5,950,901	(528,578)	5,532,576	14,143,402	(2,014,676)	17,661,302	18,214,283
Other Assets:										
Accounts and pledges receivable, net of current portion	-	-	-	-	-	-	-	-	-	81,046
Reserves and deposits, net of current portion	-	-	-	455,381	-	455,381	767,614	-	1,222,995	1,144,940
Investments	750,162	-	-	-	-	750,162	-	-	750,162	311,267
Due (to) from affiliates, net of current portion	81,766	356,499	414,087	(386,089)	-	466,263	-	-	466,263	497,492
Investments in affiliates	-	291,942	-	-	(240,000)	51,942	-	(51,942)	-	-
Financing fees, net	-	-	-	48,227	-	48,227	126,458	-	174,685	185,377
Total other assets	831,928	648,441	414,087	117,519	(240,000)	1,771,975	894,072	(51,942)	2,614,105	2,220,122
Total assets	\$ 2,620,553	\$ 648,441	\$ 415,477	\$ 6,441,055	\$ (768,578)	\$ 9,356,948	\$ 15,237,860	\$ (2,066,618)	\$ 22,528,190	\$ 23,093,646
Liabilities and Entities' Equity (Deficit)										
Current Liabilities:										
Current portion of long-term and contingent debt	\$ -	\$ -	\$ -	\$ 337,177	\$ -	\$ 337,177	\$ 82,284	\$ -	\$ 419,461	\$ 131,962
Accounts payable and accrued expenses	352,257	4,106	6,624	58,801	-	421,788	38,581	-	460,369	427,675
Funds held in trust	80,503	-	-	11,589	-	92,092	14,390	-	106,482	96,870
Total current liabilities	432,760	4,106	6,624	407,567	-	851,057	135,255	-	986,312	656,507
Other Liabilities:										
Long-term debt, net of current portion	-	-	-	72,731	-	72,731	691,562	-	764,293	807,351
Contingent debt, net of current portion	-	-	-	2,412,823	-	2,412,823	6,383,471	-	8,796,294	9,158,235
Notes payable and deferred interest - affiliates	-	-	-	2,568,957	(2,568,957)	-	1,780,136	(1,780,136)	-	-
Deferred interest	-	-	-	-	-	-	-	-	-	435,959
Developer and overhead fees payable and deferred interest	-	-	-	411,916	(411,916)	-	-	-	-	-
Total other liabilities	-	-	-	5,466,427	(2,980,873)	2,485,554	8,855,169	(1,780,136)	9,560,587	10,401,545
Total liabilities	432,760	4,106	6,624	5,873,994	(2,980,873)	3,336,611	8,990,424	(1,780,136)	10,546,899	11,058,052
Entities' Equity (Deficit):										
Unrestricted:										
Operating	1,781,712	(4,106)	408,853	(83,844)	-	2,102,615	851,124	(717,431)	2,236,308	1,948,934
Board designated	107,351	-	-	-	-	107,351	-	-	107,351	107,351
Property and equipment	110,253	-	-	650,905	2,452,295	3,213,453	5,396,312	(5,396,312)	3,213,453	2,850,107
Real estate development	-	608,339	-	-	(240,000)	368,339	-	(368,339)	-	-
Total unrestricted	1,999,316	604,233	408,853	567,061	2,212,295	5,791,758	6,247,436	(6,482,082)	5,557,112	4,906,392
Temporarily restricted	188,477	40,102	-	-	-	228,579	-	-	228,579	588,134
Total Hearth entities' equity (deficit)	2,187,793	644,335	408,853	567,061	2,212,295	6,020,337	6,247,436	(6,482,082)	5,785,691	5,494,526
Non-controlling interest	-	-	-	-	-	-	-	6,195,600	6,195,600	6,541,068
Total entities' equity (deficit)	2,187,793	644,335	408,853	567,061	2,212,295	6,020,337	6,247,436	(286,482)	11,981,291	12,035,594
Total liabilities and entities' equity (deficit)	\$ 2,620,553	\$ 648,441	\$ 415,477	\$ 6,441,055	\$ (768,578)	\$ 9,356,948	\$ 15,237,860	\$ (2,066,618)	\$ 22,528,190	\$ 23,093,646

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

HEARTH, INC. AND AFFILIATES

 Consolidating Statement of Financial Position
 December 31, 2013

Assets	Hearth, Inc.				Eliminations	Sub-Total	HOLP	Eliminations	Total
	Operating	Real Estate Development	Property Management	Non-Syndicated Rental Properties (Exhibit B)					
Current Assets:									
Cash and cash equivalents	\$ 1,592,679	\$ -	\$ -	\$ 56,038	\$ -	\$ 1,648,717	\$ 75,375	\$ -	\$ 1,724,092
Funds held in trust	72,580	-	-	11,397	-	83,977	12,893	-	96,870
Current portion of accounts and pledges receivable, net	566,850	-	-	2,466	-	569,316	5,030	-	574,346
Prepaid expenses and deposits	46,676	-	1,366	20,754	-	68,796	33,032	-	101,828
Current portion of due (to) from affiliates, net	176,924	-	-	(72,597)	-	104,327	(1,701)	-	102,626
Current portion of reserves and deposits	-	-	-	-	-	-	59,479	-	59,479
Total current assets	<u>2,455,709</u>	<u>-</u>	<u>1,366</u>	<u>18,058</u>	<u>-</u>	<u>2,475,133</u>	<u>184,108</u>	<u>-</u>	<u>2,659,241</u>
Property and Equipment:									
Land	-	-	-	542,600	-	542,600	1,140,806	-	1,683,406
Buildings and improvements	190,756	-	-	9,293,055	(1,321,174)	8,162,637	13,896,188	(2,195,094)	19,863,731
Furniture and equipment	572,810	-	-	316,840	-	889,650	241,134	-	1,130,784
	763,566	-	-	10,152,495	(1,321,174)	9,594,887	15,278,128	(2,195,094)	22,677,921
Less - accumulated depreciation	648,338	-	-	3,983,913	(769,566)	3,862,685	709,204	(108,251)	4,463,638
Net property and equipment	<u>115,228</u>	<u>-</u>	<u>-</u>	<u>6,168,582</u>	<u>(551,608)</u>	<u>5,732,202</u>	<u>14,568,924</u>	<u>(2,086,843)</u>	<u>18,214,283</u>
Other Assets:									
Accounts and pledges receivable, net of current portion	81,046	-	-	-	-	81,046	-	-	81,046
Reserves and deposits, net of current portion	-	-	-	402,084	-	402,084	742,856	-	1,144,940
Investments	311,267	-	-	-	-	311,267	-	-	311,267
Due (to) from affiliates, net of current portion	95,899	382,316	333,168	(313,891)	-	497,492	-	-	497,492
Investments in affiliates	-	291,942	-	-	(240,000)	51,942	-	(51,942)	-
Financing fees, net	-	-	-	50,868	-	50,868	134,509	-	185,377
Total other assets	<u>488,212</u>	<u>674,258</u>	<u>333,168</u>	<u>139,061</u>	<u>(240,000)</u>	<u>1,394,699</u>	<u>877,365</u>	<u>(51,942)</u>	<u>2,220,122</u>
Total assets	<u>\$ 3,059,149</u>	<u>\$ 674,258</u>	<u>\$ 334,534</u>	<u>\$ 6,325,701</u>	<u>\$ (791,608)</u>	<u>\$ 9,602,034</u>	<u>\$ 15,630,397</u>	<u>\$ (2,138,785)</u>	<u>\$ 23,093,646</u>
Liabilities and Entities' Equity (Deficit)									
Current Liabilities:									
Current portion of long-term and contingent debt	\$ -	\$ -	\$ -	\$ 76,357	\$ -	\$ 76,357	\$ 55,605	\$ -	\$ 131,962
Accounts payable and accrued expenses	320,725	5,532	2,811	52,638	-	381,706	45,969	-	427,675
Funds held in trust	72,580	-	-	11,397	-	83,977	12,893	-	96,870
Total current liabilities	<u>393,305</u>	<u>5,532</u>	<u>2,811</u>	<u>140,392</u>	<u>-</u>	<u>542,040</u>	<u>114,467</u>	<u>-</u>	<u>656,507</u>
Other Liabilities:									
Long-term debt, net of current portion	-	-	-	72,731	-	72,731	734,620	-	807,351
Contingent debt, net of current portion	-	-	-	2,750,000	-	2,750,000	6,408,235	-	9,158,235
Notes payable and deferred interest - affiliates	-	-	-	2,406,728	(2,406,728)	-	1,780,136	(1,780,136)	-
Deferred interest	-	-	-	435,959	-	435,959	-	-	435,959
Developer and overhead fees payable and deferred interest	-	-	-	388,599	(388,599)	-	-	-	-
Total other liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,054,017</u>	<u>(2,795,327)</u>	<u>3,258,690</u>	<u>8,922,991</u>	<u>(1,780,136)</u>	<u>10,401,545</u>
Total liabilities	<u>393,305</u>	<u>5,532</u>	<u>2,811</u>	<u>6,194,409</u>	<u>(2,795,327)</u>	<u>3,800,730</u>	<u>9,037,458</u>	<u>(1,780,136)</u>	<u>11,058,052</u>
Entities' Equity (Deficit):									
Unrestricted:									
Operating	1,898,533	(5,532)	331,723	(359,868)	-	1,864,856	826,171	(742,093)	1,948,934
Board designated	107,351	-	-	-	-	107,351	-	-	107,351
Property and equipment	115,228	-	-	491,160	2,243,719	2,850,107	5,766,768	(5,766,768)	2,850,107
Real estate development	-	630,856	-	-	(240,000)	390,856	-	(390,856)	-
Total unrestricted	<u>2,121,112</u>	<u>625,324</u>	<u>331,723</u>	<u>131,292</u>	<u>2,003,719</u>	<u>5,213,170</u>	<u>6,592,939</u>	<u>(6,899,717)</u>	<u>4,906,392</u>
Temporarily restricted	544,732	43,402	-	-	-	588,134	-	-	588,134
Total Hearth entities' equity (deficit)	<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>
Non-controlling interest	-	-	-	-	-	-	-	6,541,068	6,541,068
Total entities' equity (deficit)	<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>(358,649)</u>	<u>12,035,594</u>
Total liabilities and entities' equity (deficit)	<u>\$ 3,059,149</u>	<u>\$ 674,258</u>	<u>\$ 334,534</u>	<u>\$ 6,325,701</u>	<u>\$ (791,608)</u>	<u>\$ 9,602,034</u>	<u>\$ 15,630,397</u>	<u>\$ (2,138,785)</u>	<u>\$ 23,093,646</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, 2014
 (With Summarized Comparative Totals for the Year Ended December 31, 2013)

	2014							2013		
	Hearth, Inc.			Non-Syndicated Rental Properties (Exhibit C)	Eliminations	Sub-Total	HOLP	Eliminations	Total	Total
	Operating	Real Estate Development	Property Management							
Changes in Unrestricted Net Assets:										
Operating Revenues:										
Fee income and other revenue:										
Rental fees, net	\$ -	\$ -	\$ -	\$ 1,278,355	\$ (34,136)	\$ 1,244,219	\$ 858,727	\$ -	\$ 2,102,946	\$ 1,789,847
Program revenues	1,463,373	-	-	-	-	1,463,373	-	-	1,463,373	1,522,755
Government grants and other contracts	942,898	-	-	-	-	942,898	-	-	942,898	978,208
Management and service fees	106,435	-	148,507	-	(136,097)	118,845	-	-	118,845	117,389
Other	31,853	-	-	-	-	31,853	-	-	31,853	25,863
Investment income	10,354	-	-	3,299	-	13,653	3,065	-	16,718	10,369
Net fee income and other revenue	2,554,913	-	148,507	1,281,654	(170,233)	3,814,841	861,792	-	4,676,633	4,444,431
Support revenue:										
Private grants, contributions and special events, net	448,544	-	-	-	-	448,544	-	-	448,544	609,773
Net assets released from purpose restrictions	227,031	-	-	-	-	227,031	-	-	227,031	213,708
Net assets released from time restrictions	175,000	-	-	-	-	175,000	-	-	175,000	-
Donated goods and services	16,670	-	-	-	-	16,670	-	-	16,670	21,363
Net support revenue	867,245	-	-	-	-	867,245	-	-	867,245	844,844
Total operating revenues	3,422,158	-	148,507	1,281,654	(170,233)	4,682,086	861,792	-	5,543,878	5,289,275
Operating Expenses:										
Outreach	496,040	-	-	-	-	496,040	-	-	496,040	501,302
Housing and supportive services	2,207,556	28,851	-	837,331	(170,233)	2,903,505	729,673	-	3,633,178	3,716,254
Property management	-	-	71,377	-	-	71,377	-	-	71,377	76,731
General and administration	406,504	4,091	10,122	155,468	-	576,185	-	-	576,185	575,542
Institutional advancement	271,612	-	-	-	-	271,612	-	-	271,612	230,647
Total operating expenses before depreciation and amortization	3,381,712	32,942	81,499	992,799	(170,233)	4,318,719	729,673	-	5,048,392	5,100,476
Depreciation and amortization	21,964	-	-	258,967	(23,030)	257,901	433,573	(72,167)	619,307	612,463
Total operating expenses	3,403,676	32,942	81,499	1,251,766	(193,263)	4,576,620	1,163,246	(72,167)	5,667,699	5,712,939
Changes in unrestricted net assets from operations	18,482	(32,942)	67,008	29,888	23,030	105,466	(301,454)	72,167	(123,821)	(423,664)
Other Revenues (Expenses):										
Forgiveness of deferred interest	-	-	-	460,959	-	460,959	-	-	460,959	-
Predevelopment and capital grants	20,335	-	-	-	-	20,335	-	-	20,335	47,780
Net assets released from capital restrictions	-	3,300	-	-	-	3,300	-	-	3,300	7,830
Unrealized gain (loss) on investments	2,664	-	-	-	-	2,664	-	-	2,664	(3,888)
Incentive management and tax credit compliance fees	44,049	-	-	-	-	44,049	(44,049)	-	-	-
General partner operating expenses	-	(1,670)	-	-	-	(1,670)	-	-	(1,670)	(2,106)
Interest on deferred debt	-	-	-	(210,546)	185,546	(25,000)	-	-	(25,000)	(25,000)
Change in discount of affiliate advances	(31,515)	-	-	-	-	(31,515)	-	-	(31,515)	20,519
Total other revenues (expenses)	35,533	1,630	-	250,413	185,546	473,122	(44,049)	-	429,073	45,135
Changes in unrestricted net assets	54,015	(31,312)	67,008	280,301	208,576	578,588	(345,503)	72,167	305,252	(378,529)
Changes in Temporarily Restricted Net Assets:										
Grants	45,776	-	-	-	-	45,776	-	-	45,776	448,454
Net assets released from restrictions	(402,031)	(3,300)	-	-	-	(405,331)	-	-	(405,331)	(221,538)
Changes in temporarily restricted net assets	(356,255)	(3,300)	-	-	-	(359,555)	-	-	(359,555)	226,916
Changes in net assets	(302,240)	(34,612)	67,008	280,301	208,576	219,033	(345,503)	72,167	(54,303)	(151,613)
Changes in Net Assets Attributable to Non-Controlling Interest										
Changes in net assets attributable to Hearth	\$ (302,240)	\$ (34,612)	\$ 67,008	\$ 280,301	\$ 208,576	\$ 219,033	\$ (35)	\$ 72,167	\$ 291,165	\$ 195,545

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

	Hearth, Inc.			Non-Syndicated Rental Properties (Exhibit D)	Eliminations	Sub-Total	HOLP	Eliminations	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
Program revenues	1,522,755	-	-	-	-	1,522,755	-	-	1,522,755
Government grants and other contracts	978,208	-	-	-	-	978,208	-	-	978,208
Management and service fees	104,979	-	133,550	-	(121,140)	117,389	-	-	117,389
Other	25,863	-	-	-	-	25,863	-	-	25,863
Investment income	8,813	-	-	331	-	9,144	1,225	-	10,369
Net fee income and other revenue	2,640,618	-	133,550	982,907	(154,281)	3,602,794	841,637	-	4,444,431
Support revenue:									
Private grants, contributions and special events, net	609,773	-	-	-	-	609,773	-	-	609,773
Net assets released from purpose restrictions	171,747	41,103	-	858	-	213,708	-	-	213,708
Donated goods and services	21,363	-	-	-	-	21,363	-	-	21,363
Net support revenue	802,883	41,103	-	858	-	844,844	-	-	844,844
Total operating revenues	3,443,501	41,103	133,550	983,765	(154,281)	4,447,638	841,637	-	5,289,275
Operating Expenses:									
Outreach	501,302	-	-	-	-	501,302	-	-	501,302
Housing and supportive services	2,221,061	60,939	-	876,043	(154,281)	3,003,762	712,492	-	3,716,254
Property management	-	-	76,731	-	-	76,731	-	-	76,731
General and administration	399,628	8,430	10,615	156,869	-	575,542	-	-	575,542
Institutional advancement	230,647	-	-	-	-	230,647	-	-	230,647
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
Depreciation and amortization	16,209	-	-	257,878	(23,030)	251,057	433,573	(72,167)	612,463
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
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)
Other Revenues (Expenses):									
Predevelopment and capital grants	42,740	5,040	-	-	-	47,780	-	-	47,780
Net assets released from capital restrictions	7,830	-	-	-	-	7,830	-	-	7,830
Unrealized loss on investments	(3,888)	-	-	-	-	(3,888)	-	-	(3,888)
Incentive management and tax credit compliance fees	42,765	-	-	-	-	42,765	(42,765)	-	-
General partner operating expenses	-	(2,106)	-	-	-	(2,106)	-	-	(2,106)
Interest on deferred debt	-	-	-	(198,961)	173,961	(25,000)	-	-	(25,000)
Change in discount of affiliate advances	20,519	-	-	-	-	20,519	-	-	20,519
Total other revenues (expenses)	109,966	2,934	-	(198,961)	173,961	87,900	(42,765)	-	45,135
Changes in unrestricted net assets	184,620	(25,332)	46,204	(505,986)	196,991	(103,503)	(347,193)	72,167	(378,529)
Changes in Temporarily Restricted Net Assets:									
Grants	438,493	9,961	-	-	-	448,454	-	-	448,454
Net assets released from restrictions	(179,577)	(41,103)	-	(858)	-	(221,538)	-	-	(221,538)
Changes in temporarily restricted net assets	258,916	(31,142)	-	(858)	-	226,916	-	-	226,916
Changes in net assets	443,536	(56,474)	46,204	(506,844)	196,991	123,413	(347,193)	72,167	(151,613)
Changes in Net Assets Attributable to Non-Controlling Interest									
Changes in net assets attributable to Hearth	\$ 443,536	\$ (56,474)	\$ 46,204	\$ (506,844)	\$ 196,991	\$ 123,413	\$ (35)	\$ 72,167	\$ 195,545

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

HEARTH, INC. AND AFFILIATES

Consolidating Statements of Changes in Entities' Equity
For the Years Ended December 31, 2014 and 2013

	<u>Hearth, Inc.</u>			Non-Syndicated Rental Properties	Eliminations	Sub- Total	HOLP	Eliminations	Total	Non- Controlling Interest	Total
	Operating	Real Estate Development	Property Management								
Entities' Equity, 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, December 31, 2013	2,665,844	668,726	331,723	131,292	2,003,719	5,801,304	6,592,939	(6,899,717)	5,494,526	6,541,068	12,035,594
Changes in net assets	(302,240)	(34,612)	67,008	280,301	208,576	219,033	(345,503)	417,635	291,165	(345,468)	(54,303)
Transfers	<u>(175,811)</u>	<u>10,221</u>	<u>10,122</u>	<u>155,468</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Entities' Equity, December 31, 2014	<u>\$ 2,187,793</u>	<u>\$ 644,335</u>	<u>\$ 408,853</u>	<u>\$ 567,061</u>	<u>\$ 2,212,295</u>	<u>\$ 6,020,337</u>	<u>\$ 6,247,436</u>	<u>\$ (6,482,082)</u>	<u>\$ 5,785,691</u>	<u>\$ 6,195,600</u>	<u>\$ 11,981,291</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, 2014

	<u>Hearth</u>	<u>HOLP</u>	<u>Eliminations</u>	<u>Total</u>
Cash Flows from Operating Activities:				
Changes in net assets	\$ 219,033	\$ (345,503)	\$ 72,167	\$ (54,303)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:				
Depreciation and amortization	257,901	433,573	(72,167)	619,307
Forgiveness of deferred interest	(460,959)	-	-	(460,959)
Predevelopment and capital grants	(20,335)	-	-	(20,335)
Change in discount of affiliate advances	31,515	-	-	31,515
Interest on deferred debt	25,000	-	-	25,000
Unrealized gain on investments	(2,664)	-	-	(2,664)
Bad debt	1,946	1,210	-	3,156
Changes in operating assets and liabilities:				
Accounts and pledges receivable	310,327	2,466	-	312,793
Reserves and deposits	-	(1,116)	-	(1,116)
Prepaid expenses and deposits	1,740	217	-	1,957
Due from affiliates	25,596	-	-	25,596
Accounts payable and accrued expenses	26,040	(7,388)	-	18,652
Net cash provided by operating activities	<u>415,140</u>	<u>83,459</u>	<u>-</u>	<u>498,599</u>
Cash Flows from Investing Activities:				
Deposits to and interest earned on reserves and deposits	(53,297)	(24,758)	-	(78,055)
Acquisition of property and equipment	(41,592)	-	-	(41,592)
Purchases of investments	(436,231)	-	-	(436,231)
Net cash used in investing activities	<u>(531,120)</u>	<u>(24,758)</u>	<u>-</u>	<u>(555,878)</u>
Cash Flows from Financing Activities:				
Principal payments of long-term debt	(76,357)	(41,143)	-	(117,500)
Receipt (payment) on advances due to affiliates	14,638	(14,638)	-	-
Predevelopment and capital grants received	20,335	-	-	20,335
Net cash used in financing activities	<u>(41,384)</u>	<u>(55,781)</u>	<u>-</u>	<u>(97,165)</u>
Net Change in Cash and Cash Equivalents	<u>(157,364)</u>	<u>2,920</u>	<u>-</u>	<u>(154,444)</u>
Cash and Cash Equivalents:				
Beginning of year	<u>1,648,717</u>	<u>75,375</u>	<u>-</u>	<u>1,724,092</u>
End of year	<u>\$ 1,491,353</u>	<u>\$ 78,295</u>	<u>\$ -</u>	<u>\$ 1,569,648</u>
Supplemental Disclosure of Non-Cash Transactions:				
Forgiveness of deferred interest	<u>\$ 460,959</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 460,959</u>
Cash paid for interest	<u>\$ 3,443</u>	<u>\$ 34,590</u>	<u>\$ -</u>	<u>\$ 38,033</u>
Property and equipment financed through accounts payable	<u>\$ 14,042</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,042</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>Eliminations</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)
Reserves and deposits	-	(32,507)	-	(32,507)
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>86,686</u>	<u>-</u>	<u>112,882</u>
Cash Flows from Investing Activities:				
Withdrawals from (deposits to and interest earned) on reserves and deposits	(51,613)	3,004	-	(48,609)
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>3,004</u>	<u>(800,000)</u>	<u>(140,771)</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 Change 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>
End of year	<u>\$ 1,648,717</u>	<u>\$ 75,375</u>	<u>\$ -</u>	<u>\$ 1,724,092</u>
Supplemental Disclosure of Non-Cash Transactions:				
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 Functional Expenses
For the Year Ended December 31, 2014

	Program Services						Support Services						Eliminations	Sub-Total	HOLP	Eliminations	Total		
	Housing and Supportive Services						General and Admins-tration	Institutional Advancement	Total Support Services	Eliminations	Sub-Total	HOLP						Eliminations	Total
	Outreach	Hearth	Real Estate Development	Non-Syndicated Rental Properties	Total	Property Management													
Expenses:																			
Personnel and related:																			
Salaries	\$ 305,550	\$ 1,583,914	\$ 22,715	\$ 220,738	\$ 1,827,367	\$ 53,660	\$ 2,186,577	\$ 394,351	\$ 171,634	\$ 565,985	\$ -	\$ 2,752,562	\$ 164,633	\$ -	\$ 2,917,195				
Fringe benefits	36,886	182,966	1,677	20,662	205,305	6,175	248,366	36,196	22,694	58,890	-	307,256	48,987	-	356,243				
Payroll taxes	24,324	148,058	1,269	21,108	170,435	4,471	199,230	36,223	13,528	49,751	-	248,981	12,752	-	261,733				
Consultants and contracted services	8,975	33,401	-	-	33,401	1,189	43,565	9,854	8,105	17,959	-	61,524	-	-	61,524				
Total personnel and related	375,735	1,948,339	25,661	262,508	2,236,508	65,495	2,677,738	476,624	215,961	692,585	-	3,370,323	226,372	-	3,596,695				
Occupancy:																			
Utilities	-	412	-	166,224	166,636	-	166,636	-	-	-	-	166,636	117,111	-	283,747				
Repairs and maintenance	-	2,876	-	133,318	136,194	-	136,194	2,529	2,255	4,784	-	140,978	91,029	-	232,007				
Real estate taxes	-	-	-	54,575	54,575	-	54,575	-	-	-	-	54,575	36,033	-	90,608				
Insurance	1,464	2,060	-	26,109	28,169	1,630	31,263	-	1,464	1,464	-	32,727	31,584	-	64,311				
Mortgage interest	-	-	-	3,443	3,443	-	3,443	-	-	-	-	3,443	34,333	-	37,776				
Rent	11,948	-	-	-	-	1,707	13,655	15,361	5,120	20,481	(34,136)	-	-	-	-				
Total occupancy	13,412	5,348	-	383,669	389,017	3,337	405,766	17,890	8,839	26,729	(34,136)	398,359	310,090	-	708,449				
Other:																			
Professional fees	-	792	2,100	24,380	27,272	718	27,990	66,626	6,867	73,493	-	101,483	35,187	-	136,670				
Program supplies and client expenses	75,977	20,197	-	482	20,679	-	96,656	-	-	-	-	96,656	-	-	96,656				
Food and household supplies	1,280	85,099	-	53	85,152	-	86,432	90	-	90	-	86,522	-	-	86,522				
Resident services	-	-	-	-	-	-	-	-	-	-	-	-	84,000	-	84,000				
Office	2,706	6,077	-	9,881	15,958	846	19,510	19,799	2,923	22,722	-	42,232	13,599	-	55,831				
Miscellaneous	758	9,207	-	16,458	25,665	94	26,517	11,569	11,146	22,715	-	49,232	5,937	-	55,169				
Management and administrative fees	-	-	-	136,097	136,097	-	136,097	-	-	-	(136,097)	-	53,278	-	53,278				
Telephone	5,804	32,601	-	-	32,601	369	38,774	7,222	1,025	8,247	-	47,021	-	-	47,021				
Insurance	-	19,485	-	-	19,485	-	19,485	10,348	-	10,348	-	29,833	-	-	29,833				
Printing and copying	2,650	5,340	-	188	5,528	313	8,491	7,277	13,426	20,703	-	29,194	-	-	29,194				
Travel and training	12,096	5,472	-	-	5,472	-	17,568	11,506	-	11,506	-	29,074	-	-	29,074				
Postage	1,378	119	-	656	775	118	2,271	1,972	10,777	12,749	-	15,020	-	-	15,020				
Licenses and dues	44	6,232	1,040	1,013	8,285	87	8,416	4,956	-	4,956	-	13,372	-	-	13,372				
Meetings and events	4,175	-	-	-	-	-	4,175	1,684	648	2,332	-	6,507	-	-	6,507				
Bad debt	-	-	-	1,946	1,946	-	1,946	-	-	-	-	1,946	1,210	-	3,156				
Recruitment	25	1,720	50	-	1,770	-	1,795	150	-	150	-	1,945	-	-	1,945				
Total other	106,893	192,341	3,190	191,154	386,685	2,545	496,123	143,199	46,812	190,011	(136,097)	550,037	193,211	-	743,248				
Total expenses before allocations	496,040	2,146,028	28,851	837,331	3,012,210	71,377	3,579,627	637,713	271,612	909,325	(170,233)	4,318,719	729,673	-	5,048,392				
Direct Service Allocation	-	61,528	-	-	61,528	-	61,528	(61,528)	-	(61,528)	-	-	-	-	-				
General and Administration Allocation	70,533	313,681	4,091	155,468	473,240	10,122	553,895	(592,412)	38,517	(553,895)	-	-	-	-	-				
Total expenses before depreciation and amortization	566,573	2,521,237	32,942	992,799	3,546,978	81,499	4,195,050	(16,227)	310,129	293,902	(170,233)	4,318,719	729,673	-	5,048,392				
Depreciation and Amortization	1,331	4,406	-	258,967	263,373	-	264,704	16,227	-	16,227	(23,030)	257,901	433,573	(72,167)	619,307				
Total expenses	\$ 567,904	\$ 2,525,643	\$ 32,942	\$ 1,251,766	\$ 3,810,351	\$ 81,499	\$ 4,459,754	\$ -	\$ 310,129	\$ 310,129	\$ (193,263)	\$ 4,576,620	\$ 1,163,246	\$ (72,167)	\$ 5,667,699				

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						Eliminations	Sub-Total	HOLP	Eliminations	Total
	Outreach	Hearth	Real Estate Development	Non-Syndicated Rental Properties	Total	Property Management	Total Program Services	General and Administration	Institutional Advancement	Total Support Services							
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	377,908	1,953,066	14,796	245,486	2,213,348	69,177	2,660,433	493,789	192,961	686,750	-	3,347,183	208,709	-	3,555,892		
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	14,993	9,445	-	434,997	444,442	3,109	462,544	15,403	7,282	22,685	(33,141)	452,088	303,385	-	755,473		
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		
Program supplies and client expenses	61,690	16,710	-	29	16,739	-	78,429	-	-	-	-	78,429	-	-	78,429		
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		
Office	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		
Insurance	-	18,265	-	-	18,265	-	18,265	8,884	-	8,884	-	27,149	-	-	27,149		
Printing and copying	3,013	6,000	-	201	6,201	515	9,729	9,135	9,605	18,740	-	28,469	-	-	28,469		
Travel and training	17,302	3,910	-	35	3,945	272	21,519	8,504	483	8,987	-	30,506	-	-	30,506		
Postage	1,247	459	-	563	1,022	254	2,523	1,768	6,928	8,696	-	11,219	-	-	11,219		
Licenses and dues	75	4,805	-	1,277	6,082	89	6,246	1,074	-	1,074	-	7,320	-	-	7,320		
Meetings and events	5,493	-	-	-	-	-	5,493	2,824	1,004	3,828	-	9,321	-	-	9,321		
Bad debt	-	-	-	1,457	1,457	-	1,457	-	-	-	-	1,457	2,491	-	3,948		
Recruitment	1,036	2,148	-	-	2,148	-	3,184	1,388	95	1,483	-	4,667	-	-	4,667		
Total other	108,401	195,858	46,143	195,560	437,561	4,445	550,407	129,042	30,404	159,446	(121,140)	588,713	200,398	-	789,111		
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	\$ 571,802	\$ 2,534,164	\$ 69,369	\$ 1,290,790	\$ 3,894,323	\$ 87,346	\$ 4,553,471	\$ -	\$ 262,881	\$ 262,881	\$ (177,311)	\$ 4,639,041	\$ 1,146,065	\$ (72,167)	\$ 5,712,939		

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

HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements
December 31, 2014 and 2013

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 notes are to the FASB Accounting Standards Codification (ASC).

Principles of Consolidation

Hearth, Inc. owns controlling interests in 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 IRC 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.

Estimates

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

HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements
December 31, 2014 and 2013

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts and Pledges Receivable

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

Reserve for Uncollectible Accounts and Pledges

The reserve for uncollectible accounts and pledges 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 of \$81 at December 31, 2013. There was no allowance at December 31, 2014.

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 at December 31, 2014 and 2013. Depreciation expense, net of eliminations, during 2014 and 2013 was \$608,615 and \$601,771, 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 2014 and 2013.

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, 2014 and 2013. Accumulated amortization of financing fees is \$49,037 and \$38,345 as of December 31, 2014 and 2013, respectively. Amortization during 2014 and 2013 was \$10,692. Amortization expense for the next five years is \$10,692 per year.

HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements
December 31, 2014 and 2013

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, and management and service fees are recorded as services are provided and costs are incurred. Rental fees are recorded net of vacancies of \$40,221 and \$49,213 for 2014 and 2013, 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. 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. 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.

Donated Goods and Services

The Agency receives goods and services from various donating organizations for use in its programs. The Agency received approximately \$17,000 and \$21,000 of donated legal services and food during 2014 and 2013, 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.

HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements
December 31, 2014 and 2013

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

As described on page 11, Hearth, Inc. and its not-for-profit affiliates, Hearth Management, Inc., Hearth Beacon, Inc., and 4 Bishop Street, Inc. (see Note 2), are exempt from income taxes under Section 501(c)(3) of the IRC. Hearth, Inc. has for-profit corporate affiliates, the General Partners (see Note 2). At December 31, 2014 and 2013, the General Partners have, for Federal income tax purposes, net operating loss carryforwards of approximately \$739,000 and \$293,000, respectively, available to offset future taxable income. Also, at December 31, 2014 and 2013, the General Partners have, for state income tax purposes, net operating loss carryforwards of approximately \$460,000 and \$16,000, respectively, to offset future taxable income. These carryforwards expire at various dates through 2034. The tax benefit of the net operating loss carryforwards has been fully reserved as of December 31, 2014 and 2013, due to the uncertainty of realization.

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, 2014 and 2013. 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 accounting and disclosure standards pertaining to ASC Topic, *Fair Value Measurements*, for qualifying assets and liabilities. Fair value is defined as the price that the Agency would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants.

The Agency uses a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. This hierarchy is broken down into three levels based on inputs that market participants would use in valuing the financial instruments based on market data obtained from sources independent of the Agency. Inputs refer broadly to the assumptions that market participants would use in pricing the financial instrument, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the financial instrument developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset developed based on the best information available. The three-tier hierarchy of inputs is summarized in the three broad levels as follows:

- Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets at the measurement date.
- Level 2 - Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.
- Level 3 - Inputs that are unobservable and which require significant judgment or estimation.

HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements
December 31, 2014 and 2013

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

An 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.

Cash Equivalents

The Agency considers all short-term, highly liquid investments with an initial maturity of three months or less to be cash equivalents. Cash equivalents are considered Level 1 in the fair value hierarchy.

Investments

Investments are recorded in the consolidating financial statements at fair value. If an investment is directly held by the Agency and an active market with quoted prices exists, the market price of an identical security is used to report fair value. Reported fair values of shares in mutual and exchange traded funds are based on share prices reported by the funds as of the last business day of the year. Investments are valued using Level 1 inputs as of December 31, 2014 and 2013.

All Other Assets and Liabilities

The carrying value of all other assets and liabilities, including long-term debt and contingent debt, does not differ materially from its estimated fair value and are considered Level 1 in the fair value hierarchy.

Subsequent Events

Subsequent events have been evaluated through April 29, 2015, which is the date the consolidating financial statements were available to be issued. Events that met the criteria for subsequent event disclosure have been disclosed in Note 13.

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 net assets represent 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, 2014 and 2013

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>2014</u>	<u>2013</u>
Restricted for programs	\$ 171,712	\$ 365,625
Restricted for real estate development activities	40,102	43,402
Restricted for equipment and maintenance	16,765	4,107
Time restricted	<u>-</u>	<u>175,000</u>
Total temporarily restricted net assets	<u>\$ 228,579</u>	<u>\$ 588,134</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. Hearst, Inc. owns 79% of the outstanding shares of the common stock of CEC.

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

NCS Ruggles, Inc. (NCS) is a Massachusetts corporation and has a 0.1% interest in the capital, income, losses, and cash flow of Ruggles Assisted Living Limited Partnership (Ruggles) (see page 19), as its general partner. Hearst, Inc. owns 50% of the outstanding shares of the common stock of NCS. Hearst, 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. Hearst, Inc. appoints all of Hearst Mgmt.'s Board of Directors. Hearst Mgmt. provides property management services to the Non-Syndicated Rental Properties and Ruggles.

HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements
December 31, 2014 and 2013

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. Hearth, Inc. holds a 99% interest in the capital, income, losses, and cash flow of ECLP.

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. Deferred interest expense on the developer fee payable was \$23,317 and \$21,996 for 2014 and 2013, 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.

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

	<u>2014</u>	<u>2013</u>
Beacon - developer fee	\$ 166,700	\$ 166,700
Accrued interest	<u>245,216</u>	<u>221,899</u>
	411,916	388,599
Less - reserve	<u>411,916</u>	<u>388,599</u>
	<u>\$ -</u>	<u>\$ -</u>

HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements
December 31, 2014 and 2013

2. AFFILIATES AND RELATED PARTY TRANSACTIONS (Continued)

RELATED PARTY TRANSACTIONS (Continued)

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 2014 and 2013, 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 2014 and 2013 was \$162,229 and \$151,965, respectively. The notes receivable and accrued interest that have been fully reserved in the accompanying consolidating financial statements consist of the following at December 31:

	<u>2014</u>		<u>2013</u>	
	<u>Principal</u>	<u>Accrued Interest</u>	<u>Principal</u>	<u>Accrued Interest</u>
ECLP - Linkage (see Note 9)	\$ 335,213	\$ 834,285	\$ 335,213	\$ 757,776
ECLP - Acquisition	320,000	714,013	320,000	652,201
ECLP - Foundations	99,260	266,186	99,260	242,278
HOLP - Sponsor loans	<u>1,780,136</u>	<u>-</u>	<u>1,780,136</u>	<u>-</u>
	2,534,609	1,814,484	2,534,609	1,652,255
Less - reserve	<u>2,534,609</u>	<u>1,814,484</u>	<u>2,534,609</u>	<u>1,652,255</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.

HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements
December 31, 2014 and 2013

2. AFFILIATES AND RELATED PARTY TRANSACTIONS (Continued)

RELATED PARTY TRANSACTIONS (Continued)

Personnel, Management and Service Fees (Continued)

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 2014 and 2013.

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.

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.

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

<u>2014</u>	<u>Hearth, Inc.</u>	<u>Hearth Manage- ment</u>	<u>Ruggles</u>	<u>Non- Syndicated</u>	<u>HOLP</u>	<u>Total</u>
Personnel and related	<u>\$ -</u>	<u>\$ 64,306</u>	<u>\$ 147,435</u>	<u>\$ 262,508</u>	<u>\$ -</u>	<u>\$ 474,249</u>
Management fees	\$ -	\$ -	\$ 82,189	\$ 72,824	\$ -	\$ 155,013
Administrative fees	-	-	-	63,273	-	63,273
Incentive management and tax credit compliance fees	-	-	-	-	44,049	44,049
Rent	34,136	-	-	-	-	34,136
Interest expense	-	-	23,431	-	-	23,431
Service provider fee	-	-	<u>21,636</u>	-	-	<u>21,636</u>
Sub-total	<u>\$ 34,136</u>	<u>\$ -</u>	<u>\$ 127,256</u>	<u>\$ 136,097</u>	<u>\$ 44,049</u>	341,538
Less - eliminations						<u>214,282</u>
Total						<u>\$ 127,256</u>

HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements
December 31, 2014 and 2013

2. AFFILIATES AND RELATED PARTY TRANSACTIONS (Continued)

RELATED PARTY TRANSACTIONS (Continued)

Personnel, Management and Service Fees (Continued)

<u>2013</u>	<u>Hearth, Inc.</u>	<u>Hearth Manage- ment</u>	<u>Ruggles</u>	<u>Non- Syndicated</u>	<u>HOLP</u>	<u>Total</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	\$ 33,141	\$ -	\$ 126,113	\$ 121,140	\$ 42,765	323,159
Less - eliminations						<u>197,046</u>
Total						<u>\$ 126,113</u>

Due (To) From Affiliates

ECLP owes \$29,545 and \$72,597 to Hearth, Inc. at December 31, 2014 and 2013, respectively, which is 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 2015.

Hearth, Inc. is owed the following amounts noted on page 21 from Ruggles at December 31, 2014, which are included in due (to) from affiliates, net in the accompanying consolidating statement of financial position. During 2014 and 2013, Hearth, Inc. received approximately \$103,000 and \$105,000, respectively, of these amounts from Ruggles' 2014 and 2013 available cash flows. Hearth, Inc. expects to receive approximately \$77,000 in 2015 from Ruggles' 2015 available cash flow. Based on cash flow projections, Ruggles expects to repay Hearth, Inc. between \$2,600 and \$77,000 annually from 2015 through 2061. This receivable has been discounted using a 2% rate.

Hearth, Inc. is owed \$44,049 and \$58,687 from HOLP at December 31, 2014 and 2013, respectively, 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, 2014 and 2013

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:

	2014			Total
	<u>Ruggles</u>	<u>ECLP</u>	<u>HOLP</u>	
Gross receivable	\$ 796,671	\$ 29,545	\$ 44,049	\$ 870,265
Less - discount	<u>253,664</u>	<u>-</u>	<u>-</u>	<u>253,664</u>
	<u>\$ 543,007</u>	<u>\$ 29,545</u>	<u>\$ 44,049</u>	616,601
Less - elimination of ECLP and HOLP				<u>73,594</u>
				543,007
Less - current portion				<u>76,744</u>
				<u>\$ 466,263</u>
	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>

Guaranties and Obligations

HOM is obligated to lend HOLP approximately twelve months of operating expenses, not to exceed \$728,692, to fund any operating deficits upon commencement of operations and achievement of three consecutive months of minimum debt service coverage, as defined in the partnership agreement. Repayment of the loan will be calculated based on net operating income.

Purchase Option

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, negotiation or a formula defined in HOLP's partnership agreement.

HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements
December 31, 2014 and 2013

2. AFFILIATES AND RELATED PARTY TRANSACTIONS (Continued)

RELATED PARTY TRANSACTIONS (Continued)

Investments in Affiliates

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

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 \$15,000 and \$20,000 in 2014 and 2013, respectively (see page 13).

3. RESERVES AND DEPOSITS

Restricted deposits are for rental property activities and consist of the following at December 31:

	<u>2014</u>		
	<u>Non-Syndicated Rental Properties</u>	<u>HOLP</u>	<u>Total</u>
Operating and investor services reserves	\$ -	\$ 703,709	\$ 703,709
Replacement reserves	455,381	63,905	519,286
Insurance and real estate tax escrow	-	60,595	60,595
	<u>455,381</u>	<u>828,209</u>	<u>1,283,590</u>
Less - current portion	<u>-</u>	<u>60,595</u>	<u>60,595</u>
	<u>\$ 455,381</u>	<u>\$ 767,614</u>	<u>\$ 1,222,995</u>
	<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	<u>-</u>	<u>59,479</u>	<u>59,479</u>
	<u>\$ 402,084</u>	<u>\$ 742,856</u>	<u>\$ 1,144,940</u>

HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements
December 31, 2014 and 2013

4. ACCOUNTS AND PLEDGES RECEIVABLE

Included in accounts and pledges receivable are the following pledges at December 31, 2014 and 2013, which are expected to be collected as follows:

	<u>2014</u>	<u>2013</u>
Less than one year	\$ 119,387	\$ 317,613
One to two years	-	<u>81,046</u>
	<u>119,387</u>	398,659
Less - current portion	<u>119,387</u>	<u>317,613</u>
Long-term accounts and pledges receivable, net	<u>\$ -</u>	<u>\$ 81,046</u>

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

5. INVESTMENTS

Investments consist of the following at December 31:

	<u>2014</u>	<u>2013</u>
Fixed income mutual fund	\$ 327,234	\$ 311,267
Insured deposit account	250,703	-
Exchange traded funds	<u>172,225</u>	<u>-</u>
	<u>\$ 750,162</u>	<u>\$ 311,267</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, excluding the insured deposit account, are not insured and are subject to ongoing market fluctuations.

HEARTH, INC. AND AFFILIATESNotes to Consolidating Financial Statements
December 31, 2014 and 2013**6. LONG-TERM DEBT**

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

	<u>2014</u>	<u>2013</u>
Non-Syndicated Rental Properties		
<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 was due and made. This note was secured by a first mortgage on land and a building.	-	76,357
Plus – contingent debt due at December 31 – ECLP (see Note 7)	<u>337,177</u>	<u>-</u>
Total Non-Syndicated Rental Properties	<u>409,908</u>	<u>149,088</u>
<i>HOLP</i>		
4.5% note payable to Eastern Bank, due in monthly principal and interest installments of \$6,311, through 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.	735,169	776,312
Plus – contingent debt due at December 31 (see Note 7)	<u>38,677</u>	<u>13,913</u>
Total HOLP	<u>773,846</u>	<u>790,225</u>
Total long-term debt	1,183,754	939,313
Less - current portion (see page 25)	<u>419,461</u>	<u>131,962</u>
	<u>\$ 764,293</u>	<u>\$ 807,351</u>

HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements
December 31, 2014 and 2013

6. LONG-TERM DEBT (Continued)

Current portion of long-term debt consists of the following:

	<u>2014</u>	<u>2013</u>
CEDAC - 2014 cash flow payment - ECLP	\$ 337,177	\$ -
Eastern Bank - HOLP	43,607	41,692
CEDAC - 2014 cash flow payment - HOLP	24,764	-
CEDAC - 2013 cash flow payment - HOLP	13,913	13,913
Brookline Bank - Beacon	-	76,357
	<u>\$ 419,461</u>	<u>\$ 131,962</u>

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

2015	\$ 419,461
2016	\$ 145,611
2017	\$ 47,706
2018	\$ 49,897
2019	\$ 52,190

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, 2014 and 2013.

7. CONTINGENT DEBT

Contingent debt consists of the following at December 31:

Non-Syndicated Rental Properties	<u>2014</u>	<u>2013</u>
Beacon		
Non-interest bearing note payable to Community Economic Development Assistance Corporation (CEDAC). All unpaid principal is due in June 2029. This note is secured by a 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, 2014 and 2013. 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 first mortgage on land and a building.	<u>349,000</u>	<u>349,000</u>
Subtotal Beacon	<u>775,000</u>	<u>775,000</u>

HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements
December 31, 2014 and 2013

7. CONTINGENT DEBT (Continued)

Non-Syndicated Rental Properties (Continued)

Burroughs

Non-interest bearing note payable to CEDAC. All unpaid principal is due in August 2038. This note is secured by a shared second mortgage on land and a building. Payments are due annually from surplus cash as defined in the agreement. There were no payments due from surplus cash as of December 31, 2014 and 2013. 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.

2014 2013

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.

625,000 625,000

Subtotal Burroughs

1,375,000 1,375,000

ECLP

5% note payable to CEDAC. Interest accrued annually through December 2014. Effective December 31, 2014, this note was amended reducing the interest rate to 0% and all accrued interest of \$460,959 was forgiven as of December 31, 2014. Unpaid principal is due in July 2026. Payments are due annually from surplus cash as defined in the agreement. There were no payments due in 2014 based on 2013 cash flow. There is a payment of \$337,177 due in 2015 based on 2014 cash flow (see Note 6). 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 at December 31, 2013. 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.

100,000 100,000

Subtotal ECLP

600,000 600,000

Less - current portion included with long-term debt - ECLP

337,177 -

Total contingent debt - ECLP, net

262,823 600,000

Total Non-Syndicated Rental Properties

2,412,823 2,750,000

HEARTH, INC. AND AFFILIATESNotes to Consolidating Financial Statements
December 31, 2014 and 2013

7. CONTINGENT DEBT (Continued)

	<u>2014</u>	<u>2013</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 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. As of December 31, 2014 and 2013, payments totaling \$12,382 and \$6,957 are due to CEDAC in 2015 and 2014, respectively, based on 2014 and 2013 cash flows.	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
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.	958,989	958,989
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

HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements
December 31, 2014 and 2013

7. CONTINGENT DEBT (Continued)

	<u>2014</u>	<u>2013</u>
HOLP (Continued)		
Non-interest bearing note payable to CEDAC, with unpaid principal due in March 2042. Payments are due annually from surplus cash as defined in the agreement. CEDAC may extend the maturity date of this note 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. As of December 31, 2014 and 2013, payments totaling \$12,382 and \$6,956 are due to CEDAC in 2015 and 2014, respectively, based on 2014 and 2013 cash flows.	500,000	500,000
Non-interest bearing note payable to the City through DND's Leading the Way (LTW) program. Unpaid principal is due upon maturity in March 2042. 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.	<u>244,073</u>	<u>244,073</u>
Subtotal HOLP	6,422,148	6,422,148
Less - current portion included with long-term debt – HOLP (see Note 6)	<u>38,677</u>	<u>13,913</u>
Total contingent debt - HOLP, net	<u>6,383,471</u>	<u>6,408,235</u>
Total contingent debt, net	<u>\$ 8,796,294</u>	<u>\$ 9,158,235</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, 2014 and 2013). The line of credit is secured by substantially all assets of Hearth, Inc. There was no balance outstanding as of December 31, 2014 and 2013.

9. CONTINGENCIES

During 1995, Hearth, Inc. received \$335,213 in Linkage funds from the City that it loaned to ECLP (see page 18). Under the terms of the Linkage program, Hearth, Inc. is required to pay the City any amounts repaid by ECLP. Hearth, Inc. does not anticipate any payments from ECLP and, accordingly, Hearth, Inc. has not recorded a liability to the City in the accompanying consolidating financial statements.

HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements
December 31, 2014 and 2013

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, 2014 and 2013.

10. CONCENTRATIONS

Funding

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

Funding Source	2014		2013	
	Operating Revenues	Accounts and Pledges Receivable	Operating Revenues	Accounts and Pledges Receivable
A	30%	18%	32%	10%
B	20%	19%	21%	20%

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, 2014 and 2013, 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, 2014 and 2013

13. MANAGEMENT AND OTHER FEES

Management Fee

HOLP had 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 was for three years that began in March 2012 and was based on 5% of gross collected revenues. Effective January 1, 2015, HOLP and the Company entered into a new three-year agreement with the same terms. The agreement can be terminated by either party with thirty days written notice. The management fee earned by the Company during 2014 and 2013 was \$42,978 and \$41,957, respectively.

Effective January 1, 2015, the Company entered into three-year agreements to carry out the day-to-day operations of each of the non-syndicated rental properties. In addition, the Company also provides bookkeeping, accounting and rental management services. The agreements are based on 2.5% of gross collected revenues and can be terminated by either party with thirty days written notice.

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. HOLP incurred \$10,300 and \$10,000 during 2014 and 2013, respectively.

14. RECLASSIFICATION

Certain amounts in the 2013 consolidating financial statements have been reclassified to conform with the 2014 presentation.

HEARTH, INC. AND AFFILIATES

Supplementary Consolidating Statement of Financial Position - Non-Syndicated Rental Properties

December 31, 2014

(With Summarized Comparative Totals as of December 31, 2013)

Assets	2014				Total Non- Syndicated Rental Properties	2013 Total Non- Syndicated Rental Properties
	Bishop	Beacon	Burroughs	ECLP		
Current Assets:						
Cash and cash equivalents	\$ 3,355	\$ 6,390	\$ 3,402	\$ 360,427	\$ 373,574	\$ 56,038
Funds held in trust	-	-	-	11,589	11,589	11,397
Accounts and pledges receivable, net	913	-	50	3,451	4,414	2,466
Prepaid expenses and deposits	979	1,259	2,421	8,962	13,621	20,754
Current portion of due to affiliates	-	-	(1,018)	(29,545)	(30,563)	(72,597)
Total current assets	<u>5,247</u>	<u>7,649</u>	<u>4,855</u>	<u>354,884</u>	<u>372,635</u>	<u>18,058</u>
Property and Equipment:						
Land	25,600	67,500	297,500	152,000	542,600	542,600
Buildings and improvements	709,523	1,376,070	1,277,537	5,965,971	9,329,101	9,293,055
Furniture and equipment	67,682	39,769	68,061	143,927	319,439	316,840
	<u>802,805</u>	<u>1,483,339</u>	<u>1,643,098</u>	<u>6,261,898</u>	<u>10,191,140</u>	<u>10,152,495</u>
Less - accumulated depreciation	503,008	535,396	371,190	2,830,645	4,240,239	3,983,913
Net property and equipment	<u>299,797</u>	<u>947,943</u>	<u>1,271,908</u>	<u>3,431,253</u>	<u>5,950,901</u>	<u>6,168,582</u>
Other Assets:						
Reserves and deposits	3,992	18,482	51,265	381,642	455,381	402,084
Due to affiliates, net of current portion	(63,821)	(138,905)	(183,363)	-	(386,089)	(313,891)
Financing fees, net	-	946	47,281	-	48,227	50,868
Total other assets	<u>(59,829)</u>	<u>(119,477)</u>	<u>(84,817)</u>	<u>381,642</u>	<u>117,519</u>	<u>139,061</u>
Total assets	<u>\$ 245,215</u>	<u>\$ 836,115</u>	<u>\$ 1,191,946</u>	<u>\$ 4,167,779</u>	<u>\$ 6,441,055</u>	<u>\$ 6,325,701</u>
Liabilities and Entities' Equity (Deficit)						
Current Liabilities:						
Current portion of long-term and contingent debt	\$ -	\$ -	\$ -	\$ 337,177	\$ 337,177	\$ 76,357
Accounts payable and accrued expenses	6,363	10,243	16,561	25,634	58,801	52,638
Funds held in trust	-	-	-	11,589	11,589	11,397
Total current liabilities	<u>6,363</u>	<u>10,243</u>	<u>16,561</u>	<u>374,400</u>	<u>407,567</u>	<u>140,392</u>
Other Liabilities:						
Long-term debt, net of current portion	72,731	-	-	-	72,731	72,731
Contingent debt, net of current portion	-	775,000	1,375,000	262,823	2,412,823	2,750,000
Notes payable and deferred interest - affiliates	-	-	-	2,568,957	2,568,957	2,406,728
Deferred interest	-	-	-	-	-	435,959
Developer and overhead fees payable and deferred interest	-	411,916	-	-	411,916	388,599
Total other liabilities	<u>72,731</u>	<u>1,186,916</u>	<u>1,375,000</u>	<u>2,831,780</u>	<u>5,466,427</u>	<u>6,054,017</u>
Total liabilities	<u>79,094</u>	<u>1,197,159</u>	<u>1,391,561</u>	<u>3,206,180</u>	<u>5,873,994</u>	<u>6,194,409</u>
Entities' Equity (Deficit):						
Operating	(64,937)	(141,499)	(195,069)	317,661	(83,844)	(359,868)
Property and equipment	231,058	(219,545)	(4,546)	643,938	650,905	491,160
Total entities' equity (deficit)	<u>166,121</u>	<u>(361,044)</u>	<u>(199,615)</u>	<u>961,599</u>	<u>567,061</u>	<u>131,292</u>
Total liabilities and entities' equity (deficit)	<u>\$ 245,215</u>	<u>\$ 836,115</u>	<u>\$ 1,191,946</u>	<u>\$ 4,167,779</u>	<u>\$ 6,441,055</u>	<u>\$ 6,325,701</u>

HEARTH, INC. AND AFFILIATES

Supplementary Consolidating Statement of Financial Position - Non-Syndicated Rental Properties
December 31, 2013

Assets	Bishop	Beacon	Burroughs	ECLP	Total Non- Syndicated Rental Properties
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	6,269	5,279	11,679	(5,169)	18,058
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
	792,030	1,478,852	1,643,098	6,238,515	10,152,495
Less - accumulated depreciation	478,720	500,013	324,628	2,680,552	3,983,913
Net property and equipment	313,310	978,839	1,318,470	3,557,963	6,168,582
Other Assets:					
Reserves and deposits	3,991	18,328	50,846	328,919	402,084
Due to affiliates, net of current portion	(54,549)	(71,252)	(188,090)	-	(313,891)
Financing fees, net	-	2,139	48,729	-	50,868
Total other assets	(50,558)	(50,785)	(88,515)	328,919	139,061
Total assets	\$ 269,021	\$ 933,333	\$ 1,241,634	\$ 3,881,713	\$ 6,325,701
Liabilities and Entities' Equity (Deficit)					
Current Liabilities:					
Current portion of long-term debt	\$ -	\$ 76,357	\$ -	\$ -	\$ 76,357
Accounts payable and accrued expenses	6,293	6,909	9,870	29,566	52,638
Funds held in trust	-	-	-	11,397	11,397
Total current liabilities	6,293	83,266	9,870	40,963	140,392
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 - affiliate	-	-	-	2,406,728	2,406,728
Deferred interest	-	-	-	435,959	435,959
Developer and overhead fees payable and deferred interest	-	388,599	-	-	388,599
Total other liabilities	72,731	1,163,599	1,375,000	3,442,687	6,054,017
Total liabilities	79,024	1,246,865	1,384,870	3,483,650	6,194,409
Entities' Equity (Deficit):					
Operating	(54,573)	(72,882)	(186,281)	(46,132)	(359,868)
Property and equipment	244,570	(240,650)	43,045	444,195	491,160
Total entities' equity (deficit)	189,997	(313,532)	(143,236)	398,063	131,292
Total liabilities and entities' equity (deficit)	\$ 269,021	\$ 933,333	\$ 1,241,634	\$ 3,881,713	\$ 6,325,701

Supplementary Consolidating Statement of Activities - Non-Syndicated Rental Properties
For the Year Ended December 31, 2014
(With Summarized Comparative Totals for the Year Ended December 31, 2013)

	2014				Total Non- Syndicated Rental Properties	2013
	Bishop	Beacon	Burroughs	ECLP		Total Non- Syndicated Rental Properties
Changes in Unrestricted Net Assets:						
Operating Revenues:						
Rental fees, net	\$ 84,502	\$ 110,347	\$ 130,747	\$ 952,759	\$ 1,278,355	\$ 982,576
Investment income	-	155	419	2,725	3,299	331
Net assets released from purpose restrictions	-	-	-	-	-	858
Total operating revenues	<u>84,502</u>	<u>110,502</u>	<u>131,166</u>	<u>955,484</u>	<u>1,281,654</u>	<u>983,765</u>
Operating Expenses:						
Housing and supportive services	84,090	98,121	139,535	515,585	837,331	876,043
General and administration	<u>15,369</u>	<u>19,102</u>	<u>26,596</u>	<u>94,401</u>	<u>155,468</u>	<u>156,869</u>
Total operating expenses before depreciation and amortization	99,459	117,223	166,131	609,986	992,799	1,032,912
Depreciation and amortization	<u>24,288</u>	<u>36,576</u>	<u>48,010</u>	<u>150,093</u>	<u>258,967</u>	<u>257,878</u>
Total operating expenses	<u>123,747</u>	<u>153,799</u>	<u>214,141</u>	<u>760,079</u>	<u>1,251,766</u>	<u>1,290,790</u>
Changes in unrestricted net assets from operations	(39,245)	(43,297)	(82,975)	195,405	29,888	(307,025)
Other Expenses:						
Forgiveness of deferred interest	-	-	-	460,959	460,959	-
Interest on deferred debt	<u>-</u>	<u>(23,317)</u>	<u>-</u>	<u>(187,229)</u>	<u>(210,546)</u>	<u>(198,961)</u>
Changes in unrestricted net assets	<u>(39,245)</u>	<u>(66,614)</u>	<u>(82,975)</u>	<u>469,135</u>	<u>280,301</u>	<u>(505,986)</u>
Changes in Temporarily Restricted Net Assets:						
Net assets released from restrictions	-	-	-	-	-	(858)
Changes in temporarily restricted net assets	-	-	-	-	-	(858)
Changes in net assets	<u>\$ (39,245)</u>	<u>\$ (66,614)</u>	<u>\$ (82,975)</u>	<u>\$ 469,135</u>	<u>\$ 280,301</u>	<u>\$ (506,844)</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	858	-	-	-	858
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	14,669	20,972	24,110	97,118	156,869
Total operating expenses before depreciation and amortization	96,570	135,971	150,993	649,378	1,032,912
Depreciation and amortization	24,132	36,596	47,395	149,755	257,878
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	-	(21,996)	-	(176,965)	(198,961)
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	(858)	-	-	-	(858)
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>