

**HEARTH, INC. AND AFFILIATES**

**CONSOLIDATING FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014**

## HEARTH, INC. AND AFFILIATES

Contents  
December 31, 2015 and 2014

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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, 2015 and 2014, 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, 2015 and 2014, 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 27, 2016

**HEARTH, INC. AND AFFILIATES**

Consolidating Statement of Financial Position  
 December 31, 2015  
 (With Summarized Comparative Totals for the Year Ended December 31, 2014)

Assets	2015							2014		
	Hearth, Inc.	Real Estate Development	Property Management	Non-Syndicated Rental Properties (Exhibit A)	Eliminations	Sub-Total	HOLP	Eliminations	Total	Total
<b>Current Assets:</b>										
Cash and cash equivalents	\$ 1,189,123	\$ -	\$ -	\$ 503,580	\$ -	\$ 1,692,703	\$ 109,367	\$ -	\$ 1,802,070	\$ 1,562,066
Funds held in trust	94,496	-	-	18,331	-	112,827	13,411	-	126,238	114,064
Current portion of accounts and pledges receivable, net	461,204	-	-	9,235	-	470,439	1,164	-	471,603	339,443
Prepaid expenses and deposits	55,876	-	1,415	27,918	-	85,209	27,277	-	112,486	99,871
Current portion of due from affiliates, net	38,637	-	-	2,954	-	41,591	13,944	(13,944)	41,591	61,652
Current portion of reserves and deposits	-	-	-	-	-	-	50,901	-	50,901	60,595
Total current assets	<u>1,839,336</u>	<u>-</u>	<u>1,415</u>	<u>562,018</u>	<u>-</u>	<u>2,402,769</u>	<u>216,064</u>	<u>(13,944)</u>	<u>2,604,889</u>	<u>2,237,691</u>
<b>Property and Equipment:</b>										
Land	-	-	-	542,600	-	542,600	1,140,806	-	1,683,406	1,683,406
Buildings and improvements	190,756	-	-	9,345,611	(1,321,174)	8,215,193	13,896,188	(2,195,094)	19,916,287	19,899,777
Furniture and equipment	602,515	-	-	319,439	-	921,954	241,134	-	1,163,088	1,150,372
	793,271	-	-	10,207,650	(1,321,174)	9,679,747	15,278,128	(2,195,094)	22,762,781	22,733,555
Less - accumulated depreciation	696,404	-	-	4,495,768	(815,626)	4,376,546	1,560,248	(252,585)	5,684,209	5,072,253
Net property and equipment	<u>96,867</u>	<u>-</u>	<u>-</u>	<u>5,711,882</u>	<u>(505,548)</u>	<u>5,303,201</u>	<u>13,717,880</u>	<u>(1,942,509)</u>	<u>17,078,572</u>	<u>17,661,302</u>
<b>Other Assets:</b>										
Accounts and pledges receivable, net of current portion	133,333	-	-	-	-	133,333	-	-	133,333	-
Reserves and deposits, net of current portion	-	-	-	559,276	-	559,276	836,260	-	1,395,536	1,222,995
Investments	789,209	-	-	-	-	789,209	-	-	789,209	750,162
Due (to) from affiliates, net of current portion	9,069	308,275	516,184	(386,794)	-	446,734	-	13,944	460,678	481,355
Investments in affiliates	-	291,942	-	-	(240,000)	51,942	-	(51,942)	-	-
Financing fees, net	-	-	-	74,833	-	74,833	118,407	-	193,240	174,685
Total other assets	<u>931,611</u>	<u>600,217</u>	<u>516,184</u>	<u>247,315</u>	<u>(240,000)</u>	<u>2,055,327</u>	<u>954,667</u>	<u>(37,998)</u>	<u>2,971,996</u>	<u>2,629,197</u>
Total assets	<u>\$ 2,867,814</u>	<u>\$ 600,217</u>	<u>\$ 517,599</u>	<u>\$ 6,521,215</u>	<u>\$ (745,548)</u>	<u>\$ 9,761,297</u>	<u>\$ 14,888,611</u>	<u>\$ (1,994,451)</u>	<u>\$ 22,655,457</u>	<u>\$ 22,528,190</u>
<b>Liabilities and Entities' Equity (Deficit)</b>										
<b>Current Liabilities:</b>										
Current portion of long-term and contingent debt	\$ -	\$ -	\$ -	\$ 563,610	\$ -	\$ 563,610	\$ 117,069	\$ -	\$ 680,679	\$ 419,461
Accounts payable and accrued expenses	377,709	9,703	787	50,621	-	438,820	40,312	-	479,132	452,787
Funds held in trust	94,496	-	-	18,331	-	112,827	13,411	-	126,238	114,064
Total current liabilities	<u>472,205</u>	<u>9,703</u>	<u>787</u>	<u>632,562</u>	<u>-</u>	<u>1,115,257</u>	<u>170,792</u>	<u>-</u>	<u>1,272,105</u>	<u>986,312</u>
<b>Other Liabilities:</b>										
Long-term debt, net of current portion	-	-	-	72,731	-	72,731	642,522	-	715,253	764,293
Contingent debt, net of current portion	-	-	-	2,186,390	-	2,186,390	6,350,690	-	8,537,080	8,796,294
Notes payable and deferred interest - affiliates	-	-	-	2,742,147	(2,742,147)	-	1,780,136	(1,780,136)	-	-
Developer and overhead fees payable and deferred interest	-	-	-	436,631	(436,631)	-	-	-	-	-
Total other liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,437,899</u>	<u>(3,178,778)</u>	<u>2,259,121</u>	<u>8,773,348</u>	<u>(1,780,136)</u>	<u>9,252,333</u>	<u>9,560,587</u>
Total liabilities	<u>472,205</u>	<u>9,703</u>	<u>787</u>	<u>6,070,461</u>	<u>(3,178,778)</u>	<u>3,374,378</u>	<u>8,944,140</u>	<u>(1,780,136)</u>	<u>10,538,382</u>	<u>10,546,899</u>
<b>Entities' Equity (Deficit):</b>										
<b>Unrestricted:</b>										
Operating	1,730,320	(9,703)	516,812	106,272	-	2,343,701	873,375	(711,044)	2,506,032	2,236,308
Board designated	107,351	-	-	-	-	107,351	-	-	107,351	107,351
Property and equipment	96,867	-	-	344,482	2,673,230	3,114,579	5,071,096	(5,071,096)	3,114,579	3,213,453
Real estate development	-	564,840	-	-	(240,000)	324,840	-	(324,840)	-	-
Total unrestricted	<u>1,934,538</u>	<u>555,137</u>	<u>516,812</u>	<u>450,754</u>	<u>2,433,230</u>	<u>5,890,471</u>	<u>5,944,471</u>	<u>(6,106,980)</u>	<u>5,727,962</u>	<u>5,557,112</u>
Temporarily restricted	461,071	35,377	-	-	-	496,448	-	-	496,448	228,579
Total Hearth entities' equity (deficit)	<u>2,395,609</u>	<u>590,514</u>	<u>516,812</u>	<u>450,754</u>	<u>2,433,230</u>	<u>6,386,919</u>	<u>5,944,471</u>	<u>(6,106,980)</u>	<u>6,224,410</u>	<u>5,785,691</u>
Non-controlling interest	-	-	-	-	-	-	-	5,892,665	5,892,665	6,195,600
Total entities' equity (deficit)	<u>2,395,609</u>	<u>590,514</u>	<u>516,812</u>	<u>450,754</u>	<u>2,433,230</u>	<u>6,386,919</u>	<u>5,944,471</u>	<u>(214,315)</u>	<u>12,117,075</u>	<u>11,981,291</u>
Total liabilities and entities' equity (deficit)	<u>\$ 2,867,814</u>	<u>\$ 600,217</u>	<u>\$ 517,599</u>	<u>\$ 6,521,215</u>	<u>\$ (745,548)</u>	<u>\$ 9,761,297</u>	<u>\$ 14,888,611</u>	<u>\$ (1,994,451)</u>	<u>\$ 22,655,457</u>	<u>\$ 22,528,190</u>

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

**HEARTH, INC. AND AFFILIATES**

 Consolidating Statement of Financial Position  
 December 31, 2014

Assets	Hearth, Inc.			Non-Syndicated Rental Properties (Exhibit B)	Eliminations	Sub-Total	HOLP	Eliminations	Total
	Operating	Real Estate Development	Property Management						
<b>Current Assets:</b>									
Cash and cash equivalents	\$ 1,117,779	\$ -	\$ -	\$ 365,992	\$ -	\$ 1,483,771	\$ 78,295	\$ -	\$ 1,562,066
Funds held in trust	80,503	-	-	19,171	-	99,674	14,390	-	114,064
Current portion of accounts and pledges receivable, net	333,675	-	-	4,414	-	338,089	1,354	-	339,443
Prepaid expenses and deposits	52,045	-	1,390	13,621	-	67,056	32,815	-	99,871
Current portion of due (to) from affiliates, net	92,215	-	-	(30,563)	-	61,652	12,937	(12,937)	61,652
Current portion of reserves and deposits	-	-	-	-	-	-	60,595	-	60,595
Total current assets	<u>1,676,217</u>	<u>-</u>	<u>1,390</u>	<u>372,635</u>	<u>-</u>	<u>2,050,242</u>	<u>200,386</u>	<u>(12,937)</u>	<u>2,237,691</u>
<b>Property and Equipment:</b>									
Land	-	-	-	542,600	-	542,600	1,140,806	-	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
Furniture and equipment	589,799	-	-	319,439	-	909,238	241,134	-	1,150,372
	780,555	-	-	10,191,140	(1,321,174)	9,650,521	15,278,128	(2,195,094)	22,733,555
Less - accumulated depreciation	670,302	-	-	4,240,239	(792,596)	4,117,945	1,134,726	(180,418)	5,072,253
Net property and equipment	<u>110,253</u>	<u>-</u>	<u>-</u>	<u>5,950,901</u>	<u>(528,578)</u>	<u>5,532,576</u>	<u>14,143,402</u>	<u>(2,014,676)</u>	<u>17,661,302</u>
<b>Other Assets:</b>									
Reserves and deposits, net of current portion	-	-	-	455,381	-	455,381	767,614	-	1,222,995
Investments	750,162	-	-	-	-	750,162	-	-	750,162
Due (to) from affiliates, net of current portion	83,921	356,499	414,087	(386,089)	-	468,418	-	12,937	481,355
Investments in affiliates	-	291,942	-	-	(240,000)	51,942	-	(51,942)	-
Financing fees, net	-	-	-	48,227	-	48,227	126,458	-	174,685
Total other assets	<u>834,083</u>	<u>648,441</u>	<u>414,087</u>	<u>117,519</u>	<u>(240,000)</u>	<u>1,774,130</u>	<u>894,072</u>	<u>(39,005)</u>	<u>2,629,197</u>
Total assets	<u>\$ 2,620,553</u>	<u>\$ 648,441</u>	<u>\$ 415,477</u>	<u>\$ 6,441,055</u>	<u>\$ (768,578)</u>	<u>\$ 9,356,948</u>	<u>\$ 15,237,860</u>	<u>\$(2,066,618)</u>	<u>\$ 22,528,190</u>
<b>Liabilities and Entities' Equity (Deficit)</b>									
<b>Current Liabilities:</b>									
Current portion of long-term and contingent debt	\$ -	\$ -	\$ -	\$ 337,177	\$ -	\$ 337,177	\$ 82,284	\$ -	\$ 419,461
Accounts payable and accrued expenses	352,257	4,106	6,624	51,219	-	414,206	38,581	-	452,787
Funds held in trust	80,503	-	-	19,171	-	99,674	14,390	-	114,064
Total current liabilities	<u>432,760</u>	<u>4,106</u>	<u>6,624</u>	<u>407,567</u>	<u>-</u>	<u>851,057</u>	<u>135,255</u>	<u>-</u>	<u>986,312</u>
<b>Other Liabilities:</b>									
Long-term debt, net of current portion	-	-	-	72,731	-	72,731	691,562	-	764,293
Contingent debt, net of current portion	-	-	-	2,412,823	-	2,412,823	6,383,471	-	8,796,294
Notes payable and deferred interest - affiliates	-	-	-	2,568,957	(2,568,957)	-	1,780,136	(1,780,136)	-
Developer and overhead fees payable and deferred interest	-	-	-	411,916	(411,916)	-	-	-	-
Total other liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,466,427</u>	<u>(2,980,873)</u>	<u>2,485,554</u>	<u>8,855,169</u>	<u>(1,780,136)</u>	<u>9,560,587</u>
Total liabilities	<u>432,760</u>	<u>4,106</u>	<u>6,624</u>	<u>5,873,994</u>	<u>(2,980,873)</u>	<u>3,336,611</u>	<u>8,990,424</u>	<u>(1,780,136)</u>	<u>10,546,899</u>
<b>Entities' Equity (Deficit):</b>									
<b>Unrestricted:</b>									
Operating	1,781,712	(4,106)	408,853	(83,844)	-	2,102,615	851,124	(717,431)	2,236,308
Board designated	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
Real estate development	-	608,339	-	-	(240,000)	368,339	-	(368,339)	-
Total unrestricted	<u>1,999,316</u>	<u>604,233</u>	<u>408,853</u>	<u>567,061</u>	<u>2,212,295</u>	<u>5,791,758</u>	<u>6,247,436</u>	<u>(6,482,082)</u>	<u>5,557,112</u>
Temporarily restricted	188,477	40,102	-	-	-	228,579	-	-	228,579
Total Hearst entities' equity (deficit)	<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>
Non-controlling interest	-	-	-	-	-	-	-	6,195,600	6,195,600
Total entities' equity (deficit)	<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>(286,482)</u>	<u>11,981,291</u>
Total liabilities and entities' equity (deficit)	<u>\$ 2,620,553</u>	<u>\$ 648,441</u>	<u>\$ 415,477</u>	<u>\$ 6,441,055</u>	<u>\$ (768,578)</u>	<u>\$ 9,356,948</u>	<u>\$ 15,237,860</u>	<u>\$(2,066,618)</u>	<u>\$ 22,528,190</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, 2015

(With Summarized Comparative Totals for the Year Ended December 31, 2014)

	2015								2014	
	Hearth, Inc.				Eliminations	Sub-Total	HOLP	Eliminations	Total	Total
	Operating	Real Estate Development	Property Management	Non-Syndicated Rental Properties (Exhibit C)						
<b>Changes in Unrestricted Net Assets:</b>										
<b>Operating Revenues:</b>										
Fee income and other revenue:										
Rental fees, net	\$ -	\$ -	\$ -	\$ 1,209,599	\$ (35,160)	\$ 1,174,439	\$ 885,794	\$ -	\$ 2,060,233	\$ 2,102,946
Program revenues	1,507,152	-	-	-	-	1,507,152	-	-	1,507,152	1,463,373
Government grants and other contracts	983,173	-	-	-	-	983,173	-	-	983,173	942,898
Management and service fees	49,137	-	111,596	-	(111,596)	49,137	-	-	49,137	118,845
Other	37,837	-	12	-	-	37,849	-	-	37,849	31,853
Investment income	15,423	-	-	6,292	-	21,715	7,558	-	29,273	16,718
Incentive management and tax credit compliance fees	43,130	-	-	-	-	43,130	(43,130)	-	-	-
Net fee income and other revenue	2,635,852	-	111,608	1,215,891	(146,756)	3,816,595	850,222	-	4,666,817	4,676,633
Support revenue:										
Private grants, contributions and special events, net	596,960	-	-	-	-	596,960	-	-	596,960	448,544
Net assets released from purpose restrictions	154,570	-	-	-	-	154,570	-	-	154,570	227,031
Net assets released from time restrictions	-	-	-	-	-	-	-	-	-	175,000
Donated services	9,000	-	-	-	-	9,000	-	-	9,000	16,670
Net support revenue	760,530	-	-	-	-	760,530	-	-	760,530	867,245
Total operating revenues	3,396,382	-	111,608	1,215,891	(146,756)	4,577,125	850,222	-	5,427,347	5,543,878
<b>Operating Expenses:</b>										
Outreach	486,757	-	-	-	-	486,757	-	-	486,757	496,040
Housing and supportive services	2,108,499	46,676	-	876,370	(146,756)	2,884,789	719,614	-	3,604,403	3,633,178
Property management	-	-	3,649	-	-	3,649	-	-	3,649	71,377
General and administration	372,559	6,350	496	154,321	-	533,726	-	-	533,726	576,185
Institutional advancement	278,908	-	-	-	-	278,908	-	-	278,908	271,612
Total operating expenses before depreciation and amortization	3,246,723	53,026	4,145	1,030,691	(146,756)	4,187,829	719,614	-	4,907,443	5,048,392
Depreciation and amortization	26,102	-	-	257,923	(23,030)	260,995	433,573	(72,167)	622,401	619,307
Total operating expenses	3,272,825	53,026	4,145	1,288,614	(169,786)	4,448,824	1,153,187	(72,167)	5,529,844	5,667,699
Changes in unrestricted net assets from operations	123,557	(53,026)	107,463	(72,723)	23,030	128,301	(302,965)	72,167	(102,497)	(123,821)
<b>Other Revenues (Expenses):</b>										
Net assets released from capital restrictions	3,445	4,725	-	-	-	8,170	-	-	8,170	3,300
Predevelopment and capital grants	5,865	-	-	-	-	5,865	-	-	5,865	20,335
Interest on deferred debt	-	-	-	(197,905)	197,905	-	-	-	-	(25,000)
Forgiveness of deferred interest	-	-	-	-	-	-	-	-	-	460,959
General partner operating expenses	-	(1,586)	-	-	-	(1,586)	-	-	(1,586)	(1,670)
Change in discount of affiliate advances	(6,619)	-	-	-	-	(6,619)	-	-	(6,619)	(31,515)
Unrealized gain (loss) on investments	(35,418)	-	-	-	-	(35,418)	-	-	(35,418)	2,664
Total other revenues (expenses)	(32,727)	3,139	-	(197,905)	197,905	(29,588)	-	-	(29,588)	429,073
Changes in unrestricted net assets	90,830	(49,887)	107,463	(270,628)	220,935	98,713	(302,965)	72,167	(132,085)	305,252
<b>Changes in Temporarily Restricted Net Assets:</b>										
Grants	430,609	-	-	-	-	430,609	-	-	430,609	45,776
Net assets released from restrictions	(158,015)	(4,725)	-	-	-	(162,740)	-	-	(162,740)	(405,331)
Changes in temporarily restricted net assets	272,594	(4,725)	-	-	-	267,869	-	-	267,869	(359,555)
Changes in net assets	363,424	(54,612)	107,463	(270,628)	220,935	366,582	(302,965)	72,167	135,784	(54,303)
<b>Changes in Net Assets Attributable to Non-Controlling Interest</b>										
Changes in net assets attributable to Hearth	\$ 363,424	\$ (54,612)	\$ 107,463	\$ (270,628)	\$ 220,935	\$ 366,582	\$ (30)	\$ 72,167	\$ 438,719	\$ 291,165

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

	Hearth, Inc.			Non-Syndicated Rental Properties (Exhibit D)	Eliminations	Sub-Total	HOLP	Eliminations	Total
	Operating	Real Estate Development	Property Management						
<b>Changes in Unrestricted Net Assets:</b>									
<b>Operating Revenues:</b>									
Fee income and other revenue:									
Rental fees, net	\$ -	\$ -	\$ -	\$ 1,278,355	\$ (34,136)	\$ 1,244,219	\$ 858,727	\$ -	\$ 2,102,946
Program revenues	1,463,373	-	-	-	-	1,463,373	-	-	1,463,373
Government grants and other contracts	942,898	-	-	-	-	942,898	-	-	942,898
Management and service fees	106,435	-	148,507	-	(136,097)	118,845	-	-	118,845
Other	31,853	-	-	-	-	31,853	-	-	31,853
Investment income	10,354	-	-	3,299	-	13,653	3,065	-	16,718
Incentive management and tax credit compliance fees	44,049	-	-	-	-	44,049	(44,049)	-	-
Net fee income and other revenue	2,598,962	-	148,507	1,281,654	(170,233)	3,858,890	817,743	-	4,676,633
Support revenue:									
Private grants, contributions and special events, net	448,544	-	-	-	-	448,544	-	-	448,544
Net assets released from purpose restrictions	227,031	-	-	-	-	227,031	-	-	227,031
Net assets released from time restrictions	175,000	-	-	-	-	175,000	-	-	175,000
Donated services	16,670	-	-	-	-	16,670	-	-	16,670
Net support revenue	867,245	-	-	-	-	867,245	-	-	867,245
Total operating revenues	3,466,207	-	148,507	1,281,654	(170,233)	4,726,135	817,743	-	5,543,878
<b>Operating Expenses:</b>									
Outreach	496,040	-	-	-	-	496,040	-	-	496,040
Housing and supportive services	2,207,556	28,851	-	837,331	(170,233)	2,903,505	729,673	-	3,633,178
Property management	-	-	71,377	-	-	71,377	-	-	71,377
General and administration	406,504	4,091	10,122	155,468	-	576,185	-	-	576,185
Institutional advancement	271,612	-	-	-	-	271,612	-	-	271,612
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
Depreciation and amortization	21,964	-	-	258,967	(23,030)	257,901	433,573	(72,167)	619,307
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
Changes in unrestricted net assets from operations	62,531	(32,942)	67,008	29,888	23,030	149,515	(345,503)	72,167	(123,821)
<b>Other Revenues (Expenses):</b>									
Net assets released from capital restrictions	-	3,300	-	-	-	3,300	-	-	3,300
Predevelopment and capital grants	20,335	-	-	-	-	20,335	-	-	20,335
Interest on deferred debt	-	-	-	(210,546)	185,546	(25,000)	-	-	(25,000)
Forgiveness of deferred interest	-	-	-	460,959	-	460,959	-	-	460,959
General partner operating expenses	-	(1,670)	-	-	-	(1,670)	-	-	(1,670)
Change in discount of affiliate advances	(31,515)	-	-	-	-	(31,515)	-	-	(31,515)
Unrealized gain on investments	2,664	-	-	-	-	2,664	-	-	2,664
Total other revenues (expenses)	(8,516)	1,630	-	250,413	185,546	429,073	-	-	429,073
Changes in unrestricted net assets	54,015	(31,312)	67,008	280,301	208,576	578,588	(345,503)	72,167	305,252
<b>Changes in Temporarily Restricted Net Assets:</b>									
Grants	45,776	-	-	-	-	45,776	-	-	45,776
Net assets released from restrictions	(402,031)	(3,300)	-	-	-	(405,331)	-	-	(405,331)
Changes in temporarily restricted net assets	(356,255)	(3,300)	-	-	-	(359,555)	-	-	(359,555)
Changes in net assets	(302,240)	(34,612)	67,008	280,301	208,576	219,033	(345,503)	72,167	(54,303)
<b>Changes in Net Assets Attributable to Non-Controlling Interest</b>									
Changes in net assets attributable to Hearth	\$ (302,240)	\$ (34,612)	\$ 67,008	\$ 280,301	\$ 208,576	\$ 219,033	\$ (35)	\$ 72,167	\$ 291,165

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, 2015 and 2014

	<u>Hearth, Inc.</u>			<u>Non-Syndicated Rental Properties</u>	<u>Eliminations</u>	<u>Sub- Total</u>	<u>HOLP</u>	<u>Eliminations</u>	<u>Total</u>	<u>Non- Controlling Interest</u>	<u>Total</u>
	<u>Operating</u>	<u>Real Estate Development</u>	<u>Property Management</u>								
<b>Entities' Equity, December 31, 2013</b>	\$ 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	(175,811)	10,221	10,122	155,468	-	-	-	-	-	-	-
<b>Entities' Equity, December 31, 2014</b>	2,187,793	644,335	408,853	567,061	2,212,295	6,020,337	6,247,436	(6,482,082)	5,785,691	6,195,600	11,981,291
Changes in net assets	363,424	(54,612)	107,463	(270,628)	220,935	366,582	(302,965)	375,102	438,719	(302,935)	135,784
Transfers	(155,608)	791	496	154,321	-	-	-	-	-	-	-
<b>Entities' Equity, December 31, 2015</b>	<u>\$ 2,395,609</u>	<u>\$ 590,514</u>	<u>\$ 516,812</u>	<u>\$ 450,754</u>	<u>\$ 2,433,230</u>	<u>\$ 6,386,919</u>	<u>\$ 5,944,471</u>	<u>\$ (6,106,980)</u>	<u>\$ 6,224,410</u>	<u>\$ 5,892,665</u>	<u>\$ 12,117,075</u>

**HEARTH, INC. AND AFFILIATES**

 Consolidating Statement of Cash Flows  
 For the Year Ended December 31, 2015

	<u>Hearth</u>	<u>HOLP</u>	<u>Eliminations</u>	<u>Total</u>
<b>Cash Flows from Operating Activities:</b>				
Changes in net assets	\$ 366,582	\$ (302,965)	\$ 72,167	\$ 135,784
Adjustments to reconcile changes in net assets to net cash provided by operating activities:				
Depreciation and amortization	260,995	433,573	(72,167)	622,401
Predevelopment and capital grants	(110,500)	-	-	(110,500)
Change in discount of affiliate advances	6,619	-	-	6,619
Unrealized loss on investments	35,418	-	-	35,418
Bad debt	3,392	860	-	4,252
Changes in operating assets and liabilities:				
Accounts and pledges receivable	(269,075)	(670)	-	(269,745)
Reserves and deposits	-	9,694	-	9,694
Prepaid expenses and deposits	(18,153)	5,538	-	(12,615)
Due from affiliates, net	35,126	(1,007)	-	34,119
Accounts payable and accrued expenses	22,146	1,731	-	23,877
Net cash provided by operating activities	<u>332,550</u>	<u>146,754</u>	<u>-</u>	<u>479,304</u>
<b>Cash Flows from Investing Activities:</b>				
Deposits to and interest earned on reserves and deposits	(103,895)	(68,646)	-	(172,541)
Acquisition of property and equipment	(26,758)	-	-	(26,758)
Purchases of investments	(74,465)	-	-	(74,465)
Net cash used in investing activities	<u>(205,118)</u>	<u>(68,646)</u>	<u>-</u>	<u>(273,764)</u>
<b>Cash Flows from Financing Activities:</b>				
Financing fees payment	(29,000)	-	-	(29,000)
Principal payments of long-term debt	-	(47,036)	-	(47,036)
Predevelopment and capital grants received	110,500	-	-	110,500
Net cash provided by (used in) financing activities	<u>81,500</u>	<u>(47,036)</u>	<u>-</u>	<u>34,464</u>
<b>Net Change in Cash and Cash Equivalents</b>	<u>208,932</u>	<u>31,072</u>	<u>-</u>	<u>240,004</u>
<b>Cash and Cash Equivalents:</b>				
Beginning of year	<u>1,483,771</u>	<u>78,295</u>	<u>-</u>	<u>1,562,066</u>
End of year	<u>\$ 1,692,703</u>	<u>\$ 109,367</u>	<u>\$ -</u>	<u>\$ 1,802,070</u>
<b>Supplemental Disclosure of Non-Cash Transactions:</b>				
Cash paid for interest	<u>\$ -</u>	<u>\$ 35,310</u>	<u>\$ -</u>	<u>\$ 35,310</u>
Property and equipment additions included in accounts payable and accrued expenses	<u>\$ 16,510</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,510</u>

**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>
<b>Cash Flows from Operating Activities:</b>				
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, net	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>
<b>Cash Flows from Investing Activities:</b>				
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>
<b>Cash Flows from Financing Activities:</b>				
Principal payments of long-term debt	(76,357)	(41,143)	-	(117,500)
Receipt (payment) on construction related 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>
<b>Net Change in Cash and Cash Equivalents</b>	<u>(157,364)</u>	<u>2,920</u>	<u>-</u>	<u>(154,444)</u>
<b>Cash and Cash Equivalents:</b>				
Beginning of year	<u>1,641,135</u>	<u>75,375</u>	<u>-</u>	<u>1,716,510</u>
End of year	<u>\$ 1,483,771</u>	<u>\$ 78,295</u>	<u>\$ -</u>	<u>\$ 1,562,066</u>
<b>Supplemental Disclosure of Non-Cash Transactions:</b>				
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 additions included in accounts payable	<u>\$ 14,042</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,042</u>

HEARTH, INC. AND AFFILIATES

Consolidating Statement of Functional Expenses  
For the Year Ended December 31, 2015

	Program Services						Support Services						Eliminations	Sub-Total	HOLP	Eliminations	Total
	Housing and Supportive Services					Property Management	Total Program Services	General and Administration	Institutional Advancement	Total Support Services							
	Outreach	Hearth	Real Estate Development	Non-Syndicated Rental Properties	Total												
<b>Expenses:</b>																	
Personnel and related:																	
Salaries	\$ 307,633	\$ 1,512,439	\$ 15,606	\$ 228,637	\$ 1,756,682	\$ -	\$ 2,064,315	\$ 361,475	\$ 181,572	\$ 543,047	\$ -	\$ 2,607,362	\$ 180,376	\$ -	\$ 2,787,738		
Fringe benefits	28,888	135,000	3,036	33,159	171,195	-	200,083	32,522	14,916	47,438	-	247,521	32,613	-	280,134		
Payroll taxes	23,126	142,643	1,162	21,617	165,422	-	188,548	28,432	14,192	42,624	-	231,172	16,236	-	247,408		
Consultants and contracted services	9,585	40,372	-	2,747	43,119	-	52,704	12,609	8,916	21,525	-	74,229	-	-	74,229		
Total personnel and related	369,232	1,830,454	19,804	286,160	2,136,418	-	2,505,650	435,038	219,596	654,634	-	3,160,284	229,225	-	3,389,509		
Occupancy:																	
Utilities	-	84	-	191,295	191,379	-	191,379	-	-	-	-	191,379	107,688	-	299,067		
Repairs and maintenance	-	5,315	-	114,337	119,652	-	119,652	3,690	-	3,690	-	123,342	86,035	-	209,377		
Real estate taxes	-	-	-	55,206	55,206	-	55,206	-	-	-	-	55,206	37,313	-	92,519		
Insurance	1,501	7,117	-	26,916	34,033	1,667	37,201	-	1,501	1,501	-	38,702	32,603	-	71,305		
Mortgage interest	-	-	-	-	-	-	-	-	-	-	-	-	32,558	-	32,558		
Rent	12,954	-	-	-	-	-	12,954	16,654	5,552	22,206	(35,160)	-	-	-	-		
Total occupancy	14,455	12,516	-	387,754	400,270	1,667	416,392	20,344	7,053	27,397	(35,160)	408,629	296,197	-	704,826		
Other:																	
Professional fees	-	719	26,352	25,687	52,758	724	53,482	52,369	6,791	59,160	-	112,642	30,728	-	143,370		
Program supplies and client expenses	74,966	22,971	-	-	22,971	-	97,937	-	8	8	-	97,945	-	-	97,945		
Resident services	-	-	-	-	-	-	-	-	-	-	-	-	87,000	-	87,000		
Food and household supplies	792	82,130	-	-	82,130	-	82,922	680	-	680	-	83,602	-	-	83,602		
Management and administrative fees	130	-	-	136,513	136,513	-	136,643	-	-	-	(111,596)	25,047	56,048	-	81,095		
Office	5,551	10,942	-	33,519	44,461	227	50,239	13,479	2,499	15,978	-	66,217	13,846	-	80,063		
Telephone	5,294	39,524	-	-	39,524	358	45,176	8,742	216	8,958	-	54,134	1,749	-	55,883		
Miscellaneous	875	8,873	-	3,191	12,064	19	12,958	30,942	614	31,556	-	44,514	3,961	-	48,475		
Printing and copying	2,172	6,876	-	154	7,030	291	9,493	7,574	15,635	23,209	-	32,702	-	-	32,702		
Insurance	-	14,964	-	-	14,964	-	14,964	11,249	-	11,249	-	26,213	-	-	26,213		
Recruitment	25	4,144	-	-	4,144	-	4,169	-	20,530	20,530	-	24,699	-	-	24,699		
Travel and training	6,871	3,553	-	-	3,553	-	10,424	10,379	154	10,533	-	20,957	-	-	20,957		
Licenses and dues	75	5,260	520	-	5,780	70	5,925	4,617	58	4,675	-	10,600	-	-	10,600		
Postage	1,018	280	-	-	280	293	1,591	2,067	5,153	7,220	-	8,811	-	-	8,811		
Meetings and events	5,301	-	-	-	-	-	5,301	1,539	601	2,140	-	7,441	-	-	7,441		
Bad debt	-	-	-	3,392	3,392	-	3,392	-	-	-	-	3,392	860	-	4,252		
Total other	103,070	200,236	26,872	202,456	429,564	1,982	534,616	143,637	52,259	195,896	(111,596)	618,916	194,192	-	813,108		
Total expenses before allocations	486,757	2,043,206	46,676	876,370	2,966,252	3,649	3,456,658	599,019	278,908	877,927	(146,756)	4,187,829	719,614	-	4,907,443		
<b>Direct Service Allocation</b>	-	65,293	-	-	65,293	-	65,293	(65,293)	-	(65,293)	-	-	-	-	-		
<b>General and Administration Allocation</b>	66,405	287,595	6,350	154,321	448,266	496	515,167	(553,113)	37,946	(515,167)	-	-	-	-	-		
Total expenses before depreciation and amortization	553,162	2,396,094	53,026	1,030,691	3,479,811	4,145	4,037,118	(19,387)	316,854	297,467	(146,756)	4,187,829	719,614	-	4,907,443		
<b>Depreciation and Amortization</b>	1,331	5,384	-	257,923	263,307	-	264,638	19,387	-	19,387	(23,030)	260,995	433,573	(72,167)	622,401		
Total expenses	\$ 554,493	\$ 2,401,478	\$ 53,026	\$ 1,288,614	\$ 3,743,118	\$ 4,145	\$ 4,301,756	\$ -	\$ 316,854	\$ 316,854	\$ (169,786)	\$ 4,448,824	\$ 1,153,187	\$ (72,167)	\$ 5,529,844		

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					Property Management	Total Program Services	General and Administration	Institutional Advancement	Total Support Services							
	Outreach	Hearth	Real Estate Development	Non-Syndicated Rental Properties	Total												
<b>Expenses:</b>																	
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	113,274	-	279,910		
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	306,253	-	704,612		
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		
Resident services	-	-	-	-	-	-	-	-	-	-	-	-	84,000	-	84,000		
Food and household supplies	1,280	85,099	-	53	85,152	-	86,432	90	-	90	-	86,522	-	-	86,522		
Management and administrative fees	-	-	-	136,097	136,097	-	136,097	-	-	-	(136,097)	-	53,278	-	53,278		
Office	2,706	6,077	-	9,881	15,958	846	19,510	19,799	2,923	22,722	-	42,232	13,599	-	55,831		
Telephone	5,804	32,601	-	-	32,601	369	38,774	7,222	1,025	8,247	-	47,021	3,837	-	50,858		
Miscellaneous	758	9,207	-	16,458	25,665	94	26,517	11,569	11,146	22,715	-	49,232	5,937	-	55,169		
Printing and copying	2,650	5,340	-	188	5,528	313	8,491	7,277	13,426	20,703	-	29,194	-	-	29,194		
Insurance	-	19,485	-	-	19,485	-	19,485	10,348	-	10,348	-	29,833	-	-	29,833		
Recruitment	25	1,720	50	-	1,770	-	1,795	150	-	150	-	1,945	-	-	1,945		
Travel and training	12,096	5,472	-	-	5,472	-	17,568	11,506	-	11,506	-	29,074	-	-	29,074		
Licenses and dues	44	6,232	1,040	1,013	8,285	87	8,416	4,956	-	4,956	-	13,372	-	-	13,372		
Postage	1,378	119	-	656	775	118	2,271	1,972	10,777	12,749	-	15,020	-	-	15,020		
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		
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	197,048	-	747,085		
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		
<b>Direct Service Allocation</b>	-	61,528	-	-	61,528	-	61,528	(61,528)	-	(61,528)	-	-	-	-	-		
<b>General and Administration Allocation</b>	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		
<b>Depreciation and Amortization</b>	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		

## HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements  
December 31, 2015 and 2014

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### 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 (U.S. GAAP) 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, 2015 and 2014

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### 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. As of December 31, 2015 and 2014, there was an allowance of \$5,550 and \$1,298, respectively.

##### 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.

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, 2015 and 2014. Depreciation expense, net of eliminations, during 2015 and 2014 was \$611,956 and \$608,615, 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 2015 and 2014.

##### 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 \$252,722 and \$223,722 as of December 31, 2015 and 2014, respectively. Accumulated amortization of financing fees is \$59,482 and \$49,037 as of December 31, 2015 and 2014, respectively. Amortization during 2015 and 2014 was \$10,445 and \$10,692, respectively. Amortization expense for the next five years is \$9,498 per year.

## HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements  
December 31, 2015 and 2014

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### 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 \$51,141 and \$40,221 for 2015 and 2014, 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 Services

The Agency receives services from various donating organizations for use in its programs. The Agency received \$9,000 of donated legal and investment management services for 2015. The Agency received approximately \$17,000 of donated legal services for 2014. These services are reflected in donated 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 recognition 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, 2015 and 2014

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### 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, 2015 and 2014, the General Partners have, for Federal income tax purposes, net operating loss carryforwards of approximately \$839,000 and \$739,000, respectively, available to offset future taxable income. Also, at December 31, 2015 and 2014, the General Partners have, for state income tax purposes, net operating loss carryforwards of approximately \$558,000 and \$460,000, respectively, to offset future taxable income. These carryforwards expire at various dates through 2035. The tax benefit of the net operating loss carryforwards has been fully reserved as of December 31, 2015 and 2014, 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, 2015 and 2014. 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, 2015 and 2014

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### 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, 2015 and 2014.

##### **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 27, 2016, which is the date the consolidating financial statements were available to be issued. There were no events that met the criteria for recognition or disclosure in the consolidating financial statements.

##### **Consolidating Statements of Activities**

Transactions deemed by management to be ongoing, major, or central to the provision of program services are reported as operating revenue and support and operating expenses on the accompanying consolidating statements of activities. Peripheral or incidental transactions are reported as other revenues (expenses). Other revenues (expenses), consistent with industry practice, includes predevelopment and capital grants for long-lived assets, interest on deferred debt (see Notes 2 and 7), forgiveness of deferred interest (see Note 7), general partner operating expenses, changes in discount of affiliate advances (see Note 2) and investment activity (see Note 5).

##### **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, 2015 and 2014

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### 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>2015</u>	<u>2014</u>
Time restricted	\$ 266,667	\$ -
Restricted for equipment and maintenance	106,635	5,445
Restricted for programs	87,769	183,032
Restricted for real estate development activities	<u>35,377</u>	<u>40,102</u>
Total temporarily restricted net assets	<u>\$ 496,448</u>	<u>\$ 228,579</u>

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

### 2. AFFILIATES AND RELATED PARTY TRANSACTIONS

#### AFFILIATES

The Agency's consolidating financial statements include the following entities:

##### General Partners

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

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

**NCS Ruggles, Inc. (NCS)** is a Massachusetts corporation and has a 0.1% interest in the capital, income, losses, and cash flow of Ruggles Assisted Living Limited Partnership (Ruggles) (see page 18), as its general partner. Hearth, Inc. owns 50% of the outstanding shares of the common stock of NCS. Hearth, Inc. is not a majority owner in NCS; accordingly, it has not been consolidated in the accompanying consolidating financial statements.

##### Property Management

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

## HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements  
December 31, 2015 and 2014

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### 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 nine 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 \$24,715 and \$23,317 for 2015 and 2014, 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>2015</u>	<u>2014</u>
Beacon - developer fee	\$ 166,700	\$ 166,700
Accrued interest	<u>269,931</u>	<u>245,216</u>
	436,631	411,916
Less - reserve	<u>436,631</u>	<u>411,916</u>
	<u>\$ -</u>	<u>\$ -</u>

## HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements  
December 31, 2015 and 2014

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### 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 2015 and 2014, since there was no available cash flow. All unpaid principal and accrued interest are due on dates ranging from September 2025 to July 2026.

##### Sponsor Notes

Hearth, Inc. provided two non-interest bearing sponsor notes. The first sponsor note has an outstanding balance of \$1,380,136 and matures in March 2042. The second sponsor note has an outstanding balance of \$400,000 and matures in March 2027. These notes are secured by shared third mortgages on the HOLP property located in Mattapan, Massachusetts.

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 2015 and 2014 was \$173,190 and \$162,229, 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:

	2015		2014	
	Principal	Accrued Interest	Principal	Accrued Interest
ECLP - Linkage (see Note 9)	\$ 335,213	\$ 916,150	\$ 335,213	\$ 834,285
ECLP - Acquisition	320,000	779,757	320,000	714,013
ECLP - Foundations	99,260	291,767	99,260	266,186
HOLP - Sponsor loans	1,780,136	-	1,780,136	-
	2,534,609	1,987,674	2,534,609	1,814,484
Less - reserve	2,534,609	1,987,674	2,534,609	1,814,484
Total	\$ -	\$ -	\$ -	\$ -

##### 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, INC. AND AFFILIATES

Notes to Consolidating Financial Statements  
December 31, 2015 and 2014

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### 2. AFFILIATES AND RELATED PARTY TRANSACTIONS (Continued)

#### RELATED PARTY TRANSACTIONS (Continued)

##### Personnel, Management and Service Fees (Continued)

Hearth Mgmt. has an agreement with ECLP to provide property management services. The management fee is 4% of total effective income, as defined in the agreement, reduced by the fees that are to be paid to Peabody Property Management, Inc. (see Note 13). Either party can terminate the agreement with ninety days written notice. ECLP also pays an administrative fee to Hearth Mgmt., as defined in the agreement.

CEC and ECLP have entered into an incentive management fee agreement. The fee is for 49.5% of distributable cash flow, as defined in the agreement. The fee is also limited to 2% of gross rents. There was no fee earned during 2015 and 2014.

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 at the time of the borrowings.

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>2015</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>\$ -</u>	<u>\$ 98,853</u>	<u>\$ 134,633</u>	<u>\$ 93,815</u>	<u>\$ 327,301</u>
Management fees	-	-	27,511	46,424	-	73,935
Administrative fees	-	-	-	65,172	-	65,172
Incentive management and tax credit compliance fees	-	-	-	-	43,130	43,130
Rent	35,160	-	-	-	-	35,160
Interest expense	-	-	23,431	-	-	23,431
Service provider fee	-	-	21,636	-	-	21,636
Sub-total	<u>\$ 35,160</u>	<u>\$ -</u>	<u>\$ 72,578</u>	<u>\$ 111,596</u>	<u>\$ 43,130</u>	262,464
Less - eliminations						<u>189,886</u>
Total						<u>\$ 72,578</u>

## HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements  
December 31, 2015 and 2014

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### 2. AFFILIATES AND RELATED PARTY TRANSACTIONS (Continued)

#### RELATED PARTY TRANSACTIONS (Continued)

##### Personnel, Management and Service Fees (Continued)

<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>\$ 86,879</u>	<u>\$ 561,128</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>-</u>	<u>-</u>	<u>21,636</u>	<u>-</u>	<u>-</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>

##### Due (To) From Affiliates

Hearth, Inc. owes \$2,954 to ECLP at December 31, 2015, which is included in due from affiliates, net in the accompanying consolidating statements of financial position. ECLP owed \$29,545 to Hearth, Inc. at December 31, 2014, which is included in due (to) from affiliates, net in the accompanying consolidating statements of financial position.

Hearth, Inc. is owed the following amounts noted on page 21 from Ruggles at December 31, 2015 and 2014, which are included in due from affiliates, net in the accompanying consolidating statements of financial position. During 2015 and 2014, Hearth, Inc. received approximately \$55,000 and \$103,000, respectively, of these amounts from Ruggles' 2015 and 2014 available cash flows. Hearth, Inc. expects to receive approximately \$42,000 in 2016 from Ruggles' 2016 projected available cash flow. Based on cash flow projections, Ruggles expects to repay Hearth, Inc. between \$9,700 and \$47,000 annually from 2016 through 2058. This receivable has been discounted using a 2% rate.

Hearth, Inc. is owed \$43,130 and \$44,049 from HOLP at December 31, 2015 and 2014, respectively, which relates to incentive management and tax credit compliance fees and operating expense advances. Hearth Inc. also owes HOLP \$57,074 and \$56,986 pertaining to energy incentive rebates earned by HOLP during the construction of the project as of December 31, 2015 and 2014, respectively.

## HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements  
December 31, 2015 and 2014

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### 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:

	2015			Total
	Ruggles	ECLP	HOLP	
Gross receivable	\$ 762,552	\$ -	\$ 43,130	\$ 805,682
Less - discount	<u>260,283</u>	<u>-</u>	<u>-</u>	<u>260,283</u>
	<u>\$ 502,269</u>	<u>\$ -</u>	<u>\$ 43,130</u>	545,399
Less - elimination of HOLP				<u>43,130</u>
				502,269
Less - current portion				<u>41,591</u>
				<u>\$ 460,678</u>
	2014			Total
	Ruggles	ECLP	HOLP	Total
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>61,652</u>
				<u>\$ 481,355</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. No amounts have been advanced as of December 31, 2015 and 2014.

#### 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.

#### Investments in Affiliates

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

## HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements  
December 31, 2015 and 2014

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### 2. AFFILIATES AND RELATED PARTY TRANSACTIONS (Continued)

#### RELATED PARTY TRANSACTIONS (Continued)

##### Donated Services

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 \$5,000 and \$15,000 in 2015 and 2014, respectively (see page 13).

A member of the Board of Directors is also a member of a law firm who provided donated investment services to Hearth, Inc. totaling approximately \$4,000 in 2015 (see page 13).

### 3. RESERVES AND DEPOSITS

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

	<b>2015</b>		
	<b>Non-Syndicated Rental Properties</b>	<b>HOLP</b>	<b>Total</b>
Operating and investor services reserves	\$ -	\$ 711,034	\$ 711,034
Replacement reserves	559,276	125,226	684,502
Insurance and real estate tax escrow	-	<u>50,901</u>	<u>50,901</u>
	<u>559,276</u>	<u>887,161</u>	<u>1,446,437</u>
Less - current portion	-	<u>50,901</u>	<u>50,901</u>
	<u>\$ 559,276</u>	<u>\$ 836,260</u>	<u>\$ 1,395,536</u>
	<b>2014</b>		
	<b>Non-Syndicated Rental Properties</b>	<b>HOLP</b>	<b>Total</b>
Operating and investor services reserves	\$ -	\$ 703,709	\$ 703,709
Replacement reserves	455,381	63,905	519,286
Insurance and real estate tax escrow	-	<u>60,595</u>	<u>60,595</u>
	<u>455,381</u>	<u>828,209</u>	<u>1,283,590</u>
Less - current portion	-	<u>60,595</u>	<u>60,595</u>
	<u>\$ 455,381</u>	<u>\$ 767,614</u>	<u>\$ 1,222,995</u>

## HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements  
December 31, 2015 and 2014

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### 4. ACCOUNTS AND PLEDGES RECEIVABLE

Included in accounts and pledges receivable are the following pledges at December 31, 2015 and 2014, which are expected to be collected as follows:

	<u>2015</u>	<u>2014</u>
Less than one year	\$ 195,472	\$ 119,387
One to two years	<u>133,333</u>	<u>-</u>
	328,805	119,387
Less - current portion	<u>195,472</u>	<u>119,387</u>
Accounts and pledges receivable, net of current portion	<u>\$ 133,333</u>	<u>\$ -</u>

There was no discount rate applied to pledges receivable as of December 31, 2015, as the effect on the consolidating financial statements is immaterial.

### 5. INVESTMENTS

Investments consist of the following at December 31:

	<u>2015</u>	<u>2014</u>
Exchange traded funds	\$ 652,651	\$ 172,225
Insured deposit account	136,558	250,703
Fixed income mutual fund	<u>-</u>	<u>327,234</u>
	<u>\$ 789,209</u>	<u>\$ 750,162</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 AFFILIATES

Notes to Consolidating Financial Statements  
December 31, 2015 and 2014

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### 6. LONG-TERM DEBT

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

	<u>2015</u>	<u>2014</u>
<b>Non-Syndicated Rental Properties</b>		
<b><i>Bishop</i></b>		
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
Plus – current portion of contingent debt due – ECLP (see Note 7)	<u>563,610</u>	<u>337,177</u>
Total Non-Syndicated Rental Properties	<u>636,341</u>	<u>409,908</u>
<b><i>HOLP</i></b>		
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.	688,133	735,169
Plus – current portion of contingent debt due – HOLP (see Note 7)	<u>71,458</u>	<u>38,677</u>
Total HOLP	<u>759,591</u>	<u>773,846</u>
Total long-term debt	1,395,932	1,183,754
Less – current portion (see page 25)	<u>680,679</u>	<u>419,461</u>
	<u>\$ 715,253</u>	<u>\$ 764,293</u>

## HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements  
December 31, 2015 and 2014

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### 6. LONG-TERM DEBT (Continued)

Current portion of long-term debt consists of the following at December 31:

	<u>2015</u>	<u>2014</u>
CEDAC - 2014 cash flow payment - ECLP	\$ 337,177	\$ 337,177
CEDAC - 2015 cash flow payment - ECLP	126,433	-
City of Boston – ECLP (see page 27)	100,000	-
CEDAC - 2015 cash flow payment - HOLP	71,458	-
Eastern Bank - HOLP	45,611	43,607
CEDAC - 2014 cash flow payment - HOLP	-	24,764
CEDAC - 2013 cash flow payment - HOLP	-	<u>13,913</u>
	<u>\$ 680,679</u>	<u>\$ 419,461</u>

The current portion of the amounts due from HOLP on the CEDAC notes payable as of December 31, 2014, was not paid during 2015. Based on a capital needs assessment prepared in January 2015, there is a projected shortfall in the replacement reserve in the future. As such, HOLP requested to suspend making the cash flow payments on the CEDAC debt and deposit those funds into the replacement reserve. CEDAC approved the request and the funds were transferred to the replacement reserve in May 2015. HOLP will request approval from CEDAC to deposit the 2015 cash flow payments in the replacement reserve as well. Subsequently, it was determined that HOLP's Special Limited Partner approval is required for HOLP to increase reserves. Special Limited Partner approval is now being sought.

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

2016	\$ 680,679
2017	\$ 47,706
2018	\$ 49,897
2019	\$ 52,190
2020	\$ 54,587

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, 2015 and 2014.

### 7. CONTINGENT DEBT

Contingent debt consists of the following at December 31:

<b>Non-Syndicated Rental Properties</b>	<u>2015</u>	<u>2014</u>
<b>Beacon</b>		
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, 2015 and 2014. 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

**HEARTH, INC. AND AFFILIATES**Notes to Consolidating Financial Statements  
December 31, 2015 and 2014

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**7. CONTINGENT DEBT (Continued)**

<b>Non-Syndicated Rental Properties (Continued)</b>	<b><u>2015</u></b>	<b><u>2014</u></b>
<b><i>Beacon</i></b> (Continued)		
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>
<b><i>Burroughs</i></b>		
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, 2015 and 2014. CEDAC may extend the maturity date of this note for one or more additional periods up to ten years provided that the property continues to be used for low-income housing.	750,000	750,000
Non-interest bearing note payable to the City of Boston. This note is due in February 2038. This note is secured by a shared second mortgage on land and a building, an assignment in leases and rents, and interest in all assets related to the land and building.	<u>625,000</u>	<u>625,000</u>
Subtotal Burroughs	<u>1,375,000</u>	<u>1,375,000</u>
<b><i>ECLP</i></b>		
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 are payments due in 2016 and 2015 based on 2015 and 2014 cash flows, respectively (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. 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

**HEARTH, INC. AND AFFILIATES**Notes to Consolidating Financial Statements  
December 31, 2015 and 2014**7. CONTINGENT DEBT (Continued)**

<b>Non-Syndicated Rental Properties (Continued)</b>	<b>2015</b>	<b>2014</b>
<b><i>ECLP</i></b> (Continued)		
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. ECLP is currently negotiating with the City of Boston to modify the terms of the note. This note is secured by a second mortgage on land and a building.	<u>100,000</u>	<u>100,000</u>
Subtotal ECLP	600,000	600,000
Less - current portion included with long-term debt - ECLP	<u>563,610</u>	<u>337,177</u>
Total contingent debt - ECLP, net of current portion	<u>36,390</u>	<u>262,823</u>
Total Non-Syndicated Rental Properties	<u>2,186,390</u>	<u>2,412,823</u>
<b><i>HOLP</i></b>		
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, 2015 and 2014, payments totaling \$35,729 and \$19,339 are due to CEDAC in 2016 and 2015, respectively, based on 2015 and prior years' cash flows (see page 25).	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

**HEARTH, INC. AND AFFILIATES**Notes to Consolidating Financial Statements  
December 31, 2015 and 2014**7. CONTINGENT DEBT (Continued)**

	<u>2015</u>	<u>2014</u>
<b>HOLP (Continued)</b>		
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
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, 2015 and 2014, payments totaling \$35,729 and \$19,338 are due to CEDAC in 2016 and 2015, respectively, based on 2015 and prior years' cash flows (see page 25).	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>71,458</u>	<u>38,677</u>
Total contingent debt - HOLP, net of current portion	<u>6,350,690</u>	<u>6,383,471</u>
Total contingent debt, net	<u>\$ 8,537,080</u>	<u>\$ 8,796,294</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 (3.5% and 3.25% at December 31, 2015 and 2014, respectively). The line of credit is secured by substantially all assets of Hearth, Inc. There was no balance outstanding as of December 31, 2015 and 2014.

## HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements  
December 31, 2015 and 2014

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### 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.

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, 2015 and 2014.

### 10. CONCENTRATIONS

#### Funding

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

Funding Source	2015		2014	
	Operating Revenues	Accounts and Pledges Receivable	Operating Revenues	Accounts and Pledges Receivable
A	37%	15%	35%	18%
B	22%	10%	20%	19%
C	3%	43%	3%	0%

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, 2015 and 2014, or on the changes in entities' equity 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.

## HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements  
December 31, 2015 and 2014

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### 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.

### 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 2015 and 2014 was \$45,439 and \$42,978, 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. The management fee earned by the Company during 2015 was \$24,917.

#### 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 \$10,609 and \$10,300 during 2015 and 2014, respectively.

### 14. RECLASSIFICATION

Certain amounts in the 2014 consolidating financial statements have been reclassified to conform to the 2015 presentation.

## HEARTH, INC. AND AFFILIATES

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

December 31, 2015

(With Summarized Comparative Totals as of December 31, 2014)

Assets	2015				2014	
	Bishop	Beacon	Burroughs	ECLP	Total Non-Syndicated Rental Properties	Total Non-Syndicated Rental Properties
<b>Current Assets:</b>						
Cash and cash equivalents	\$ 11,161	\$ 1,930	\$ 2,746	\$ 487,743	\$ 503,580	\$ 365,992
Funds held in trust	1,650	2,121	2,884	11,676	18,331	19,171
Current portion of accounts and pledges receivable, net	326	8	1,558	7,343	9,235	4,414
Prepaid expenses and deposits	2,536	3,409	3,729	18,244	27,918	13,621
Current portion of due (to) from affiliates	-	-	-	2,954	2,954	(30,563)
Total current assets	<u>15,673</u>	<u>7,468</u>	<u>10,917</u>	<u>527,960</u>	<u>562,018</u>	<u>372,635</u>
<b>Property and Equipment:</b>						
Land	25,600	67,500	297,500	152,000	542,600	542,600
Buildings and improvements	709,523	1,376,070	1,277,537	5,982,481	9,345,611	9,329,101
Furniture and equipment	67,682	39,769	68,061	143,927	319,439	319,439
	<u>802,805</u>	<u>1,483,339</u>	<u>1,643,098</u>	<u>6,278,408</u>	<u>10,207,650</u>	<u>10,191,140</u>
Less - accumulated depreciation	527,499	570,876	416,272	2,981,121	4,495,768	4,240,239
Net property and equipment	<u>275,306</u>	<u>912,463</u>	<u>1,226,826</u>	<u>3,297,287</u>	<u>5,711,882</u>	<u>5,950,901</u>
<b>Other Assets:</b>						
Reserves and deposits, net of current portion	3,994	45,681	74,060	435,541	559,276	455,381
Due to affiliates, net of current portion	(55,544)	(139,022)	(192,228)	-	(386,794)	(386,089)
Financing fees, net	-	-	45,833	29,000	74,833	48,227
Total other assets	<u>(51,550)</u>	<u>(93,341)</u>	<u>(72,335)</u>	<u>464,541</u>	<u>247,315</u>	<u>117,519</u>
Total assets	<u>\$ 239,429</u>	<u>\$ 826,590</u>	<u>\$ 1,165,408</u>	<u>\$ 4,289,788</u>	<u>\$ 6,521,215</u>	<u>\$ 6,441,055</u>
<b>Liabilities and Entities' Equity (Deficit)</b>						
<b>Current Liabilities:</b>						
Current portion of long-term and contingent debt	\$ -	\$ -	\$ -	\$ 563,610	\$ 563,610	\$ 337,177
Accounts payable and accrued expenses	3,468	2,890	3,473	40,790	50,621	51,219
Funds held in trust	1,650	2,121	2,884	11,676	18,331	19,171
Total current liabilities	<u>5,118</u>	<u>5,011</u>	<u>6,357</u>	<u>616,076</u>	<u>632,562</u>	<u>407,567</u>
<b>Other Liabilities:</b>						
Long-term debt, net of current portion	72,731	-	-	-	72,731	72,731
Contingent debt, net of current portion	-	775,000	1,375,000	36,390	2,186,390	2,412,823
Notes payable and deferred interest - affiliates	-	-	-	2,742,147	2,742,147	2,568,957
Developer and overhead fees payable and deferred interest	-	436,631	-	-	436,631	411,916
Total other liabilities	<u>72,731</u>	<u>1,211,631</u>	<u>1,375,000</u>	<u>2,778,537</u>	<u>5,437,899</u>	<u>5,466,427</u>
Total liabilities	<u>77,849</u>	<u>1,216,642</u>	<u>1,381,357</u>	<u>3,394,613</u>	<u>6,070,461</u>	<u>5,873,994</u>
<b>Entities' Equity (Deficit):</b>						
Operating	(44,989)	(136,565)	(187,668)	475,494	106,272	(83,844)
Property and equipment	206,569	(253,487)	(28,281)	419,681	344,482	650,905
Total entities' equity (deficit)	<u>161,580</u>	<u>(390,052)</u>	<u>(215,949)</u>	<u>895,175</u>	<u>450,754</u>	<u>567,061</u>
Total liabilities and entities' equity	<u>\$ 239,429</u>	<u>\$ 826,590</u>	<u>\$ 1,165,408</u>	<u>\$ 4,289,788</u>	<u>\$ 6,521,215</u>	<u>\$ 6,441,055</u>

## HEARTH, INC. AND AFFILIATES

Supplementary Consolidating Statement of Financial Position - Non-Syndicated Rental Properties  
December 31, 2014

<b>Assets</b>	<b>Bishop</b>	<b>Beacon</b>	<b>Burroughs</b>	<b>ECLP</b>	<b>Total Non- Syndicated Rental Properties</b>
<b>Current Assets:</b>					
Cash and cash equivalents	\$ 550	\$ 4,274	\$ 741	\$ 360,427	\$ 365,992
Funds held in trust	2,805	2,116	2,661	11,589	19,171
Current portion of accounts and pledges receivable, net	913	-	50	3,451	4,414
Prepaid expenses and deposits	979	1,259	2,421	8,962	13,621
Current portion of due to affiliates	-	-	(1,018)	(29,545)	(30,563)
Total current assets	<u>5,247</u>	<u>7,649</u>	<u>4,855</u>	<u>354,884</u>	<u>372,635</u>
<b>Property and Equipment:</b>					
Land	25,600	67,500	297,500	152,000	542,600
Buildings and improvements	709,523	1,376,070	1,277,537	5,965,971	9,329,101
Furniture and equipment	67,682	39,769	68,061	143,927	319,439
	<u>802,805</u>	<u>1,483,339</u>	<u>1,643,098</u>	<u>6,261,898</u>	<u>10,191,140</u>
Less - accumulated depreciation	503,008	535,396	371,190	2,830,645	4,240,239
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>
<b>Other Assets:</b>					
Reserves and deposits, net of current portion	3,992	18,482	51,265	381,642	455,381
Due to affiliates, net of current portion	(63,821)	(138,905)	(183,363)	-	(386,089)
Financing fees, net	-	946	47,281	-	48,227
Total other assets	<u>(59,829)</u>	<u>(119,477)</u>	<u>(84,817)</u>	<u>381,642</u>	<u>117,519</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>
<b>Liabilities and Entities' Equity (Deficit)</b>					
<b>Current Liabilities:</b>					
Current portion of long-term and contingent debt	\$ -	\$ -	\$ -	\$ 337,177	\$ 337,177
Accounts payable and accrued expenses	3,558	8,127	13,900	25,634	51,219
Funds held in trust	2,805	2,116	2,661	11,589	19,171
Total current liabilities	<u>6,363</u>	<u>10,243</u>	<u>16,561</u>	<u>374,400</u>	<u>407,567</u>
<b>Other Liabilities:</b>					
Long-term debt, net of current portion	72,731	-	-	-	72,731
Contingent debt, net of current portion	-	775,000	1,375,000	262,823	2,412,823
Notes payable and deferred interest - affiliates	-	-	-	2,568,957	2,568,957
Developer and overhead fees payable and deferred interest	-	411,916	-	-	411,916
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>
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>
<b>Entities' Equity (Deficit):</b>					
Operating	(64,937)	(141,499)	(195,069)	317,661	(83,844)
Property and equipment	231,058	(219,545)	(4,546)	643,938	650,905
Total entities' equity (deficit)	<u>166,121</u>	<u>(361,044)</u>	<u>(199,615)</u>	<u>961,599</u>	<u>567,061</u>
Total liabilities and entities' equity	<u>\$ 245,215</u>	<u>\$ 836,115</u>	<u>\$ 1,191,946</u>	<u>\$ 4,167,779</u>	<u>\$ 6,441,055</u>

## HEARTH, INC. AND AFFILIATES

Supplementary Consolidating Statement of Activities - Non-Syndicated Rental Properties  
 For the Year Ended December 31, 2015  
 (With Summarized Comparative Totals for the Year Ended December 31, 2014)

	2015				2014
	Bishop	Beacon	Burroughs	ECLP	Total Non- Syndicated Rental Properties
<b>Changes in Unrestricted Net Assets:</b>					
<b>Operating Revenues:</b>					
Fee income and other revenue:					
Rental fees, net	\$ 93,350	\$ 113,088	\$ 137,812	\$ 865,349	\$ 1,209,599
Investment income	2	199	544	5,547	6,292
Total operating revenues	93,352	113,287	138,356	870,896	1,215,891
<b>Operating Expenses:</b>					
Housing and supportive services	73,402	81,154	108,160	613,654	876,370
General and administration	13,318	15,997	21,046	103,960	154,321
Total operating expenses before depreciation and amortization	86,720	97,151	129,206	717,614	1,030,691
Depreciation and amortization	24,491	36,426	46,530	150,476	257,923
Total operating expenses	111,211	133,577	175,736	868,090	1,288,614
Changes in unrestricted net assets from operations	(17,859)	(20,290)	(37,380)	2,806	(72,723)
<b>Other Expenses:</b>					
Forgiveness of deferred interest	-	-	-	-	-
Interest on deferred debt	-	(24,715)	-	(173,190)	(197,905)
Total other revenues (expenses)	-	(24,715)	-	(173,190)	(197,905)
Changes in unrestricted net assets	\$ (17,859)	\$ (45,005)	\$ (37,380)	\$ (170,384)	\$ (270,628)
					\$ 280,301

## HEARTH, INC. AND AFFILIATES

Supplementary Consolidating Statement of Activities - Non-Syndicated Rental Properties  
For the Year Ended December 31, 2014

	<u>Bishop</u>	<u>Beacon</u>	<u>Burroughs</u>	<u>ECLP</u>	<u>Total Non- Syndicated Rental Properties</u>
<b>Changes in Unrestricted Net Assets:</b>					
<b>Operating Revenues:</b>					
Fee income and other revenue:					
Rental fees, net	\$ 84,502	\$ 110,347	\$ 130,747	\$ 952,759	\$ 1,278,355
Investment income	-	155	419	2,725	3,299
Total operating revenues	<u>84,502</u>	<u>110,502</u>	<u>131,166</u>	<u>955,484</u>	<u>1,281,654</u>
<b>Operating Expenses:</b>					
Housing and supportive services	84,090	98,121	139,535	515,585	837,331
General and administration	15,369	19,102	26,596	94,401	155,468
Total operating expenses before depreciation and amortization	99,459	117,223	166,131	609,986	992,799
Depreciation and amortization	24,288	36,576	48,010	150,093	258,967
Total operating expenses	<u>123,747</u>	<u>153,799</u>	<u>214,141</u>	<u>760,079</u>	<u>1,251,766</u>
Changes in unrestricted net assets from operations	<u>(39,245)</u>	<u>(43,297)</u>	<u>(82,975)</u>	<u>195,405</u>	<u>29,888</u>
<b>Other Revenues (Expenses):</b>					
Forgiveness of deferred interest	-	-	-	460,959	460,959
Interest on deferred debt	-	(23,317)	-	(187,229)	(210,546)
Total other revenues (expenses)	<u>-</u>	<u>(23,317)</u>	<u>-</u>	<u>273,730</u>	<u>250,413</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>