

HEARTH, INC. AND AFFILIATES

**CONSOLIDATING FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

HEARTH, INC. AND AFFILIATES

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December 31, 2020 and 2019

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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, 2020 and 2019, and the related consolidating statements of activities, changes in entities' net assets, 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, 2020 and 2019, and the consolidating changes in their entities' net assets 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 35 through 38 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.

AAFCPA, Inc.

Westborough, Massachusetts
June 23, 2021

HEARTH, INC. AND AFFILIATES

Consolidating Statement of Financial Position
December 31, 2020
(With Summarized Comparative Totals as of December 31, 2019)

Assets	2020						2019
	Hearth, Inc.			Rental Properties (Exhibit A)	Eliminations	Total	Total
	Operating	Real Estate Development	Total				
Current Assets:							
Cash and cash equivalents	\$ 1,118,995	\$ -	\$ 1,118,995	\$ 664,928	\$ -	\$ 1,783,923	\$ 1,228,952
Funds held in trust	140,906	-	140,906	43,649	-	184,555	144,773
Current portion of reserves and deposits	-	-	-	87,958	-	87,958	75,708
Current portion of government contracts and other receivables, net	565,090	295,000	860,090	76,548	-	936,638	956,890
Prepaid expenses and deposits	88,653	-	88,653	71,633	-	160,286	188,994
Current portion of due (to) from affiliates, net	150,310	-	150,310	(150,310)	-	-	-
Total current assets	2,063,954	295,000	2,358,954	794,406	-	3,153,360	2,595,317
Other Assets:							
Government contracts and other receivables, net of current portion	-	123,000	123,000	-	-	123,000	268,000
Reserves and deposits, net of current portion	-	343,173	343,173	3,063,867	-	3,407,040	3,196,345
Investments	5,851,894	-	5,851,894	-	-	5,851,894	5,036,651
Due (to) from affiliates, net of current portion	81,474	1,392,451	1,473,925	(3,208,645)	1,734,720	-	-
Investments in affiliates	-	51,942	51,942	-	(51,942)	-	-
Total other assets	5,933,368	1,910,566	7,843,934	(144,778)	1,682,778	9,381,934	8,500,996
Property and Equipment:							
Land	-	-	-	1,727,406	-	1,727,406	1,727,406
Buildings and improvements	167,486	-	167,486	28,934,994	(2,761,795)	26,340,685	26,264,618
Furniture and equipment	696,445	-	696,445	1,075,726	-	1,772,171	1,721,996
Project under development	-	-	-	15,492,352	(679,000)	14,813,352	4,215,815
	863,931	-	863,931	47,230,478	(3,440,795)	44,653,614	33,929,835
Less - accumulated depreciation	821,834	-	821,834	12,374,507	(1,100,942)	12,095,399	11,256,605
Net property and equipment	42,097	-	42,097	34,855,971	(2,339,853)	32,558,215	22,673,230
Total assets	\$ 8,039,419	\$ 2,205,566	\$ 10,244,985	\$ 35,505,599	\$ (657,075)	\$ 45,093,509	\$ 33,769,543
Liabilities and Entities' Net Assets							
Current Liabilities:							
Current portion of long-term debt	\$ -	\$ -	\$ -	\$ 147,585	\$ -	\$ 147,585	\$ 142,336
Current portion of contingent debt	-	-	-	55,788	-	55,788	24,724
Accrued interest	-	-	-	11,908	-	11,908	12,133
Accounts payable and accrued expenses	344,310	625	344,935	276,060	-	620,995	765,599
Funds held in trust	140,906	-	140,906	43,649	-	184,555	144,773
Total current liabilities	485,216	625	485,841	534,990	-	1,020,831	1,089,565
Other Liabilities:							
Accounts payable - construction	-	-	-	2,839,215	-	2,839,215	1,147,480
Paycheck Protection Program loan	683,492	-	683,492	-	-	683,492	-
Long-term debt and unamortized debt issuance costs, net of current portion	-	-	-	12,106,436	-	12,106,436	6,836,994
Contingent debt and unamortized debt issuance costs, net of current portion	-	-	-	17,484,410	-	17,484,410	14,031,746
Notes payable and deferred interest - affiliates	-	-	-	2,135,150	(2,135,150)	-	-
Developer and overhead fees payable and deferred interest	-	-	-	584,285	(584,285)	-	-
Total other liabilities	683,492	-	683,492	35,149,496	(2,719,435)	33,113,553	22,016,220
Total liabilities	1,168,708	625	1,169,333	35,684,486	(2,719,435)	34,134,384	23,105,785
Entities' Net Assets:							
Net assets without donor restrictions:							
Operating	4,424,657	406	4,425,063	(570,016)	869,206	4,724,253	3,922,667
Board designated	2,107,351	-	2,107,351	-	-	2,107,351	2,107,351
Property and equipment	42,097	-	42,097	391,129	(3,464,051)	(3,030,825)	(1,932,644)
Real estate development	-	931,158	931,158	-	-	931,158	368,658
Total net assets without donor restrictions	6,574,105	931,564	7,505,669	(178,887)	(2,594,845)	4,731,937	4,466,032
Net assets with donor restrictions	296,606	1,273,377	1,569,983	-	-	1,569,983	1,294,240
Total Hearth entities' net assets	6,870,711	2,204,941	9,075,652	(178,887)	(2,594,845)	6,301,920	5,760,272
Non-controlling interest	-	-	-	-	4,657,205	4,657,205	4,903,486
Total entities' net assets	6,870,711	2,204,941	9,075,652	(178,887)	2,062,360	10,959,125	10,663,758
Total liabilities and entities' net assets	\$ 8,039,419	\$ 2,205,566	\$ 10,244,985	\$ 35,505,599	\$ (657,075)	\$ 45,093,509	\$ 33,769,543

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

HEARTH, INC. AND AFFILIATES

Consolidating Statement of Financial Position
December 31, 2019

Assets	Hearth, Inc.			Rental Properties (Exhibit B)	Eliminations	Total
	Operating	Real Estate Development	Total			
Current Assets:						
Cash and cash equivalents	\$ 949,162	\$ -	\$ 949,162	\$ 279,790	\$ -	\$ 1,228,952
Funds held in trust	95,477	-	95,477	49,296	-	144,773
Current portion of reserves and deposits	-	-	-	75,708	-	75,708
Current portion of government contracts and other receivables, net	587,175	285,000	872,175	84,715	-	956,890
Prepaid expenses and deposits	79,699	-	79,699	109,295	-	188,994
Current portion of due (to) from affiliates, net	108,780	-	108,780	(108,780)	-	-
Total current assets	1,820,293	285,000	2,105,293	490,024	-	2,595,317
Other Assets:						
Government contracts and other receivables, net of current portion	-	268,000	268,000	-	-	268,000
Reserves and deposits, net of current portion	-	542,332	542,332	2,654,013	-	3,196,345
Investments	5,036,651	-	5,036,651	-	-	5,036,651
Due (to) from affiliates, net of current portion	(83,451)	456,603	373,152	(2,107,872)	1,734,720	-
Investments in affiliates	-	51,942	51,942	-	(51,942)	-
Total other assets	4,953,200	1,318,877	6,272,077	546,141	1,682,778	8,500,996
Property and Equipment:						
Land	-	-	-	1,727,406	-	1,727,406
Buildings and improvements	167,486	-	167,486	28,858,927	(2,761,795)	26,264,618
Furniture and equipment	696,445	-	696,445	1,025,551	-	1,721,996
Project under development	-	-	-	4,444,724	(228,909)	4,215,815
	863,931	-	863,931	36,056,608	(2,990,704)	33,929,835
Less - accumulated depreciation	797,190	-	797,190	11,484,022	(1,024,607)	11,256,605
Net property and equipment	66,741	-	66,741	24,572,586	(1,966,097)	22,673,230
Total assets	\$ 6,840,234	\$ 1,603,877	\$ 8,444,111	\$ 25,608,751	\$ (283,319)	\$ 33,769,543
Liabilities and Entities' Equity (Deficit)						
Current Liabilities:						
Current portion of long-term debt	\$ -	\$ -	\$ -	\$ 142,336	\$ -	\$ 142,336
Current portion of contingent debt	-	-	-	24,724	-	24,724
Accrued interest	-	-	-	12,133	-	12,133
Accounts payable and accrued expenses	500,502	219	500,721	264,878	-	765,599
Deferred developer overhead	-	108,909	108,909	-	(108,909)	-
Funds held in trust	95,477	-	95,477	49,296	-	144,773
Total current liabilities	595,979	109,128	705,107	493,367	(108,909)	1,089,565
Other Liabilities:						
Accounts payable - construction	-	-	-	1,147,480	-	1,147,480
Long-term debt and unamortized debt issuance costs, net of current portion	-	-	-	6,836,994	-	6,836,994
Contingent debt and unamortized debt issuance costs, net of current portion	-	-	-	14,031,746	-	14,031,746
Notes payable and deferred interest - affiliates	-	-	-	2,135,150	(2,135,150)	-
Developer and overhead fees payable and deferred interest	-	-	-	551,236	(551,236)	-
Total other liabilities	-	-	-	24,702,606	(2,686,386)	22,016,220
Total liabilities	595,979	109,128	705,107	25,195,973	(2,795,295)	23,105,785
Entities' Net Assets:						
Net assets without donor restrictions:						
Operating	3,899,300	2,714	3,902,014	(804,028)	824,681	3,922,667
Board designated	2,107,351	-	2,107,351	-	-	2,107,351
Property and equipment	66,741	-	66,741	1,216,806	(3,216,191)	(1,932,644)
Real estate development	-	368,658	368,658	-	-	368,658
Total net assets without donor restrictions	6,073,392	371,372	6,444,764	412,778	(2,391,510)	4,466,032
Net assets with donor restrictions	170,863	1,123,377	1,294,240	-	-	1,294,240
Total Hearth entities' net assets	6,244,255	1,494,749	7,739,004	412,778	(2,391,510)	5,760,272
Non-controlling interest	-	-	-	-	4,903,486	4,903,486
Total entities' net assets	6,244,255	1,494,749	7,739,004	412,778	2,511,976	10,663,758
Total liabilities and entities' net assets	\$ 6,840,234	\$ 1,603,877	\$ 8,444,111	\$ 25,608,751	\$ (283,319)	\$ 33,769,543

HEARTH, INC. AND AFFILIATES

Consolidating Statement of Activities

For the Year Ended December 31, 2020

(With Summarized Comparative Totals for the Year Ended December 31, 2019)

	2020					2019
	Hearth, Inc.					
	Operating	Real Estate Development	Total	Rental Properties (Exhibit C)	Eliminations	Total
Changes in Net Assets Without Donor Restrictions:						
Operating revenues:						
Fee income and other revenue:						
Rental fees, net	\$ -	\$ -	\$ -	\$ 3,582,484	\$ (45,000)	\$ 3,537,484
Government and other contracts	1,615,147	-	1,615,147	-	-	1,615,147
Program revenues	1,181,416	-	1,181,416	-	-	1,181,416
Resident service fees	264,540	-	264,540	-	-	264,540
Developer and overhead fees	163,265	559,000	722,265	-	(559,000)	163,265
Interest income	-	1,572	1,572	15,374	-	16,946
Other	31,407	-	31,407	-	(27,082)	4,325
Management and service fees	272,881	-	272,881	-	(272,881)	-
Total fee income and other revenue	3,528,656	560,572	4,089,228	3,597,858	(903,963)	6,783,123
Support:						
Private grants, contributions and special events	675,925	-	675,925	-	-	675,925
Donated goods and services	53,867	-	53,867	-	-	53,867
Net assets released from purpose restrictions	27,650	-	27,650	-	-	27,650
Net assets released from time restrictions	120,000	-	120,000	-	-	120,000
Total support	877,442	-	877,442	-	-	877,442
Total operating revenues	4,406,098	560,572	4,966,670	3,597,858	(903,963)	7,660,565
Operating expenses:						
Outreach	746,859	-	746,859	-	-	746,859
Housing and supportive services	2,605,570	61	2,605,631	3,040,404	(284,973)	5,361,062
General and administration	946,524	-	946,524	-	(20,250)	926,274
Institutional advancement	393,470	-	393,470	-	(6,750)	386,720
Total operating expenses before depreciation and amortization	4,692,423	61	4,692,484	3,040,404	(311,973)	7,420,915
Depreciation and amortization	24,644	-	24,644	895,165	(76,335)	843,474
Total operating expenses	4,717,067	61	4,717,128	3,935,569	(388,308)	8,264,389
Changes in net assets without donor restrictions from operations	(310,969)	560,511	249,542	(337,711)	(515,655)	(603,824)
Other revenues (expenses):						
Investment return, net	815,243	-	815,243	-	-	815,243
General partner expenses	-	(3,880)	(3,880)	-	-	(3,880)
Deferred interest on contingent debt	-	-	-	(220,964)	33,049	(187,915)
Total other revenues (expenses)	815,243	(3,880)	811,363	(220,964)	33,049	623,448
Changes in net assets without donor restrictions	504,274	556,631	1,060,905	(558,675)	(482,606)	19,624
Changes in Net Assets With Donor Restrictions:						
Grants	273,393	150,000	423,393	-	-	423,393
Net assets released from restrictions	(147,650)	-	(147,650)	-	-	(147,650)
Changes in net assets with donor restrictions	125,743	150,000	275,743	-	-	275,743
Changes in net assets	630,017	706,631	1,336,648	(558,675)	(482,606)	295,367
Changes in Net Assets Attributable to Non-Controlling Interest	-	-	-	246,281	-	246,281
Changes in net assets attributable to Hearth	\$ 630,017	\$ 706,631	\$ 1,336,648	\$ (312,394)	\$ (482,606)	\$ 541,648

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, 2019

	Hearth, Inc.			Rental Properties (Exhibit D)	Eliminations	Total
	Operating	Real Estate Development	Total			
Changes in Net Assets Without Donor Restrictions:						
Operating revenues:						
Fee income and other revenue:						
Rental fees, net	\$ -	\$ -	\$ -	\$ 3,089,093	\$ (45,000)	\$ 3,044,093
Government and other contracts	1,645,806	-	1,645,806	-	-	1,645,806
Program revenues	1,183,665	-	1,183,665	-	-	1,183,665
Resident service fees	236,643	-	236,643	-	-	236,643
Developer and overhead fees	-	120,000	120,000	-	(120,000)	-
Interest income	-	5,391	5,391	32,475	-	37,866
Other	49,677	-	49,677	-	(40,358)	9,319
Management and service fees	263,395	-	263,395	-	(263,395)	-
Total fee income and other revenue	3,379,186	125,391	3,504,577	3,121,568	(468,753)	6,157,392
Support:						
Private grants, contributions and special events	379,262	-	379,262	-	-	379,262
Donated goods and services	90,967	-	90,967	-	-	90,967
Net assets released from purpose restrictions	33,986	-	33,986	-	-	33,986
Net assets released from time restrictions	115,000	-	115,000	-	-	115,000
Total support	619,215	-	619,215	-	-	619,215
Total operating revenues	3,998,401	125,391	4,123,792	3,121,568	(468,753)	6,776,607
Operating expenses:						
Outreach	710,136	-	710,136	-	-	710,136
Housing and supportive services	2,336,427	737	2,337,164	2,840,268	(281,753)	4,895,679
General and administration	607,914	-	607,914	-	(23,801)	584,113
Institutional advancement	417,254	-	417,254	-	(6,750)	410,504
Total operating expenses before depreciation and amortization	4,071,731	737	4,072,468	2,840,268	(312,304)	6,600,432
Depreciation and amortization	24,644	-	24,644	876,621	(76,335)	824,930
Total operating expenses	4,096,375	737	4,097,112	3,716,889	(388,639)	7,425,362
Changes in net assets without donor restrictions from operations	(97,974)	124,654	26,680	(595,321)	(80,114)	(648,755)
Other revenues (expenses):						
Investment return, net	806,340	-	806,340	-	-	806,340
General partner expenses	-	(2,132)	(2,132)	-	-	(2,132)
Deferred interest on contingent debt	-	-	-	(210,038)	31,202	(178,836)
Total other revenues (expenses)	806,340	(2,132)	804,208	(210,038)	31,202	625,372
Changes in net assets without donor restrictions	708,366	122,522	830,888	(805,359)	(48,912)	(23,383)
Changes in Net Assets With Donor Restrictions:						
Grants	48,438	488,000	536,438	-	-	536,438
Net assets released from restrictions	(148,986)	-	(148,986)	-	-	(148,986)
Changes in net assets with donor restrictions	(100,548)	488,000	387,452	-	-	387,452
Changes in net assets	607,818	610,522	1,218,340	(805,359)	(48,912)	364,069
Changes in Net Assets Attributable to Non-Controlling Interest	-	-	-	196,289	-	196,289
Changes in net assets attributable to Hearth	\$ 607,818	\$ 610,522	\$ 1,218,340	\$ (609,070)	\$ (48,912)	\$ 560,358

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

HEARTH, INC. AND AFFILIATES

Consolidating Statements of Changes in Entities' Net Assets
For the Years Ended December 31, 2020 and 2019

	Hearth, Inc.						Non- Controlling Interest	
	Operating	Real Estate Development	Total	Rental Properties	Eliminations	Total		Total
Entities' Net Assets, December 31, 2018	\$ 5,635,397	\$ 885,267	\$ 6,520,664	\$ 1,258,137	\$ (2,578,887)	\$ 5,199,914	\$ 5,099,775	\$ 10,299,689
Capital distribution	-	-	-	(40,000)	40,000	-	-	-
Changes in net assets	607,818	610,522	1,218,340	(805,359)	147,377	560,358	(196,289)	364,069
Transfers	1,040	(1,040)	-	-	-	-	-	-
Entities' Net Assets, December 31, 2019	6,244,255	1,494,749	7,739,004	412,778	(2,391,510)	5,760,272	4,903,486	10,663,758
Capital distribution	-	-	-	(32,990)	32,990	-	-	-
Changes in net assets	630,017	706,631	1,336,648	(558,675)	(236,325)	541,648	(246,281)	295,367
Transfers	(3,561)	3,561	-	-	-	-	-	-
Entities' Net Assets, December 31, 2020	<u>\$ 6,870,711</u>	<u>\$ 2,204,941</u>	<u>\$ 9,075,652</u>	<u>\$ (178,887)</u>	<u>\$ (2,594,845)</u>	<u>\$ 6,301,920</u>	<u>\$ 4,657,205</u>	<u>\$ 10,959,125</u>

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

HEARTH, INC. AND AFFILIATES

Consolidating Statement of Cash Flows
For the Year Ended December 31, 2020

	Hearth	Rental Properties	Eliminations	Total
Cash Flows from Operating Activities:				
Changes in net assets	\$ 1,336,648	\$ (558,675)	\$ (482,606)	\$ 295,367
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:				
Depreciation and amortization	24,644	895,165	(76,335)	843,474
Deferred interest on contingent debt	-	220,964	(33,049)	187,915
Interest - amortization of debt issuance costs	-	16,778	-	16,778
Investment return	(815,243)	-	-	(815,243)
Capital grants	(150,000)	-	-	(150,000)
Bad debt	78,228	4,781	-	83,009
Changes in operating assets and liabilities:				
Government contracts and other receivables	78,857	3,386	-	82,243
Prepaid expenses and deposits	(8,954)	32,982	-	24,028
Due from affiliates, net	(229,030)	120,121	108,909	-
Accrued interest	-	(225)	-	(225)
Accounts payable and accrued expenses	(155,786)	(533,073)	-	(688,859)
Funds held in trust	45,429	(5,647)	-	39,782
Net cash provided by (used in) operating activities	204,793	196,557	(483,081)	(81,731)
Cash Flows from Investing Activities:				
Acquisition of property and equipment	(1,022,182)	(7,915,698)	450,091	(8,487,789)
Cash Flows from Financing Activities:				
Proceeds from capital grants	150,000	-	-	150,000
Proceeds from Paycheck Protection Program loan	683,492	-	-	683,492
Proceeds from long-term debt	-	5,401,183	-	5,401,183
Proceeds from contingent debt	-	3,294,366	-	3,294,366
Principal payments of long-term debt	-	(141,823)	-	(141,823)
Capital distribution	-	(32,990)	32,990	-
Net cash provided by financing activities	833,492	8,520,736	32,990	9,387,218
Net Change in Cash, Cash Equivalents and Restricted Cash	16,103	801,595	-	817,698
Cash, Cash Equivalents and Restricted Cash:				
Beginning of year	1,586,971	3,058,807	-	4,645,778
End of year	\$ 1,603,074	\$ 3,860,402	\$ -	\$ 5,463,476
Reconciliation of Cash, Cash Equivalents and Restricted Cash Reported Within the Consolidating Statement of Financial Position:				
Cash and cash equivalents	\$ 1,118,995	\$ 664,928	\$ -	\$ 1,783,923
Funds held in trust	140,906	43,649	-	184,555
Reserves and deposits	343,173	3,151,825	-	3,494,998
Total cash, cash equivalents and restricted cash	\$ 1,603,074	\$ 3,860,402	\$ -	\$ 5,463,476
Supplemental Disclosure of Non-Cash Transactions:				
Cash paid for interest	\$ -	\$ 214,774	\$ (27,082)	\$ 187,692
Property and equipment additions funded through due from affiliates	\$ (1,407,758)	\$ 1,407,758	\$ -	\$ -
Property and equipment additions included in accounts payable - construction	\$ -	\$ 1,691,735	\$ -	\$ 1,691,735

HEARTH, INC. AND AFFILIATES

Consolidating Statement of Cash Flows
For the Year Ended December 31, 2019

	Hearth	Rental Properties	Eliminations	Total
Cash Flows from Operating Activities:				
Changes in net assets	\$ 1,218,340	\$ (805,359)	\$ (48,912)	\$ 364,069
Adjustments to reconcile changes in net assets to net cash provided by operating activities:				
Depreciation and amortization	24,644	876,621	(76,335)	824,930
Deferred interest on contingent debt	-	210,038	(31,202)	178,836
Interest - amortization of debt issuance costs	-	16,998	-	16,998
Investment return	(806,340)	-	-	(806,340)
Capital grants	(488,000)	-	-	(488,000)
Bad debt	79,725	9,611	(3,551)	85,785
Changes in operating assets and liabilities:				
Government contracts and other receivables	115,032	(40,056)	-	74,976
Prepaid expenses and deposits	(23,210)	(6,670)	-	(29,880)
Due from affiliates, net	(82,359)	82,359	-	-
Accrued interest	-	(219)	-	(219)
Accounts payable and accrued expenses	(13,295)	83,998	-	70,703
Deferred developer overhead	108,909	-	(108,909)	-
Funds held in trust	26,468	657	-	27,125
Net cash provided by operating activities	159,914	427,978	(268,909)	318,983
Cash Flows from Investing Activities:				
Acquisition of property and equipment	(42,000)	(3,134,237)	228,909	(2,947,328)
Cash Flows from Financing Activities:				
Proceeds from capital grants	335,000	-	-	335,000
Proceeds from long-term debt	-	1,981,573	-	1,981,573
Proceeds from contingent debt	-	1,230,686	-	1,230,686
Principal payments of long-term debt	-	(132,623)	-	(132,623)
Capital distribution	-	(40,000)	40,000	-
Net cash provided by financing activities	335,000	3,039,636	40,000	3,414,636
Net Change in Cash, Cash Equivalents and Restricted Cash	452,914	333,377	-	786,291
Cash, Cash Equivalents and Restricted Cash:				
Beginning of year	1,134,057	2,725,430	-	3,859,487
End of year	\$ 1,586,971	\$ 3,058,807	\$ -	\$ 4,645,778
Reconciliation of Cash, Cash Equivalents and Restricted Cash Reported Within the Consolidating Statement of Financial Position:				
Cash and cash equivalents	\$ 949,162	\$ 279,790	\$ -	\$ 1,228,952
Funds held in trust	95,477	49,296	-	144,773
Reserves and deposits	542,332	2,729,721	-	3,272,053
Total cash, cash equivalents and restricted cash	\$ 1,586,971	\$ 3,058,807	\$ -	\$ 4,645,778
Supplemental Disclosure of Non-Cash Transactions:				
Cash paid for interest	\$ -	\$ 232,686	\$ (40,358)	\$ 192,328
Property and equipment additions funded through due from affiliates	\$ (385,576)	\$ 385,576	\$ -	\$ -
Property and equipment additions included in accounts payable - construction	\$ -	\$ 1,147,480	\$ -	\$ 1,147,480

HEARTH, INC. AND AFFILIATES

Consolidating Statement of Functional Expenses
For the Year Ended December 31, 2020
(With Summarized Comparative Totals for the Year Ended December 31, 2019)

	2020										2019	
	Program Services					Support Services						
	Housing and Supportive Services											
	Outreach	Hearth	Real Estate Development	Rental Properties	Total	Total Program Services	General and Admins- tration	Institutional Advancement	Total Support Services	Eliminations	Total	Total
Expenses:												
Personnel and related:												
Salaries	\$ 393,683	\$ 1,851,902	\$ -	\$ 1,048,880	\$ 2,900,782	\$ 3,294,465	\$ 598,022	\$ 279,384	\$ 877,406	\$ -	\$ 4,171,871	\$ 3,518,104
Payroll taxes	31,949	191,209	61	85,677	276,947	308,896	54,994	23,713	78,707	-	387,603	315,011
Fringe benefits	28,429	132,709	-	133,786	266,495	294,924	33,429	23,374	56,803	-	351,727	287,212
Consultants and contracted services	7,783	52,268	-	42,921	95,189	102,972	49,364	8,424	57,788	-	160,760	94,003
Total personnel and related	461,844	2,228,088	61	1,311,264	3,539,413	4,001,257	735,809	334,895	1,070,704	-	5,071,961	4,214,330
Occupancy:												
Repairs and maintenance	180	22,422	-	384,296	406,718	406,898	4,766	160	4,926	-	411,824	474,457
Utilities	-	-	-	339,075	339,075	339,075	-	-	-	-	339,075	346,247
Mortgage interest	-	-	-	177,701	177,701	177,701	-	-	-	-	177,701	182,343
Real estate taxes	-	-	-	127,533	127,533	127,533	-	-	-	-	127,533	126,091
Insurance	1,787	8,464	-	96,792	105,256	107,043	-	1,787	1,787	-	108,830	97,838
Rent	18,000	-	-	-	-	18,000	20,250	6,750	27,000	(45,000)	-	-
Total occupancy	19,967	30,886	-	1,125,397	1,156,283	1,176,250	25,016	8,697	33,713	(45,000)	1,164,963	1,226,976
Other:												
Management and administrative fees	73,355	-	-	387,369	387,369	460,724	-	-	-	(239,891)	220,833	186,429
Supplies and client expenses	167,191	13,868	-	6,072	19,940	187,131	247	6,978	7,225	-	194,356	167,033
Professional fees	-	839	-	81,853	82,692	82,692	90,924	11,699	102,623	-	185,315	168,077
Office	7,997	33,103	-	41,289	74,392	82,389	30,046	12,636	42,682	-	125,071	87,708
Food and household supplies	-	116,492	-	-	116,492	116,492	-	249	249	-	116,741	111,858
Bad debt	-	78,228	-	4,781	83,009	83,009	-	-	-	-	83,009	85,785
Telephone	7,258	41,509	-	9,957	51,466	58,724	12,758	2,247	15,005	-	73,729	59,893
Miscellaneous	891	10,234	-	14,791	25,025	25,916	18,885	248	19,133	-	45,049	44,685
Insurance	-	17,979	-	-	17,979	17,979	17,281	-	17,281	-	35,260	30,529
Recruitment	2,028	23,574	-	-	23,574	25,602	528	-	528	-	26,130	20,302
Printing and copying	965	8,116	-	-	8,116	9,081	2,121	14,786	16,907	-	25,988	27,377
Interest - amortization of debt issuance costs	-	-	-	16,778	16,778	16,778	-	-	-	-	16,778	16,998
Insurance loss	-	-	-	13,771	13,771	13,771	-	-	-	-	13,771	-
Travel and training	5,363	1,827	-	-	1,827	7,190	5,251	343	5,594	-	12,784	17,453
Meetings and events	-	827	-	-	827	827	7,658	172	7,830	-	8,657	134,481
Advertising	-	-	-	-	-	-	-	520	520	-	520	518
Interest	-	-	-	27,082	27,082	27,082	-	-	-	(27,082)	-	-
Total other	265,048	346,596	-	603,743	950,339	1,215,387	185,699	49,878	235,577	(266,973)	1,183,991	1,159,126
Total expenses before depreciation, amortization and allocation	746,859	2,605,570	61	3,040,404	5,646,035	6,392,894	946,524	393,470	1,339,994	(311,973)	7,420,915	6,600,432
Depreciation and Amortization	3,579	19,863	-	895,165	915,028	918,607	1,202	-	1,202	(76,335)	843,474	824,930
Total expenses before allocation	750,438	2,625,433	61	3,935,569	6,561,063	7,311,501	947,726	393,470	1,341,196	(388,308)	8,264,389	7,425,362
General and Administration Allocation	188,681	660,101	15	-	660,116	848,797	(947,726)	98,929	(848,797)	-	-	-
Total expenses	\$ 939,119	\$ 3,285,534	\$ 76	\$ 3,935,569	\$ 7,221,179	\$ 8,160,298	\$ -	\$ 492,399	\$ 492,399	\$ (388,308)	\$ 8,264,389	\$ 7,425,362

HEARTH, INC. AND AFFILIATES

Consolidating Statement of Functional Expenses
For the Year Ended December 31, 2019

	Program Services					Support Services					
	Housing and Supportive Services						General and Adminis- tration	Institutional Advancement	Total Support Services	Eliminations	Total
	Outreach	Hearth	Real Estate Development	Rental Properties	Total	Total Program Services					
Expenses:											
Personnel and related:											
Salaries	\$ 385,342	\$ 1,680,893	\$ -	\$ 905,226	\$ 2,586,119	\$ 2,971,461	\$ 341,856	\$ 204,787	\$ 546,643	\$ -	\$ 3,518,104
Payroll taxes	28,500	162,891	102	72,038	235,031	263,531	34,487	16,993	51,480	-	315,011
Fringe benefits	28,212	136,249	635	83,077	219,961	248,173	17,785	21,254	39,039	-	287,212
Consultants and contracted services	8,491	44,773	-	4,000	48,773	57,264	31,041	5,698	36,739	-	94,003
Total personnel and related	450,545	2,024,806	737	1,064,341	3,089,884	3,540,429	425,169	248,732	673,901	-	4,214,330
Occupancy:											
Repairs and maintenance	1,137	2,192	-	469,389	471,581	472,718	1,479	260	1,739	-	474,457
Utilities	-	-	-	346,247	346,247	346,247	-	-	-	-	346,247
Mortgage interest	-	-	-	182,343	182,343	182,343	-	-	-	-	182,343
Real estate taxes	-	-	-	126,091	126,091	126,091	-	-	-	-	126,091
Insurance	1,464	6,939	-	87,971	94,910	96,374	-	1,464	1,464	-	97,838
Rent	18,000	-	-	-	-	18,000	20,250	6,750	27,000	(45,000)	-
Total occupancy	20,601	9,131	-	1,212,041	1,221,172	1,241,773	21,729	8,474	30,203	(45,000)	1,226,976
Other:											
Management and administrative fees	68,187	-	-	341,637	341,637	409,824	-	-	-	(223,395)	186,429
Supplies and client expenses	148,862	18,166	-	-	18,166	167,028	5	-	5	-	167,033
Professional fees	-	798	-	91,944	92,742	92,742	67,662	7,673	75,335	-	168,077
Office	4,308	24,320	-	33,110	57,430	61,738	15,058	10,912	25,970	-	87,708
Food and household supplies	689	111,132	-	-	111,132	111,821	37	-	37	-	111,858
Bad debt	-	58,674	-	9,611	68,285	68,285	3,551	17,500	21,051	(3,551)	85,785
Telephone	5,748	33,819	-	9,738	43,557	49,305	9,455	1,133	10,588	-	59,893
Miscellaneous	867	9,316	-	20,490	29,806	30,673	13,737	275	14,012	-	44,685
Insurance	-	14,763	-	-	14,763	14,763	15,766	-	15,766	-	30,529
Recruitment	535	18,351	-	-	18,351	18,886	1,354	62	1,416	-	20,302
Printing and copying	1,184	10,124	-	-	10,124	11,308	3,375	12,694	16,069	-	27,377
Interest - amortization of debt issuance costs	-	-	-	16,998	16,998	16,998	-	-	-	-	16,998
Travel and training	8,610	3,027	-	-	3,027	11,637	4,707	1,109	5,816	-	17,453
Meetings and events	-	-	-	-	-	-	26,309	108,172	134,481	-	134,481
Advertising	-	-	-	-	-	-	-	518	518	-	518
Interest	-	-	-	40,358	40,358	40,358	-	-	-	(40,358)	-
Total other	238,990	302,490	-	563,886	866,376	1,105,366	161,016	160,048	321,064	(267,304)	1,159,126
Total expenses before depreciation, amortization and allocation	710,136	2,336,427	737	2,840,268	5,177,432	5,887,568	607,914	417,254	1,025,168	(312,304)	6,600,432
Depreciation and Amortization	3,579	19,863	-	876,621	896,484	900,063	1,202	-	1,202	(76,335)	824,930
Total expenses before allocation	713,715	2,356,290	737	3,716,889	6,073,916	6,787,631	609,116	417,254	1,026,370	(388,639)	7,425,362
General and Administration Allocation	124,638	411,483	129	-	411,612	536,250	(609,116)	72,866	(536,250)	-	-
Total expenses	\$ 838,353	\$ 2,767,773	\$ 866	\$ 3,716,889	\$ 6,485,528	\$ 7,323,881	\$ -	\$ 490,120	\$ 490,120	\$ (388,639)	\$ 7,425,362

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

HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements
December 31, 2020 and 2019

1. OPERATIONS

Hearth, Inc. (Hearth) is a non-profit organization dedicated to the elimination of homelessness among the elderly. This mission is accomplished through a unique blend of prevention, placement, and housing programs all designed to help elders find and succeed in homes of their own in Boston, Massachusetts.

To this end, all housing operated by Hearth provides a creative array of supportive services that assist residents to age with dignity, regardless of their special medical, mental health, or social needs. Hearth believes these goals are best accomplished through respect for elders and staff, with the desire to see both achieve their highest degree of potential.

2. SIGNIFICANT ACCOUNTING POLICIES

Hearth 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

The accompanying consolidating financial statements include the accounts of Hearth, its wholly-owned and majority-owned subsidiaries, certain controlled limited partnerships (LPs), and nonprofit organizations (collectively, the Agency) that own and operate real estate developments sponsored by Hearth (see Note 3). All significant intercompany balances and transactions have been eliminated in the accompanying consolidating financial statements. The related organizations are collectively referred to as the Affiliates in the accompanying consolidating financial statements and notes.

Cash, Cash Equivalents and Restricted Cash

For purposes of the consolidating statements of cash flows, cash and cash equivalents consist of cash, and all short-term, highly liquid investments with an initial maturity of three months or less. Cash and cash equivalents also include restricted cash, consisting of reserves and deposits (see Note 4) and funds held in trust (see Note 13). Cash and cash equivalents held in the Agency's investment portfolio (see Note 6) are excluded from cash and cash equivalents in the accompanying consolidating statements of cash flows.

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.

Government Contracts and Other Receivables

Government contracts and other receivables are recorded at their invoiced amounts and do not bear interest, or when rental fees and program revenues are earned. Pledges receivable are recorded at their net present value when unconditionally committed.

The reserve for uncollectible government contracts and other receivables is recorded based on management's analysis of specific accounts and their estimate of amounts that may become uncollectible, if any. Amounts are written off against the allowance when they are determined to be uncollectible.

HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements
December 31, 2020 and 2019

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment and Depreciation

Property and equipment are recorded at cost, if purchased, or at fair 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 \$167,000 at December 31, 2020 and 2019. Depreciation expense, net of eliminations, during 2020 and 2019 was \$838,794 and \$820,250, 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 2020 and 2019.

All project-related costs incurred during construction are capitalized for real estate developments currently owned by the Agency. Costs considered to be recoverable are capitalized. Recoverable costs expected to be realized within one year from the consolidating statements of financial position date, are classified as current. Other recoverable costs are classified as non-current.

Capitalized Costs and Amortization

Capitalized costs consist of low-income housing tax credit application fees which have been capitalized and amortized on the straight-line basis, and are included in prepaid expenses and deposits in the accompanying consolidating statements of financial position. Capitalized costs have a cost of \$46,800 as of December 31, 2020 and 2019. Accumulated amortization of capitalized costs was \$40,560 and \$35,880 as of December 31, 2020 and 2019, respectively. Amortization during 2020 and 2019 was \$4,680. Amortization is expected to be \$4,680 annually until capitalized costs are fully amortized.

Debt Issuance Costs

Debt issuance costs are amortized over the period the related obligation is outstanding using the effective interest method.

HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements
December 31, 2020 and 2019

2. 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 (see Note 8).

Revenue Recognition

Hearth generally measures revenue based on the amount of consideration Hearth expects to be entitled for the transfer of goods or services to a customer, then recognizes this revenue when or as Hearth satisfies its performance obligations under a contract, except in transactions where U.S. GAAP provides other applicable guidance. Hearth evaluates its revenue contracts with customers (i.e. developer and management fees) based on the five-step model under FASB's Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606): (1) Identify the contract with the customer; (2) Identify the performance obligations in the contract; (3) Determine the transaction price; (4) Allocate the transaction price to separate performance obligations; and (5) Recognize revenue when (or as) each performance obligation is satisfied.

Developer and overhead fees are earned by Hearth in its role as sponsor and developer of its affiliates' (see Note 3) projects. Developer and overhead fees are generally earned under written developer agreements executed with the affiliates that detail the rights and responsibilities of both parties under each project development agreement. The agreements define the scope of activities to be provided by Hearth and generally include supervising and coordinating project projections, overseeing the construction and or rehabilitation, obtaining the necessary permitting, and overseeing and coordinating any reporting requirements of the project. These activities under the agreement are considered a single performance obligation as the services provided are not considered to be distinct within the context of the agreement. Hearth determined the services within the agreement are highly interdependent with each other and comprise an integrated series of activities associated with the completion of a single real estate development project. Developer agreements define the fixed compensation which Hearth is expected to be entitled and a schedule of payments to be made from project development sources and, in some cases, from net cash flow from project operations. The performance obligations under developer agreements are satisfied over time as Hearth's performance creates or enhances a real estate asset that the affiliate controls. Accordingly, Hearth recognizes revenue from developer agreements over time as the services are rendered based on an input method of developer time and effort incurred relative to total expected developer time and effort to complete the contract. Due to the contingent nature of certain developer and overhead fees which may be payable from net cash flow from project operations, some are not recognized until received or when collection is assured. See Note 3 for required disclosures related to these developer agreements.

HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements
December 31, 2020 and 2019

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Management and service fees are recognized by Hearth for services provided to their affiliates (see Note 3), which include partnership management fees and administration fees. Services are generally provided on an annual basis incident to separate agreements that renew annually at the election of the parties or under aspects of the operating agreements that govern the operations of the affiliate. These agreements specify the compensation for each annual period. Each service is considered a single performance obligation as each service is distinct. The performance obligations under these agreements are satisfied evenly over the year as the affiliate receives the benefits provided as Hearth performs the services. Management fees are generally recognized in one calendar year. Compensation is generally fixed under the relevant agreement, but may contain variable components in the case of certain partnership management services. Certain fees are only earned and or payable subject to the availability of net cash flow from the affiliate's operations and are only recognized as revenue when collection is assured.

Resident service fees consist of resident fees which are recognized as services are provided. The performance obligations of delivering resident services are simultaneously received and consumed by the recipients; therefore, the revenue is recognized as resident services are provided. These amounts are recognized as revenue in accordance with Topic 606.

Program revenues consist of agreements with third-party payors and provide for payments at amounts less than established charges. These amounts are recognized as revenue in accordance with Topic 606. Program revenues are recorded over time as the services are provided. A summary of the payment arrangements with significant third-party payors is as follows:

- **Group Adult Foster Care (GAFC)** - Services are billed in accordance with the provisions of the GAFC contract and billed on a monthly basis based on number of units served. GAFC revenue accounted for approximately \$253,000 and \$317,000 of total program revenues during 2020 and 2019, respectively.
- **Commonwealth Care Alliance (CCA)** - Reimbursements for CCA are billed based on a pre-determined rate per individual. CCA revenue accounted for approximately \$504,000 and \$509,000 of total program revenues during 2020 and 2019, respectively.
- **Senior Whole Health (SWH)** - Reimbursements for SWH are billed based on pre-determined rates per individual based on the type of non-service days. SWH revenue accounted for approximately \$117,000 and \$177,000 of total program revenues during 2020 and 2019, respectively.
- **OneCare** - Reimbursements for OneCare are billed based on pre-determined rates per individual based on the type of leave of absence. OneCare revenue accounted for approximately \$107,000 of total program revenues during 2020 and 2019.
- **Uphams Elder Services (UES)** - Reimbursements for UES are billed based on pre-determined rates per individual based on a per day basis. UES revenue accounted for approximately \$171,000 and \$42,000 of total program revenues during 2020 and 2019, respectively.
- **Other Program Revenue** - Reimbursements are recognized and billed based on the daily services provided. All other program revenue accounted for approximately \$29,000 and \$33,000 of total program revenues during 2020 and 2019, respectively.

HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements
December 31, 2020 and 2019

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

In accordance with ASC Subtopic 958-605, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (Topic 958), Hearth must determine whether a contribution (or a promise) is conditional or unconditional for transactions deemed to be a contribution. A contribution is considered to be a conditional contribution if an agreement includes a barrier that must be overcome and either a right of return of assets or a right of release of a promise to transfer assets exists. Indicators of a barrier include a measurable performance-related barrier or another measurable barrier, a stipulation that limits discretion by the recipient on the conduct of an activity, and stipulations that are related to the purpose of the agreement. Topic 958 prescribes that Hearth should not consider probability of compliance with the barrier when determining if such awards are conditional and should be reported as conditional grant advance liabilities until such conditions are met. Government and other contracts are deemed to be contributions and recognized in accordance with Topic 958 since these contracts are considered nonreciprocal transactions because the general public receives the benefit as a result of the assets transferred. These conditional contributions are recognized as services are provided or as costs are incurred.

For contributions that have been recognized prior to adoption of Topic 958, the standard is not required to be retrospectively applied. Prior to the adoption of Topic 958, effective for calendar year 2019, Hearth had received similar awards for real estate development projects. For those awards, Hearth had assessed the probability of non-compliance with affordability covenants related to such projects as low or remote, and accordingly, recorded such awards as unconditional contribution revenues upon receipt and reported any potential remaining right of return as contingencies (see Note 11).

Grants and contributions without donor restrictions are recognized as revenue when received or unconditionally committed. Grants and contributions with donor restrictions are recorded as revenue with donor restrictions and net assets when received or unconditionally pledged. Transfers are made to net assets without donor restrictions as costs are incurred or time restrictions or program restrictions have lapsed. Grants with donor restrictions received and satisfied in the same period are included in net assets without donor restrictions.

Rental fees are recognized pro rata over the life of the related leases and is net of vacancies of \$124,512 and \$123,647 for 2020 and 2019, respectively. Special event revenue is recorded at the time of the event. Investment income is recognized when earned. Gains and losses are recognized as incurred upon sale or maturity of investments or based on fair value changes during the period. All other revenue is recognized when earned.

Donated Goods and Services

The Agency receives goods and services from various donating organizations for use in its programs. The Agency received \$30,137 and \$61,945 of donated goods and \$23,730 and \$29,022 of donated services for 2020 and 2019, respectively. These goods and services are reflected in donated goods and services, supplies and client expenses, and meetings and events in the accompanying consolidating financial statements based on the estimated value assigned to them by the donating organizations or by management.

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.

HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements
December 31, 2020 and 2019

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Expense Allocation

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

The consolidating financial statements contain certain categories of expenses that are attributable to program and supporting functions and are allocated on a reasonable basis that is consistently applied. The expenses that are allocated include salaries, fringe benefits, payroll taxes, occupancy, and depreciation, which are allocated based on an estimate of time and level of effort spent on the Agency's program and supporting functions.

Income Taxes and Nonprofit Status

Hearth and its not-for-profit affiliates, Bishop and Beacon (see Note 3), are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC). Hearth and its not-for-profit affiliates are also exempt from state income taxes. Donors may deduct contributions made to Hearth and its not-for-profit affiliates within IRC requirements. Hearth has for-profit corporate affiliates, the General Partners (see Note 3). At December 31, 2020 and 2019, the General Partners have, for Federal income tax purposes, net operating loss carryforwards of approximately \$865,000 and \$863,000, respectively, available to offset future taxable income. Also, at December 31, 2020 and 2019, the General Partners have, for state income tax purposes, net operating loss carryforwards of approximately \$586,000 and \$587,000, respectively, to offset future taxable income. A portion of these carryforwards expire at various dates through 2037 and are not subject to limitations. Net operating losses arising for taxable years beginning after January 1, 2018, are available indefinitely. The tax benefit of the net operating loss carryforwards has been fully reserved as of December 31, 2020 and 2019, 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 statements 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, 2020 and 2019. The Agency's information and income tax returns are subject to examination by the Federal and state jurisdictions.

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.

HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements
December 31, 2020 and 2019

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

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.

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

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 common stocks, exchange traded funds, and fixed income securities 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, 2020 and 2019 (see Note 6).

All Other Assets and Liabilities

The carrying value of all other qualifying 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 June 23, 2021, which is the date the consolidating financial statements were available to be issued. See Note 10 for an event that met the criteria for 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 in the accompanying consolidating statements of activities. Other revenues (expenses) include capital and investment related activities.

HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements
December 31, 2020 and 2019

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Asset Classification

Net assets without donor restrictions are those net resources that bear no external restrictions and are generally available for use by the Agency. The Agency has grouped its net assets without donor restrictions into the following categories:

- **Operating** represents undesignated net assets relating to program services and other operating activities.
- **Board Designated** represents net assets without donor restrictions designated by the Board of Directors for the following purposes:

Opportunity reserve is intended to provide funds to meet special targets of opportunity or needs that relate to the Agency's mission, which may or may not have specific expectation of incremental or long-term increased income. The opportunity reserve is intended to be used as a source of internal funds for organizational capacity building such as staff development, research and development, or investment in infrastructure that will build long-term capacity.

Working capital reserve is intended to provide an internal source of funds for situations such as unforeseen expenses, one-time unbudgeted expenses, unanticipated loss in funding, and other losses.

Other represents funds designated by the Board of Directors for specific operating and development purposes.

Board Designated net assets consist of the following as of December 31, 2020 and 2019:

Opportunity reserve	\$ 1,000,000
Working capital reserve	1,000,000
Other	<u>107,351</u>
	<u>\$ 2,107,351</u>

- **Property and equipment** represent that portion of net assets invested into property and equipment, net of related liabilities.
- **Real Estate Development** represents those assets and liabilities related to the Agency's project developments, completed and uncompleted, which are long-term in nature and are not expected to be available for operations for at least one year from the consolidating statement of financial position date.

HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements
December 31, 2020 and 2019

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Asset Classification (Continued)

Net assets with donor restrictions include grants and contributions which are designated by donors for specific purposes and designated time periods. These grants and contributions are recorded as net assets with donor restrictions until they are expended for their designated purposes or when the designated time periods expire. Net assets with donor restrictions consist of the following at December 31:

	<u>2020</u>	<u>2019</u>
Restricted for real estate development activities	\$ 1,273,377	\$ 1,123,377
Restricted for programs	260,070	49,613
Time restricted	24,000	120,000
Restricted for non-capital equipment and maintenance	<u>12,536</u>	<u>1,250</u>
Total net assets with donor restrictions	<u>\$ 1,569,983</u>	<u>\$ 1,294,240</u>

Non-controlling interest represents the interests of the investor limited partner in HOLP (see Note 3).

3. 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 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 (see page 20), as its general partner. Hearth 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 (see page 20), as its general partner. Hearth is the sole member of NCS.

Hearth Four Corners Manager, LLC (HFCM) is a Massachusetts limited liability company and has 0.01% interest in the capital, income, losses, and cash flow of Four Corners (see page 20), as its general partner. Hearth is the sole member of HFCM.

HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements
December 31, 2020 and 2019

3. AFFILIATES AND RELATED PARTY TRANSACTIONS (Continued)

AFFILIATES (Continued)

Rental Properties

Non-profit

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

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

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

For-profit

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 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. HOLP has been awarded low-income housing tax credits (LIHTCs) under IRC Section 42. As a condition of receiving these tax 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.

Ruggles Assisted Living Limited Partnership (Ruggles) is a Massachusetts limited partnership formed in June 2000. Ruggles operates forty-three assisted living and low-income housing units located in Roxbury, Massachusetts. Hearth holds a 99.9% interest in the capital, income, losses, and cash flow of Ruggles.

Hearth Four Corners, LLC (Four Corners) is a Massachusetts limited liability company formed in February 2017. Four Corners will be operating fifty-four low-income housing units located in Dorchester, Massachusetts. Four Corners has been awarded LIHTCs under IRC Section 42. As a condition of receiving these tax credits, Four Corners must operate its property in the manner prescribed by this Code Section and by the Tax Regulatory Agreement for a minimum of fifteen years.

HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements
December 31, 2020 and 2019

3. AFFILIATES AND RELATED PARTY TRANSACTIONS (Continued)

RELATED PARTY TRANSACTIONS

Developer Fees

Beacon

Hearth has a \$166,700 developer fee note receivable from Beacon for services provided during the development of the project. The note accrues interest at 6%, compounded annually. Principal and interest payments are due annually if a certain cash flow level, as defined in the agreement, is achieved. Deferred interest expense on the developer fee payable was \$33,049 and \$31,202 for 2020 and 2019, 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 has reserved the entire balance of principal and accrued interest.

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

	<u>2020</u>	<u>2019</u>
Beacon - developer fee	\$ 166,700	\$ 166,700
Deferred interest	<u>417,585</u>	<u>384,536</u>
	584,285	551,236
Less - reserve	<u>584,285</u>	<u>551,236</u>
Total	<u>\$ -</u>	<u>\$ -</u>

Four Corners

The following is a summary of the developer and overhead fee contract balance for Four Corners as of and for the years ended December 31, 2020 and 2019:

<u>Project</u>	<u>Total Contract</u>	<u>Recognized Prior to 2019</u>	<u>Recognized During 2019</u>	<u>Recognized During 2020</u>	<u>Remaining Contract Balance</u>
Four Corners	<u>\$ 1,748,480</u>	<u>\$ 147,421</u>	<u>\$ 120,000</u>	<u>\$ 722,265</u>	<u>\$ 758,794</u>

Due to/from consists the following as of December 31:

	<u>2020</u>	<u>2019</u>
Developer fee	\$ 679,000	\$ 120,000
Other project advances	674,403	265,576
Developer fee overhead	<u>54,355</u>	<u>-</u>
	<u>\$ 1,407,758</u>	<u>\$ 385,576</u>

During 2019, Hearth was advanced \$256,330 in connection with overhead costs. Hearth was reimbursed \$147,421 of overhead costs from Four Corners that was initially funded by Hearth during 2019. The difference between the advanced amount and the overhead costs incurred totaling \$108,909 has been reflected as deferred developer overhead in the accompanying 2019 consolidating statement of financial position.

HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements
December 31, 2020 and 2019

3. AFFILIATES AND RELATED PARTY TRANSACTIONS (Continued)

RELATED PARTY TRANSACTIONS (Continued)

Notes

During 2016, Hearth became the sole owner of NCS and, upon buyout, the existing \$250,000 Ruggles note payable to New Communities Services, Inc. was assigned to Hearth. All unpaid principal and deferred interest are due in full on June 29, 2031. This note accrued interest at 6%, compounded annually, through December 31, 2007. This agreement was amended on January 1, 2008, and the interest rate was reduced to zero. This note is secured by a shared second mortgage on Ruggles' property, which has been assigned to the Federal Home Loan Bank of Boston (FHLBB). All unpaid principal and accrued interest due to Hearth has been fully reserved.

Sponsor Notes

Hearth provided two non-interest bearing sponsor notes to HOLP. 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 HOLP's property located in Mattapan, Massachusetts. Hearth does not expect to receive any payments under these agreements. Accordingly, these notes are fully reserved.

The notes receivable and accrued interest that have been fully reserved in the accompanying consolidating financial statements consist of the following at December 31, 2020 and 2019:

	<u>Principal</u>	<u>Accrued Interest</u>
HOLP - Sponsor notes	\$ 1,780,136	\$ -
Ruggles - NCS loan	<u>250,000</u>	<u>105,014</u>
	2,030,136	105,014
Less - reserve	<u>2,030,136</u>	<u>105,014</u>
Total	<u>\$ -</u>	<u>\$ -</u>

Personnel, Management and Service Fees

Hearth has an agreement with the Rental Properties, excluding HOLP and Four Corners, to provide management and administrative services. Hearth is reimbursed for expenses and overhead applicable to these Rental Properties. Management and administrative fees are paid based upon available cash flow or as approved in the annual operating budget. Management fees have a first priority in payment from available cash flow.

Hearth has an agreement with Ruggles to provide supportive services to the tenants of Ruggles. Hearth is entitled to a service provider fee for its services at Ruggles, subject to an annual cash flow review. This agreement renews on an annual basis.

Ruggles has incurred recurring deficits from operations and owed Hearth \$1,204,939 and \$1,134,696 as of December 31, 2020 and 2019, respectively, for operating support and funding of reserves and deposits. Hearth has fully reserved these amounts as of December 31, 2020 and 2019.

HOM entered into an incentive management fee and a tax credit compliance fee agreement with HOLP. The fees for each of these agreements are based on a calculation as defined in HOLP's partnership agreement.

HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements
December 31, 2020 and 2019

3. AFFILIATES AND RELATED PARTY TRANSACTIONS (Continued)

RELATED PARTY TRANSACTIONS (Continued)

Lease Agreements

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

Hearth entered into a ground lease agreement with Four Corners for ninety-nine years at an annual rate of \$55,000, and increasing each year thereafter by 3%, through July 2118. Payments are made subject to cash flow. There was no ground lease expense recorded in 2020 as the Four Corners project is still under development.

Sponsor Obligations

Hearth has acted as sponsor and developer for various low-income and affordable housing developments. Most of these developments have received various forms of funding through Hearth from Federal, state, and local sources. The terms of these funding agreements generally require that the projects maintain affordable housing and low-income eligibility status, as defined. If such status is not maintained, Hearth may be obligated to remedy any defaults in the requirements and may be liable to repay certain amounts to the funders.

In addition, Hearth, as project sponsor, has, in some cases, agreed to advance funds to the Rental Properties as a guarantor of the General Partners' obligation to fund operating deficits, development cost overruns, payments for reduced tax benefits to limited partner investors, and other circumstances affecting the Rental Properties, as defined in the partnership agreements. As of the date of this report, Hearth has not made any such advances and is not obligated for any amount. Maximum guarantee under these agreements total \$1,394,278.

Purchase Options

HOLP and Four Corners have granted Hearth an option to purchase the limited partners' interest in HOLP and Four Corners at the end of the LIHTC compliance periods. The purchase price will be the greater of the fair market value, based on an appraisal, negotiation or a formula defined in the partnership agreements.

Investments in Affiliates

Investments in affiliates are recorded at cost and consist of CEC's investment in ECLP and HOM's investment in HOLP. CEC has fully reserved its investment of \$240,000 in ECLP.

4. RESERVES AND DEPOSITS

Replacement reserves are restricted for capital improvements and replacements to the properties.

Operating and investor service reserves consist of funds to be escrowed under the terms of certain mortgage, partnership and operating agreements. These funds are restricted for operating cash flow deficiencies and to fund non-critical repairs.

Construction cash consists of amounts received for future construction projects.

Insurance and real estate tax escrow consists of deposits in escrow accounts, which are restricted for real estate taxes and property insurance.

HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements
December 31, 2020 and 2019

4. RESERVES AND DEPOSITS (Continued)

Reserves and deposits consist of the following at December 31:

	<u>2020</u>	<u>2019</u>
Replacement reserves	\$ 1,639,024	\$ 1,600,084
Construction cash	1,005,602	842,923
Operating and investor services reserves	762,414	753,338
Insurance and real estate tax escrow	<u>87,958</u>	<u>75,708</u>
	3,494,998	3,272,053
Less - current portion	<u>87,958</u>	<u>75,708</u>
	<u>\$ 3,407,040</u>	<u>\$ 3,196,345</u>

5. GOVERNMENT CONTRACTS AND OTHER RECEIVABLES

Government contracts and other receivables consist of the following at December 31:

	<u>2020</u>	<u>2019</u>
Due within one year	\$ 1,020,992	\$ 1,037,657
Due in one to five years	<u>123,000</u>	<u>268,000</u>
	1,143,992	1,305,657
Less - allowance for uncollectible amounts	84,354	80,767
Less - current portion, net of allowance	<u>936,638</u>	<u>956,890</u>
Long-term government contracts and other receivables	<u>\$ 123,000</u>	<u>\$ 268,000</u>

The Agency has not recorded a discount on the long-term portion of pledges receivable as the amount is not material to the consolidating financial statements.

6. INVESTMENTS

Investments consist of the following at December 31:

	<u>2020</u>	<u>2019</u>
Stocks - domestic equity	\$ 3,303,608	\$ 2,624,855
Exchange traded funds:		
Other	1,274,630	1,009,888
Cash and cash equivalents	178,335	274,663
Fixed income:		
Treasury bills	583,913	566,767
Corporate bonds	<u>511,408</u>	<u>560,478</u>
Total	<u>\$ 5,851,894</u>	<u>\$ 5,036,651</u>

The following is a summary of the investment return for the years ended December 31:

	<u>2020</u>	<u>2019</u>
Realized and unrealized gains on investments	\$ 770,856	\$ 748,514
Dividend and interest income	92,567	103,376
Investment management fees	<u>(48,180)</u>	<u>(45,550)</u>
Total	<u>\$ 815,243</u>	<u>\$ 806,340</u>

HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements
December 31, 2020 and 2019

6. INVESTMENTS (Continued)

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 cash and cash equivalents account, are not insured and are subject to ongoing market fluctuations (see Note 2).

7. LONG-TERM DEBT

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

Non-Profit Rental Properties	<u>2020</u>	<u>2019</u>
<i>Bishop</i>		
1% note payable to the City of Boston (City), 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.	\$ <u>72,731</u>	\$ <u>72,731</u>
For-Profit Rental Properties		
<i>ECLP</i>		
3.08% first mortgage note payable to Red Mortgage Capital, LLC, due in monthly installments of principal and interest of \$19,343 payable on the first day of each month, through January 1, 2052. Pursuant to the terms of the note agreement, the note may be prepaid, in whole or in part on the last business day of any month, with the payment of a prepayment premium as outlined in the note agreement. This note is secured by a first mortgage on the land and building and related personal property as well as rents and leases. Subsequent to February 1, 2027, the note may be prepaid without premium or penalty.	<u>4,639,490</u>	<u>4,727,257</u>
<i>HOLP</i>		
4.5% note payable to Eastern Bank, due in monthly principal and interest installments of \$6,311, through September 2027. This note is secured by a first mortgage on the property, a security interest in all furnishings and equipment, and an assignment of leases and rents.	<u>444,312</u>	<u>498,368</u>

HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements
December 31, 2020 and 2019

7. LONG-TERM DEBT (Continued)

For-Profit Rental Properties (Continued)	2020	2019
<i>Four Corners</i>		
\$10,000,000 note payable to Citizens Bank, bearing interest at an all-in rate equal to the London Interbank Offered Rate (LIBOR) (0.15% and 1.76% at December 31, 2020 and 2019, respectively), plus 1.58%, with a term of thirty months. Payments of interest only are due monthly commencing on August 1, 2019, and all unpaid interest and principal are due upon maturity on January 26, 2022. After the completion of construction, this note will be paid with the receipt of the remaining mortgage note payable receipts and capital contribution installments. Capitalized interest on this note was \$158,721 and \$9,766 as of December 31, 2020 and 2019, respectively. This note is secured by a first mortgage on the Four Corners property.	6,667,979	1,266,796
Non-interest bearing note payable to the investor limited partner. This note is due at the earlier of payment of the initial capital contribution, or eighteen months from closing. This note is secured by a security agreement, assignment of leases and rents, and a fourth mortgage on the Four Corners property.	<u>714,777</u>	<u>714,777</u>
Subtotal Four Corners	<u>7,382,756</u>	<u>1,981,573</u>
	12,466,558	7,207,198
Less - unamortized debt issuance costs	<u>285,268</u>	<u>300,599</u>
Total for-profit rental properties	<u>12,181,290</u>	<u>6,906,599</u>
Total long-term debt, net of unamortized debt issuance costs	12,254,021	6,979,330
Less - total current portion	<u>147,585</u>	<u>142,336</u>
Total long-term debt	<u>\$ 12,106,436</u>	<u>\$ 6,836,994</u>

Aggregate maturities of long-term debt and amortization of debt issuance costs relating to long-term debt over the next five years are as follows:

	Principal Payments	Amortization of Debt Issuance Costs
2021	\$ 147,585	\$ 15,103
2022	\$ 153,034	\$ 14,869
2023	\$ 158,693	\$ 14,628
2024	\$ 164,569	\$ 14,379
2025	\$ 170,670	\$ 14,122

Debt issuance costs related to the various long-term and contingent debt totaling \$420,442 as of December 31, 2020 and 2019, are net of accumulated imputed interest of \$96,577 and \$79,799 as of December 31, 2020 and 2019, respectively. Net debt issuance costs are reported as a direct reduction of the face amount of the related long-term and contingent debt (see Note 8).

HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements
December 31, 2020 and 2019

8. CONTINGENT DEBT

Contingent debt consists of the following at December 31:

Non-Profit Rental Properties	2020	2019
<i>Beacon</i>		
Non-interest bearing note payable to Community Economic Development Assistance Corporation (CEDAC). All unpaid principal is due in June 2029. This note is secured by a 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, 2020 and 2019. CEDAC may extend the maturity date of this note for one or more additional periods up to ten years provided that the property continues to be used for low-income housing.	\$ 426,000	\$ 426,000
Non-interest bearing note payable to the Town of Brookline. This note is due in full 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>
<i>Burroughs</i>		
Non-interest bearing note payable to CEDAC. All unpaid principal is due in August 2038. This note is secured by a shared 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, 2020 and 2019. 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. This note is due in February 2038. This note is secured by a shared 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>
	<u>1,375,000</u>	<u>1,375,000</u>
Less - unamortized debt issuance costs	<u>38,597</u>	<u>40,044</u>
Subtotal Burroughs	<u>1,336,403</u>	<u>1,334,956</u>
Total non-profit rental properties	<u>2,111,403</u>	<u>2,109,956</u>

HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements
December 31, 2020 and 2019

8. CONTINGENT DEBT (Continued)

For-Profit Rental Properties	2020	2019
<i>HOLP</i>		
Non-interest bearing note payable to CEDAC, with unpaid principal due in March 2042. Payments are due annually from surplus cash as defined in the agreement. CEDAC may extend the maturity date of this note until March 2061, provided that the property continues to be used for low-income housing. This note is secured by a shared second mortgage on the property. As of December 31, 2020 and 2019, prior years' surplus cash payments are due to CEDAC in 2021 and 2020, respectively, based on prior years' cash flows. These amounts are included in current portion of contingent debt in the accompanying consolidating statements of financial position as of December 31, 2020 and 2019.	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 through the Department of Neighborhood Development's (DND) HOME program. This note is due in March 2042. DND may extend the maturity date of this note until March 2061, provided that the property continues to be used for low-income housing. This note is secured by a shared second mortgage on the property.	976,293	976,293
Non-interest bearing note payable to the Commonwealth of Massachusetts through DHCD's HOME program. This note is due in March 2042. DHCD may extend the maturity date of this note until March 2061, provided that the property continues to be used for low-income housing. This note is secured by a shared second mortgage on the property.	958,989	958,989
Non-interest bearing note payable to the City through its Neighborhood Housing Trust program (NHT), with principal due in full on the maturity date of March 2042. This note is secured by a shared second mortgage on the property.	750,000	750,000

HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements
December 31, 2020 and 2019

8. CONTINGENT DEBT (Continued)**For-Profit Rental Properties (Continued)****2020****2019*****HOLP (Continued)***

Non-interest bearing note payable to CEDAC, with unpaid principal due in March 2042. Payments are due annually from surplus cash as defined in the agreement. CEDAC may extend the maturity date of this note until March 2061, provided that the property continues to be used for low-income housing. This note is secured by a shared second mortgage on the property. As of December 31, 2020 and 2019, prior years' surplus cash payments are due to CEDAC in 2021 and 2020, respectively, based on prior years' cash flows. These amounts are included in current portion of long-term and contingent debt in the accompanying consolidating statements of financial position as of December 31, 2020 and 2019.

500,000

500,000

Non-interest bearing note payable to the City through DND's Leading the Way 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.

244,073

244,073

Subtotal HOLP

6,422,148

6,422,148

Less - current portion

55,788

24,724

Total contingent debt - HOLP, net of current portion

6,366,360

6,397,424

Ruggles

6.49% note payable to the City, interest compounded annually. Principal and interest are due annually if certain cash flow, as defined in the agreement, is achieved. There were no payments due as of December 31, 2020 and 2019. All unpaid principal and deferred interest are due in full on December 31, 2030. As of December 31, 2020 and 2019, deferred interest totaled \$1,736,975 and \$1,588,000, respectively. This note is secured by a shared first mortgage on the Project.

707,458

707,458

6.49% note payable to DHCD through the HOME investment program. No payments for principal and interest are due until June 2032 (maturity date) as long as the property remains affordable to low-income tenants. During the year prior to the maturity date, Ruggles may request an extension of the maturity date for a period up to the original term of the loan, in order to maintain the affordability of the housing. As of December 31, 2020 and 2019, deferred interest totaled \$764,118 and \$725,178, respectively. This note is secured by a shared first mortgage on the Project.

600,000

600,000

HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements
December 31, 2020 and 2019

8. CONTINGENT DEBT (Continued)

For-Profit Rental Properties (Continued)	2020	2019
<i>Ruggles</i> (Continued)		
Note payable to CEDAC. This note bore interest at 5% simple interest through December 31, 2007. This agreement was amended on January 1, 2008, and the interest rate was reduced to zero. Principal and deferred interest are due annually if certain cash flow, as defined in the agreement, is achieved. There were no payments due for 2020. All unpaid principal and deferred interest are due in full on November 30, 2030. As of December 31, 2020 and 2019, deferred interest totaled \$173,044. This note is secured by a shared second mortgage on the Project.	500,000	500,000
Subtotal Ruggles	1,807,458	1,807,458
Plus - deferred interest	2,674,137	2,486,222
Total contingent debt and deferred interest - Ruggles	4,481,595	4,293,680
<i>Four Corners</i>		
Non-interest bearing note payable to the Commonwealth of Massachusetts through DND's HOME program for an amount up to \$2,000,000. This note is due in January 2072 and is secured by a shared second mortgage on the property.	1,207,126	240,343
Non-interest bearing note payable to the Commonwealth of Massachusetts through MassHousing's AHTF program for an amount up to \$1,150,000. This note is due in January 2062 and is secured by a shared second mortgage on the property.	940,750	-
Non-interest bearing note payable to the FHLBB through the Affordable Housing Program. This note is due in January 2062 and is secured by a third mortgage on the property.	750,000	750,000
Non-interest bearing note payable to the Commonwealth of Massachusetts through DHCD's HOME program for an amount up to \$825,500. This note is due in January 2062 and is secured by a shared second mortgage on the property.	742,500	-
Non-interest bearing note payable to the Commonwealth of Massachusetts through DHCD's FCF program for an amount up to \$1,150,000. This note is due in January 2052 and is secured by a shared second mortgage on the property.	608,102	-

HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements
December 31, 2020 and 2019

8. CONTINGENT DEBT (Continued)

For-Profit Rental Properties (Continued)	2020	2019
<i>Four Corners</i> (Continued)		
Non-interest bearing note payable to the Massachusetts Housing Partnership Fund Board under the Housing Stabilization Fund program for an amount up to \$575,000. This note is due in January 2072 and is secured by a shared second mortgage on the property.	<u>276,574</u>	<u>240,343</u>
Total contingent debt - Four Corners	<u>4,525,052</u>	<u>1,230,686</u>
Total for-profit rental properties	<u>15,428,795</u>	<u>11,946,514</u>
Less - current portion	<u>55,788</u>	<u>24,724</u>
Total contingent debt, net of current portion	<u>\$ 17,484,410</u>	<u>\$ 14,031,746</u>

Current portion of contingent debt consists of the following at December 31:

	2020	2019
CEDAC - 2020 cash flow payment - HOLP	\$ 55,788	\$ -
CEDAC - 2019 cash flow payment - HOLP	<u>-</u>	<u>24,724</u>
	<u>\$ 55,788</u>	<u>\$ 24,724</u>

The current portion of the amounts due on the CEDAC notes payable for HOLP (see pages 28 and 29) as of December 31, 2020 and 2019, have not been paid. Based on a capital needs assessment prepared in January 2016, there is a projected shortfall in the replacement reserve in the future. As such, Hearth requested to suspend making cash flow payments on the CEDAC debt and deposit these funds into the replacement reserve. During 2021, Hearth anticipates requesting from CEDAC to deposit the 2020 cash flow payment into the replacement reserve account.

Amortization of debt issuance costs related to contingent debt is expected to be \$1,447 annually until debt issuance costs are fully amortized.

The Agency's debt agreements in Notes 7 and 8 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, 2020 and 2019.

9. NOTE PAYABLE TO A BANK

Hearth has a \$500,000 line of credit agreement with a bank, which is renewable annually in October. Borrowings under the agreement are due on demand, and interest is payable monthly at the bank's prime rate (3.25% and 4.75% at December 31, 2020 and 2019, respectively). The line of credit is secured by substantially all assets of Hearth. There was no balance outstanding as of December 31, 2020 and 2019.

HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements
December 31, 2020 and 2019

10. PAYCHECK PROTECTION PROGRAM LOAN

Hearth applied for and was awarded a forgivable loan of \$683,492 from the Paycheck Protection Program (PPP) established by the Coronavirus Aid, Relief and Economic Security Act (CARES Act) through a bank. The funds were to be used to pay certain payroll costs, including benefits during the covered period as defined in the CARES Act. A portion of these funds may be forgiven, as defined in the agreement, at the end of the covered period and the remainder of the funds will be due over a two-year period with interest at 1%. Any repayment will be deferred until the Small Business Administration (SBA) notifies the lender of the amount of the loan that will be forgiven. The balance of the note which is not forgiven, plus interest, will be due in equal monthly payments through the maturity date as defined by the bank. Hearth expects full forgiveness of this loan and, therefore, the loan has been presented as long-term in the accompanying 2020 consolidating statement of financial position. There are no covenants with which to comply and the note was not secured by any collateral as of December 31, 2020.

Accrued interest on the note payable was \$4,557 as of December 31, 2020, but is not included in the accompanying 2020 consolidating statement of financial position as Hearth expects the amount to be forgiven in full when applied for. Subsequent to December 31, 2020, Hearth applied for forgiveness of the loan.

11. COMMITMENTS AND CONTINGENCIES

As part of the Four Corners closing, the following loan commitments were entered into:

<u>Lender</u>	<u>Interest Rate</u>	<u>Loan Amount</u>	<u>Initial Term</u>
Hearth - State Tax Credit loan	3%	\$ 1,580,000	42.5 years
CEDAC - FCF program	0%	\$ 1,150,000	32.5 years
Citizens Bank - Permanent loan	3.8%	\$ 1,075,000	20 years
CEDAC - HPSTF program	0%	\$ 1,000,000	42.5 years
City - NHT program	0%	\$ 750,000	42.5 years
Hearth - Sponsor loan	3%	\$ 500,000	42.5 years

Four Corners' limited partner has committed a total of \$7,147,768 in capital contributions. This balance will be paid to Four Corners once certain benchmarks are met as noted in Four Corners' partnership agreement.

During 1995, Hearth received \$335,213 in Linkage funds from the City. Hearth loaned the Linkage funds to ECLP. Hearth has not recorded a liability to the City in the accompanying consolidating financial statements and is working with the City regarding resolution of the Linkage funds.

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, 2020 and 2019.

During 2020, COVID-19 was recognized as a global pandemic. Federal, state and local governments in the United States have imposed restrictions on travel and business operations. While the business disruption is currently expected to be temporary, there is considerable uncertainty around the duration and the impact it will have on Hearth's operations and financial position. As a result, the adverse impact COVID-19 will have on Hearth's businesses, operating results, cash flows, and financial condition is uncertain. It is management's opinion that the adverse impact, if any, would not be material.

HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements
December 31, 2020 and 2019

12. CONCENTRATIONS

Funding

The following table reflects the largest funding sources related to total operating revenues and government contracts and other receivables for Hearth as of and for the years ended December 31:

Funding Source	2020		2019	
	Operating Revenues	Government Contracts and Other Receivables	Operating Revenues	Government Contracts and Other Receivables
A	15%	6%	18%	6%
B	13%	6%	15%	12%
C	10%	5%	12%	10%
D	0%	20%	5%	35%

This funding is subject to audit by government agencies. In the opinion of management, the results of such audits, if any, will not have a material effect on the consolidating statements of financial position of the Agency as of December 31, 2020 and 2019, or on the changes in entities' net assets for the years then ended.

Cash and Cash Equivalents

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

13. FUNDS HELD IN TRUST

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

14. PENSION PLAN

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

15. PROJECT UNDER DEVELOPMENT

The Agency has started predevelopment on a project (the Project) in Dorchester, Massachusetts. The Agency has incurred a total of \$14,813,352 and \$4,215,815 of predevelopment costs, net of eliminations, as of December 31, 2020 and 2019, respectively. Once the Project is complete, it will be placed in service and will become a rental property of the Agency, at which time capitalized costs will begin depreciating. The total project is anticipated to cost approximately \$19.2 million. The Project was completed in May 2021.

HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements
December 31, 2020 and 2019

16. LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES

Financial assets available for general operating use, that is, without donor or other restrictions limiting their use (see Note 2), within one year of the consolidating statements of financial position date, comprise the following at December 31, 2020 and 2019:

	2020	
	Hearth	Rental Programs
Cash and cash equivalents	\$ 1,118,995	\$ 664,928
Restricted deposits, current	-	87,958
Current portion of government contracts and other receivables, net	565,090	76,548
Current portion of due (to) from affiliates, net	<u>150,310</u>	<u>(150,310)</u>
	<u>\$ 1,834,395</u>	<u>\$ 679,124</u>
	2019	
	Hearth	Rental Programs
Cash and cash equivalents	\$ 949,162	\$ 279,790
Restricted deposits, current	-	75,708
Current portion of government contracts and other receivables, net	587,175	84,715
Current portion of due (to) from affiliates, net	<u>108,780</u>	<u>(108,780)</u>
	<u>\$ 1,645,117</u>	<u>\$ 331,433</u>

Hearth has a healthy current ratio of approximately five-to-one and three-to-one as of December 31, 2020 and 2019, as well as approximately eleven and eleven-and-a-half months in operating net assets without donor restrictions to cover operating expenses as of December 31, 2020 and 2019, respectively. Hearth also has approximately \$5,800,000 and \$5,000,000 of investments as of December 31, 2020 and 2019, respectively, that could be utilized if needed to fund current operations. If needed, Hearth could draw on its \$500,000 line of credit (see Note 9), as a last resort.

17. CONDITIONAL GRANTS

A portion of the Agency's revenue is derived from cost-reimbursable Federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Agency has incurred expenditures in compliance with specific contract or grant provisions. Accordingly, \$455,389 and \$553,632 have not been reflected in the accompanying consolidating financial statements as of December 31, 2020 and 2019, respectively. Amounts received prior to incurring qualifying expenditures are reported as deferred revenue in the consolidating statements of financial position.

18. RECLASSIFICATION

Certain amounts in the 2019 consolidating financial statements have been reclassified to conform with the 2020 presentation.

HEARTH, INC. AND AFFILIATES

Supplementary Consolidating Statement of Financial Position - Rental Properties
December 31, 2020
(With Summarized Comparative Totals as of December 31, 2019)

Assets	2020									2019	
	Non-Profits				For-Profits					Total Rental Properties	Total Rental Properties
	Bishop	Beacon	Burroughs	Total Non-Profits	HOLP	ECLP	Ruggles	Four Corners	Total For-Profits		
Current Assets:											
Cash and cash equivalents	\$ 2,720	\$ 29,578	\$ 11,261	\$ 43,559	\$ 134,565	\$ 463,060	\$ 23,744	\$ -	\$ 621,369	\$ 664,928	\$ 279,790
Funds held in trust	1,429	1,642	2,741	5,812	14,864	11,231	11,742	-	37,837	43,649	49,296
Current portion of reserves and deposits	2,604	-	-	2,604	55,304	30,050	-	-	85,354	87,958	75,708
Current portion of government contracts and other receivables, net	4,792	812	16,566	22,170	15,780	461	38,137	-	54,378	76,548	84,715
Prepaid expenses and deposits	1,644	3,916	3,906	9,466	31,785	15,070	15,312	-	62,167	71,633	109,295
Current portion of due (to) from affiliates	(10,000)	10,000	-	-	(41,663)	(18,376)	(90,271)	-	(150,310)	(150,310)	(108,780)
Total current assets	3,189	45,948	34,474	83,611	210,635	501,496	(1,336)	-	710,795	794,406	490,024
Other Assets:											
Reserves and deposits, net of current portion	16,143	131,577	161,094	308,814	1,461,385	550,693	80,546	662,429	2,755,053	3,063,867	2,654,013
Due to affiliates, net of current portion	(147,739)	(144,418)	(394,062)	(686,219)	-	-	(1,114,668)	(1,407,758)	(2,522,426)	(3,208,645)	(2,107,872)
Total other assets	(131,596)	(12,841)	(232,968)	(377,405)	1,461,385	550,693	(1,034,122)	(745,329)	232,627	(144,778)	546,141
Property and Equipment:											
Land	25,600	67,500	297,500	390,600	1,140,806	152,000	44,000	-	1,336,806	1,727,406	1,727,406
Buildings and improvements	773,805	1,441,427	1,327,747	3,542,979	13,896,188	6,298,680	5,197,147	-	25,392,015	28,934,994	28,858,927
Furniture and equipment	67,682	39,769	76,512	183,963	351,427	244,234	296,102	-	891,763	1,075,726	1,025,551
Project under development	-	-	-	-	-	-	-	15,492,352	15,492,352	15,492,352	4,444,724
	867,087	1,548,696	1,701,759	4,117,542	15,388,421	6,694,914	5,537,249	15,492,352	43,112,936	47,230,478	36,056,608
Less - accumulated depreciation	660,343	760,338	658,295	2,078,976	3,674,931	3,845,288	2,775,312	-	10,295,531	12,374,507	11,484,022
Net property and equipment	206,744	788,358	1,043,464	2,038,566	11,713,490	2,849,626	2,761,937	15,492,352	32,817,405	34,855,971	24,572,586
Total assets	\$ 78,337	\$ 821,465	\$ 844,970	\$ 1,744,772	\$ 13,385,510	\$ 3,901,815	\$ 1,726,479	\$ 14,747,023	\$ 33,760,827	\$ 35,505,599	\$ 25,608,751
Liabilities and Entities' Net Assets											
Current Liabilities:											
Current portion of long-term debt	\$ -	\$ -	\$ -	\$ -	\$ 57,095	\$ 90,490	\$ -	\$ -	\$ 147,585	\$ 147,585	\$ 142,336
Current portion of contingent debt	-	-	-	-	55,788	-	-	-	55,788	55,788	24,724
Accrued interest	-	-	-	-	-	11,908	-	-	11,908	11,908	12,133
Accounts payable and accrued expenses	13,899	17,806	26,507	58,212	87,075	47,510	83,263	-	217,848	276,060	264,878
Funds held in trust	1,429	1,642	2,741	5,812	14,864	11,231	11,742	-	37,837	43,649	49,296
Total current liabilities	15,328	19,448	29,248	64,024	214,822	161,139	95,005	-	470,966	534,990	493,367
Other Liabilities:											
Accounts payable - construction	-	-	-	-	-	-	-	2,839,215	2,839,215	2,839,215	1,147,480
Long-term debt and unamortized debt issuance costs, net of current portion	72,731	-	-	72,731	315,305	4,335,644	-	7,382,756	12,033,705	12,106,436	6,836,994
Contingent debt and unamortized debt issuance costs, net of current portion	-	775,000	1,336,403	2,111,403	6,366,360	-	4,481,595	4,525,052	15,373,007	17,484,410	14,031,746
Notes payable and deferred interest - affiliates	-	-	-	-	1,780,136	-	355,014	-	2,135,150	2,135,150	2,135,150
Developer and overhead fees payable and deferred interest	-	584,285	-	584,285	-	-	-	-	-	584,285	551,236
Total other liabilities	72,731	1,359,285	1,336,403	2,768,419	8,461,801	4,335,644	4,836,609	14,747,023	32,381,077	35,149,496	24,702,606
Total liabilities	88,059	1,378,733	1,365,651	2,832,443	8,676,623	4,496,783	4,931,614	14,747,023	32,852,043	35,684,486	25,195,973
Entities' Net Assets:											
Operating	(159,878)	(117,918)	(388,836)	(666,632)	864,870	442,755	(1,211,009)	-	96,616	(570,016)	(804,028)
Property and equipment	150,156	(439,350)	(131,845)	(421,039)	3,844,017	(1,037,723)	(1,994,126)	-	812,168	391,129	1,216,806
Total entities' net assets	(9,722)	(557,268)	(520,681)	(1,087,671)	4,708,887	(594,968)	(3,205,135)	-	908,784	(178,887)	412,778
Total liabilities and entities' net assets	\$ 78,337	\$ 821,465	\$ 844,970	\$ 1,744,772	\$ 13,385,510	\$ 3,901,815	\$ 1,726,479	\$ 14,747,023	\$ 33,760,827	\$ 35,505,599	\$ 25,608,751

HEARTH, INC. AND AFFILIATES

Supplementary Consolidating Statement of Financial Position - Rental Properties
December 31, 2019

Assets	Non-Profits				For-Profits				Total	
	Bishop	Beacon	Burroughs	Total Non-Profits	HOLP	ECLP	Ruggles	Four Corners	Total For-Profits	Rental Properties
Current Assets:										
Cash and cash equivalents	\$ 3,233	\$ 2,251	\$ 6,679	\$ 12,163	\$ 147,944	\$ 86,750	\$ 32,933	\$ -	\$ 267,627	\$ 279,790
Funds held in trust	1,813	1,850	2,287	5,950	14,995	17,144	11,207	-	43,346	49,296
Current portion of reserves and deposits	-	-	-	-	56,008	19,700	-	-	75,708	75,708
Current portion of government contracts and other receivables, net	6,595	610	17,081	24,286	19,892	2,111	38,426	-	60,429	84,715
Prepaid expenses and deposits	3,662	4,091	4,771	12,524	48,529	27,090	21,152	-	96,771	109,295
Current portion of due (to) from affiliates	(10,000)	10,000	(1,174)	(1,174)	4,125	(21,460)	(90,271)	-	(107,606)	(108,780)
Total current assets	5,303	18,802	29,644	53,749	291,493	131,335	13,447	-	436,275	490,024
Other Assets:										
Reserves and deposits, net of current portion	40,989	156,758	165,518	363,265	1,281,061	576,227	132,869	300,591	2,290,748	2,654,013
Due to affiliates, net of current portion	(150,863)	(143,058)	(383,950)	(677,871)	-	-	(1,044,425)	(385,576)	(1,430,001)	(2,107,872)
Total other assets	(109,874)	13,700	(218,432)	(314,606)	1,281,061	576,227	(911,556)	(84,985)	860,747	546,141
Property and Equipment:										
Land	25,600	67,500	297,500	390,600	1,140,806	152,000	44,000	-	1,336,806	1,727,406
Buildings and improvements	753,810	1,415,310	1,322,997	3,492,117	13,896,188	6,273,475	5,197,147	-	25,366,810	28,858,927
Furniture and equipment	67,682	39,769	73,750	181,201	342,827	244,234	257,289	-	844,350	1,025,551
Project under development	-	-	-	-	-	-	-	4,444,724	4,444,724	4,444,724
	847,092	1,522,579	1,694,247	4,063,918	15,379,821	6,669,709	5,498,436	4,444,724	31,992,690	36,056,608
Less - accumulated depreciation	631,969	718,417	606,321	1,956,707	3,247,301	3,658,661	2,621,353	-	9,527,315	11,484,022
Net property and equipment	215,123	804,162	1,087,926	2,107,211	12,132,520	3,011,048	2,877,083	4,444,724	22,465,375	24,572,586
Total assets	\$ 110,552	\$ 836,664	\$ 899,138	\$ 1,846,354	\$ 13,705,074	\$ 3,718,610	\$ 1,978,974	\$ 4,359,739	\$ 23,762,397	\$ 25,608,751
Liabilities and Entities' Net Assets										
Current Liabilities:										
Current portion of long-term debt	\$ -	\$ -	\$ -	\$ -	\$ 54,587	\$ 87,749	\$ -	\$ -	\$ 142,336	\$ 142,336
Current portion of contingent debt	-	-	-	-	24,724	-	-	-	24,724	24,724
Accrued interest	-	-	-	-	-	12,133	-	-	12,133	12,133
Accounts payable and accrued expenses	9,189	4,072	17,796	31,057	109,517	36,506	87,798	-	233,821	264,878
Funds held in trust	1,813	1,850	2,287	5,950	14,995	17,144	11,207	-	43,346	49,296
Total current liabilities	11,002	5,922	20,083	37,007	203,823	153,532	99,005	-	456,360	493,367
Other Liabilities:										
Accounts payable - construction	-	-	-	-	-	-	-	1,147,480	1,147,480	1,147,480
Long-term debt and unamortized debt issuance costs, net of current portion	72,731	-	-	72,731	368,498	4,414,192	-	1,981,573	6,764,263	6,836,994
Contingent debt and unamortized debt issuance costs, net of current portion	-	775,000	1,334,956	2,109,956	6,397,424	-	4,293,680	1,230,686	11,921,790	14,031,746
Notes payable and deferred interest - affiliates	-	-	-	-	1,780,136	-	355,014	-	2,135,150	2,135,150
Developer and overhead fees payable and deferred interest	-	551,236	-	551,236	-	-	-	-	-	551,236
Total other liabilities	72,731	1,326,236	1,334,956	2,733,923	8,546,058	4,414,192	4,648,694	4,359,739	21,968,683	24,702,606
Total liabilities	83,733	1,332,158	1,355,039	2,770,930	8,749,881	4,567,724	4,747,699	4,359,739	22,425,043	25,195,973
Entities' Net Assets:										
Operating	(156,562)	(130,178)	(374,389)	(661,129)	909,399	77,685	(1,129,983)	-	(142,899)	(804,028)
Property and equipment	183,381	(365,316)	(81,512)	(263,447)	4,045,794	(926,799)	(1,638,742)	-	1,480,253	1,216,806
Total entities' net assets	26,819	(495,494)	(455,901)	(924,576)	4,955,193	(849,114)	(2,768,725)	-	1,337,354	412,778
Total liabilities and entities' net assets	\$ 110,552	\$ 836,664	\$ 899,138	\$ 1,846,354	\$ 13,705,074	\$ 3,718,610	\$ 1,978,974	\$ 4,359,739	\$ 23,762,397	\$ 25,608,751

HEARTH, INC. AND AFFILIATES

Supplementary Consolidating Statement of Activities - Rental Properties
For the Year Ended December 31, 2020
(With Summarized Comparative Totals for the Year Ended December 31, 2019)

	2020								2019
	Non-Profits				For-Profits				Total Rental Properties
	Bishop	Beacon	Burroughs	Total Non-Profits	HOLP	ECLP	Ruggles	Total For-Profits	Total Rental Properties
Changes in Net Assets Without Donor Restrictions:									
Operating revenues:									
Fee income and other revenue:									
Rental fees, net	\$ 98,344	\$ 132,373	\$ 150,866	\$ 381,583	\$ 1,125,041	\$ 1,420,158	\$ 655,702	\$ 3,200,901	\$ 3,582,484
Investment income	157	941	1,138	2,236	11,150	1,024	964	13,138	15,374
Total operating revenues	98,501	133,314	152,004	383,819	1,136,191	1,421,182	656,666	3,214,039	3,597,858
Operating expenses:									
Housing and supportive services	106,668	120,118	164,810	391,596	950,187	947,419	751,202	2,648,808	3,040,404
Depreciation and amortization	28,374	41,921	51,974	122,269	432,310	186,627	153,959	772,896	895,165
Total operating expenses	135,042	162,039	216,784	513,865	1,382,497	1,134,046	905,161	3,421,704	3,935,569
Changes in net assets without donor restrictions from operations	(36,541)	(28,725)	(64,780)	(130,046)	(246,306)	287,136	(248,495)	(207,665)	(337,711)
Other expense:									
Deferred interest on contingent debt	-	(33,049)	-	(33,049)	-	-	(187,915)	(187,915)	(220,964)
Changes in net assets without donor restrictions	(36,541)	(61,774)	(64,780)	(163,095)	(246,306)	287,136	(436,410)	(395,580)	(558,675)
Changes in Net Assets Attributable to Non-Controlling Interest	-	-	-	-	246,281	-	-	246,281	246,281
Changes in net assets attributable to Hearth	<u>\$ (36,541)</u>	<u>\$ (61,774)</u>	<u>\$ (64,780)</u>	<u>\$ (163,095)</u>	<u>\$ (25)</u>	<u>\$ 287,136</u>	<u>\$ (436,410)</u>	<u>\$ (149,299)</u>	<u>\$ (312,394)</u>

HEARTH, INC. AND AFFILIATES

Supplementary Consolidating Statement of Activities - Rental Properties
For the Year Ended December 31, 2019

	Non-Profits				For-Profits				Total Rental Properties
	Bishop	Beacon	Burroughs	Total Non-Profits	HOLP	ECLP	Ruggles	Total For-Profits	
Changes in Net Assets Without Donor Restrictions:									
Operating revenues:									
Fee income and other revenue:									
Rental fees, net	\$ 95,126	\$ 131,379	\$ 148,127	\$ 374,632	\$ 1,082,950	\$ 1,003,943	\$ 627,568	\$ 2,714,461	\$ 3,089,093
Investment income	590	2,090	3,005	5,685	21,910	1,956	2,924	26,790	32,475
Total operating revenues	95,716	133,469	151,132	380,317	1,104,860	1,005,899	630,492	2,741,251	3,121,568
Operating expenses:									
Housing and supportive services	87,318	107,205	174,582	369,105	874,148	914,306	682,709	2,471,163	2,840,268
Depreciation and amortization	26,658	39,371	48,843	114,872	427,021	183,091	151,637	761,749	876,621
Total operating expenses	113,976	146,576	223,425	483,977	1,301,169	1,097,397	834,346	3,232,912	3,716,889
Changes in net assets without donor restrictions from operations	(18,260)	(13,107)	(72,293)	(103,660)	(196,309)	(91,498)	(203,854)	(491,661)	(595,321)
Other expense:									
Deferred interest on contingent debt	-	(31,202)	-	(31,202)	-	-	(178,836)	(178,836)	(210,038)
Changes in net assets without donor restrictions	(18,260)	(44,309)	(72,293)	(134,862)	(196,309)	(91,498)	(382,690)	(670,497)	(805,359)
Changes in Net Assets Attributable to Non-Controlling Interest	-	-	-	-	196,289	-	-	196,289	196,289
Changes in net assets attributable to Hearth	<u>\$ (18,260)</u>	<u>\$ (44,309)</u>	<u>\$ (72,293)</u>	<u>\$ (134,862)</u>	<u>\$ (20)</u>	<u>\$ (91,498)</u>	<u>\$ (382,690)</u>	<u>\$ (474,208)</u>	<u>\$ (609,070)</u>