

HEARTH, INC. AND AFFILIATES

**CONSOLIDATING FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

HEARTH, INC. AND AFFILIATES

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December 31, 2021 and 2020

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Independent Auditor's Report

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

Report on the Audit of the Consolidating Financial Statements

Opinion

We have audited the 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, 2021 and 2020, 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.

In our opinion, the accompanying consolidating financial statements present fairly, in all material respects, the consolidating financial position of Hearth, Inc. and Affiliates as of December 31, 2021 and 2020, and the 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidating Financial Statements section of our report. We are required to be independent of the Agency and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidating Financial Statements

Management is responsible for the preparation and fair presentation of the consolidating financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidating financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, which raise substantial doubt about the Agency's ability to continue as a going concern within one year after the date that the consolidating financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidating Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidating financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidating financial statements.

Auditor's Responsibilities for the Audit of the Consolidating Financial Statements (Continued)

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidating financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidating financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Agency's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidating financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, which raise substantial doubt about the Agency's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

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 37 through 40 is presented for purposes of additional analysis and is not a required part of the consolidating financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidating financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidating financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidating financial statements or to the consolidating financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information shown on pages 37 through 40 is fairly stated in all material respects in relation to the consolidating financial statements as a whole.

AAFCPA, Inc.

Westborough, Massachusetts
November 2, 2022

HEARTH, INC. AND AFFILIATES

Consolidating Statement of Financial Position
December 31, 2021
(With Summarized Comparative Totals as of December 31, 2020)

	2021						2020
	Hearth, Inc.			Rental Properties (Exhibit A)	Eliminations	Total	Total
	Operating	Real Estate Development	Total				
Assets							
Current Assets:							
Cash and cash equivalents	\$ 135,863	\$ 1,111,553	\$ 1,247,416	\$ 401,908	\$ -	\$ 1,649,324	\$ 1,783,923
Funds held in trust	118,276	-	118,276	60,476	-	178,752	184,555
Current portion of reserves and deposits	-	-	-	99,684	-	99,684	87,958
Accounts and other receivables, net	145,707	-	145,707	134,405	-	280,112	231,018
Current portion of grants and contributions receivable, net	441,267	103,000	544,267	-	-	544,267	705,620
Prepaid expenses and deposits	87,001	-	87,001	69,933	-	156,934	160,286
Current portion of due (to) from affiliates, net	996,416	-	996,416	(399,253)	(597,163)	-	-
Total current assets	1,924,530	1,214,553	3,139,083	367,153	(597,163)	2,909,073	3,153,360
Other Assets:							
Grants and contributions receivable, net of current portion	-	30,000	30,000	-	-	30,000	123,000
Reserves and deposits, net of current portion	-	343,293	343,293	4,512,165	-	4,855,458	3,407,040
Investments	6,280,945	-	6,280,945	-	-	6,280,945	5,851,894
Due (to) from affiliates, net of current portion	420,443	259,673	680,116	(1,960,427)	1,280,311	-	-
Investments in affiliates	-	51,942	51,942	-	(51,942)	-	-
Total other assets	6,701,388	684,908	7,386,296	2,551,738	1,228,369	11,166,403	9,381,934
Property and Equipment:							
Land	-	1,100,000	1,100,000	1,861,736	-	2,961,736	2,827,406
Buildings and improvements	167,486	-	167,486	46,167,973	(4,306,806)	42,028,653	26,340,685
Furniture and equipment	696,445	-	696,445	1,589,484	-	2,285,929	1,772,171
Project under development	-	-	-	-	-	-	14,813,352
	863,931	1,100,000	1,963,931	49,619,193	(4,306,806)	47,276,318	45,753,614
Less - accumulated depreciation	838,112	-	838,112	13,568,902	(1,199,808)	13,207,206	12,095,399
Net property and equipment	25,819	1,100,000	1,125,819	36,050,291	(3,106,998)	34,069,112	33,658,215
Total assets	\$ 8,651,737	\$ 2,999,461	\$ 11,651,198	\$ 38,969,182	\$ (2,475,792)	\$ 48,144,588	\$ 46,193,509
Liabilities and Entities' Net Assets							
Current Liabilities:							
Current portion of long-term debt	\$ -	\$ -	\$ -	\$ 170,970	\$ -	\$ 170,970	\$ 147,585
Current portion of contingent debt	-	-	-	-	-	-	55,788
Accounts payable and accrued expenses	383,636	1,915	385,551	440,150	-	825,701	632,903
Current portion of developer and overhead fees payable and deferred interest	-	-	-	597,163	(597,163)	-	-
Funds held in trust	118,276	-	118,276	60,476	-	178,752	184,555
Total current liabilities	501,912	1,915	503,827	1,268,759	(597,163)	1,175,423	1,020,831
Other Liabilities:							
Accounts payable - construction	-	-	-	138,849	-	138,849	2,839,215
Long-term debt and unamortized debt issuance costs, net of current portion	-	-	-	6,070,610	-	6,070,610	12,789,928
Contingent debt and unamortized debt issuance costs, net of current portion	-	-	-	20,524,880	-	20,524,880	17,484,410
Ground lease payable and deferred interest on ground lease	-	-	-	176,650	(176,650)	-	-
Deferred ground lease	-	-	-	625,590	(625,590)	-	-
Notes payable and deferred interest - affiliates	-	-	-	4,964,050	(4,964,050)	-	-
Developer and overhead fees payable and deferred interest, net of current portion	-	-	-	1,262,817	(1,262,817)	-	-
Total other liabilities	-	-	-	33,763,446	(7,029,107)	26,734,339	33,113,553
Total liabilities	501,912	1,915	503,827	35,032,205	(7,626,270)	27,909,762	34,134,384
Entities' Net Assets:							
Net assets without donor restrictions:							
Operating	5,854,591	(1,887)	5,852,704	(1,214,891)	259,169	4,896,982	5,651,693
Board designated	2,107,351	-	2,107,351	-	-	2,107,351	2,107,351
Property and equipment	25,819	-	25,819	5,151,868	(5,300,402)	(122,715)	(3,958,265)
Real estate development	-	2,226,056	2,226,056	-	-	2,226,056	2,031,158
Total net assets without donor restrictions	7,987,761	2,224,169	10,211,930	3,936,977	(5,041,233)	9,107,674	5,831,937
Net assets with donor restrictions	162,064	773,377	935,441	-	-	935,441	1,569,983
Total Hearth entities' net assets	8,149,825	2,997,546	11,147,371	3,936,977	(5,041,233)	10,043,115	7,401,920
Non-controlling interest	-	-	-	-	10,191,711	10,191,711	4,657,205
Total entities' net assets	8,149,825	2,997,546	11,147,371	3,936,977	5,150,478	20,234,826	12,059,125
Total liabilities and entities' net assets	\$ 8,651,737	\$ 2,999,461	\$ 11,651,198	\$ 38,969,182	\$ (2,475,792)	\$ 48,144,588	\$ 46,193,509

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

HEARTH, INC. AND AFFILIATES

Consolidating Statement of Financial Position
December 31, 2020

Assets	Hearth, Inc.			Rental Properties (Exhibit B)	Eliminations	Total
	Operating	Real Estate Development	Total			
Current Assets:						
Cash and cash equivalents	\$ 1,118,995	\$ -	\$ 1,118,995	\$ 664,928	\$ -	\$ 1,783,923
Funds held in trust	140,906	-	140,906	43,649	-	184,555
Current portion of reserves and deposits	-	-	-	87,958	-	87,958
Accounts and other receivables, net	154,470	-	154,470	76,548	-	231,018
Current portion of grants and contributions receivable, net	410,620	295,000	705,620	-	-	705,620
Prepaid expenses and deposits	88,653	-	88,653	71,633	-	160,286
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
Other Assets:						
Grants and contributions receivable, net of current portion	-	123,000	123,000	-	-	123,000
Reserves and deposits, net of current portion	-	343,173	343,173	3,063,867	-	3,407,040
Investments	5,851,894	-	5,851,894	-	-	5,851,894
Due (to) from affiliates, net of current portion	81,474	1,392,451	1,473,925	(2,475,290)	1,001,365	-
Investments in affiliates	-	51,942	51,942	-	(51,942)	-
Total other assets	5,933,368	1,910,566	7,843,934	588,577	949,423	9,381,934
Property and Equipment:						
Land	-	1,100,000	1,100,000	1,727,406	-	2,827,406
Buildings and improvements	167,486	-	167,486	28,934,994	(2,761,795)	26,340,685
Furniture and equipment	696,445	-	696,445	1,075,726	-	1,772,171
Project under development	-	-	-	15,492,352	(679,000)	14,813,352
	863,931	1,100,000	1,963,931	47,230,478	(3,440,795)	45,753,614
Less - accumulated depreciation	821,834	-	821,834	12,374,507	(1,100,942)	12,095,399
Net property and equipment	42,097	1,100,000	1,142,097	34,855,971	(2,339,853)	33,658,215
Total assets	\$ 8,039,419	\$ 3,305,566	\$ 11,344,985	\$ 36,238,954	\$ (1,390,430)	\$ 46,193,509
Liabilities and Entities' Equity (Deficit)						
Current Liabilities:						
Current portion of long-term debt	\$ -	\$ -	\$ -	\$ 147,585	\$ -	\$ 147,585
Current portion of contingent debt	-	-	-	55,788	-	55,788
Accounts payable and accrued expenses	344,310	625	344,935	287,968	-	632,903
Funds held in trust	140,906	-	140,906	43,649	-	184,555
Total current liabilities	485,216	625	485,841	534,990	-	1,020,831
Other Liabilities:						
Accounts payable - construction	-	-	-	2,839,215	-	2,839,215
Long-term debt and unamortized debt issuance costs, net of current portion	683,492	-	683,492	12,106,436	-	12,789,928
Contingent debt and unamortized debt issuance costs, net of current portion	-	-	-	17,484,410	-	17,484,410
Ground lease payable and deferred interest on ground lease	-	-	-	112,750	(112,750)	-
Deferred ground lease	-	-	-	356,924	(356,924)	-
Notes payable and deferred interest - affiliates	-	-	-	2,135,150	(2,135,150)	-
Developer and overhead fees payable and deferred interest	-	-	-	1,317,640	(1,317,640)	-
Total other liabilities	683,492	-	683,492	36,352,525	(3,922,464)	33,113,553
Total liabilities	1,168,708	625	1,169,333	36,887,515	(3,922,464)	34,134,384
Entities' Net Assets:						
Net assets without donor restrictions:						
Operating	4,424,657	406	4,425,063	(581,924)	1,808,554	5,651,693
Board designated	2,107,351	-	2,107,351	-	-	2,107,351
Property and equipment	42,097	-	42,097	(66,637)	(3,933,725)	(3,958,265)
Real estate development	-	2,031,158	2,031,158	-	-	2,031,158
Total net assets without donor restrictions	6,574,105	2,031,564	8,605,669	(648,561)	(2,125,171)	5,831,937
Net assets with donor restrictions	296,606	1,273,377	1,569,983	-	-	1,569,983
Total Hearth entities' net assets	6,870,711	3,304,941	10,175,652	(648,561)	(2,125,171)	7,401,920
Non-controlling interest	-	-	-	-	4,657,205	4,657,205
Total entities' net assets	6,870,711	3,304,941	10,175,652	(648,561)	2,532,034	12,059,125
Total liabilities and entities' net assets	\$ 8,039,419	\$ 3,305,566	\$ 11,344,985	\$ 36,238,954	\$ (1,390,430)	\$ 46,193,509

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, 2021

(With Summarized Comparative Totals for the Year Ended December 31, 2020)

	2021					2020
	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	\$ -	\$ -	\$ -	\$ 3,957,253	\$ (45,000)	\$ 3,912,253
Government and other contracts	1,390,646	-	1,390,646	-	-	1,390,646
Program revenues	847,279	-	847,279	-	-	847,279
Resident service fees	247,123	-	247,123	-	-	247,123
Developer and overhead fees	710,975	195,240	906,215	-	(866,011)	40,204
Interest income	240	-	240	8,830	-	9,070
Other	26,034	-	26,034	-	(24,838)	1,196
Management and service fees	517,128	-	517,128	-	(517,128)	-
Total fee income and other revenue	<u>3,739,425</u>	<u>195,240</u>	<u>3,934,665</u>	<u>3,966,083</u>	<u>(1,452,977)</u>	<u>6,447,771</u>
Support:						
Private grants, contributions and special events	622,511	-	622,511	-	-	622,511
Donated goods and services	33,861	-	33,861	-	-	33,861
Net assets released from purpose restrictions	247,364	-	247,364	-	-	247,364
Net assets released from time restrictions	24,000	-	24,000	-	-	24,000
Total support	<u>927,736</u>	<u>-</u>	<u>927,736</u>	<u>-</u>	<u>-</u>	<u>927,736</u>
Total operating revenues	<u>4,667,161</u>	<u>195,240</u>	<u>4,862,401</u>	<u>3,966,083</u>	<u>(1,452,977)</u>	<u>7,375,507</u>
Operating expenses:						
Outreach	766,150	-	766,150	-	-	766,150
Housing and supportive services	2,462,216	212,999	2,675,215	3,924,657	(256,966)	6,342,906
General and administration	958,291	-	958,291	-	(15,000)	943,291
Institutional advancement	415,449	-	415,449	-	(15,000)	400,449
Total operating expenses before depreciation and amortization	<u>4,602,106</u>	<u>212,999</u>	<u>4,815,105</u>	<u>3,924,657</u>	<u>(286,966)</u>	<u>8,452,796</u>
Depreciation and amortization	<u>16,278</u>	<u>-</u>	<u>16,278</u>	<u>1,200,590</u>	<u>(98,866)</u>	<u>1,118,002</u>
Total operating expenses	<u>4,618,384</u>	<u>212,999</u>	<u>4,831,383</u>	<u>5,125,247</u>	<u>(385,832)</u>	<u>9,570,798</u>
Changes in net assets without donor restrictions from operations	<u>48,777</u>	<u>(17,759)</u>	<u>31,018</u>	<u>(1,159,164)</u>	<u>(1,067,145)</u>	<u>(2,195,291)</u>
Other revenues (expenses):						
Sale of state tax credits	-	1,560,000	1,560,000	-	-	1,560,000
Investment return, net	1,078,292	-	1,078,292	-	-	1,078,292
Capital grant	-	750,000	750,000	-	-	750,000
Forgiveness of debt	683,492	-	683,492	-	-	683,492
Net assets released from capital restrictions	-	500,000	500,000	-	-	500,000
Provision for notes receivable - related parties	-	(2,810,000)	(2,810,000)	-	2,810,000	-
Provision for amounts due from affiliates	(184,248)	-	(184,248)	-	184,248	-
Ground lease expense	-	-	-	(327,016)	327,016	-
General partner expenses	-	(2,293)	(2,293)	-	-	(2,293)
Deferred interest on contingent debt	-	-	-	(262,612)	64,325	(198,287)
Total other revenues (expenses)	<u>1,577,536</u>	<u>(2,293)</u>	<u>1,575,243</u>	<u>(589,628)</u>	<u>3,385,589</u>	<u>4,371,204</u>
Changes in net assets without donor restrictions	<u>1,626,313</u>	<u>(20,052)</u>	<u>1,606,261</u>	<u>(1,748,792)</u>	<u>2,318,444</u>	<u>2,175,913</u>
Changes in Net Assets With Donor Restrictions:						
Grants	136,822	-	136,822	-	-	136,822
Net assets released from restrictions	<u>(271,364)</u>	<u>(500,000)</u>	<u>(771,364)</u>	<u>-</u>	<u>-</u>	<u>(771,364)</u>
Changes in net assets with donor restrictions	<u>(134,542)</u>	<u>(500,000)</u>	<u>(634,542)</u>	<u>-</u>	<u>-</u>	<u>(634,542)</u>
Changes in net assets	<u>1,491,771</u>	<u>(520,052)</u>	<u>971,719</u>	<u>(1,748,792)</u>	<u>2,318,444</u>	<u>1,541,371</u>
Changes in Net Assets Attributable to Non-Controlling Interest	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,099,824</u>	<u>-</u>	<u>1,099,824</u>
Changes in net assets attributable to Hearth	<u>\$ 1,491,771</u>	<u>\$ (520,052)</u>	<u>\$ 971,719</u>	<u>\$ (648,968)</u>	<u>\$ 2,318,444</u>	<u>\$ 2,641,195</u>
						<u>\$ 541,648</u>

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

HEARTH, INC. AND AFFILIATES

Consolidating Statement of Activities
For the Year Ended December 31, 2020

	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	\$ -	\$ -	\$ -	\$ 3,582,484	\$ (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	<u>3,528,656</u>	<u>560,572</u>	<u>4,089,228</u>	<u>3,597,858</u>	<u>(903,963)</u>	<u>6,783,123</u>
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	<u>877,442</u>	<u>-</u>	<u>877,442</u>	<u>-</u>	<u>-</u>	<u>877,442</u>
Total operating revenues	<u>4,406,098</u>	<u>560,572</u>	<u>4,966,670</u>	<u>3,597,858</u>	<u>(903,963)</u>	<u>7,660,565</u>
Operating expenses:						
Outreach	746,859	-	746,859	-	-	746,859
Housing and supportive services	2,605,570	89,061	2,694,631	3,040,404	(284,973)	5,450,062
General and administration	857,524	-	857,524	-	(20,250)	837,274
Institutional advancement	393,470	-	393,470	-	(6,750)	386,720
Total operating expenses before depreciation and amortization	<u>4,603,423</u>	<u>89,061</u>	<u>4,692,484</u>	<u>3,040,404</u>	<u>(311,973)</u>	<u>7,420,915</u>
Depreciation and amortization	<u>24,644</u>	<u>-</u>	<u>24,644</u>	<u>895,165</u>	<u>(76,335)</u>	<u>843,474</u>
Total operating expenses	<u>4,628,067</u>	<u>89,061</u>	<u>4,717,128</u>	<u>3,935,569</u>	<u>(388,308)</u>	<u>8,264,389</u>
Changes in net assets without donor restrictions from operations	<u>(221,969)</u>	<u>471,511</u>	<u>249,542</u>	<u>(337,711)</u>	<u>(515,655)</u>	<u>(603,824)</u>
Other revenues (expenses):						
Investment return, net	815,243	-	815,243	-	-	815,243
Ground lease expense	-	-	-	(327,016)	327,016	-
General partner expenses	-	(3,880)	(3,880)	-	-	(3,880)
Deferred interest on contingent debt	-	-	-	(222,064)	34,149	(187,915)
Total other revenues (expenses)	<u>815,243</u>	<u>(3,880)</u>	<u>811,363</u>	<u>(549,080)</u>	<u>361,165</u>	<u>623,448</u>
Changes in net assets without donor restrictions	<u>593,274</u>	<u>467,631</u>	<u>1,060,905</u>	<u>(886,791)</u>	<u>(154,490)</u>	<u>19,624</u>
Changes in Net Assets With Donor Restrictions:						
Grants	273,393	150,000	423,393	-	-	423,393
Net assets released from restrictions	<u>(147,650)</u>	<u>-</u>	<u>(147,650)</u>	<u>-</u>	<u>-</u>	<u>(147,650)</u>
Changes in net assets with donor restrictions	<u>125,743</u>	<u>150,000</u>	<u>275,743</u>	<u>-</u>	<u>-</u>	<u>275,743</u>
Changes in net assets	<u>719,017</u>	<u>617,631</u>	<u>1,336,648</u>	<u>(886,791)</u>	<u>(154,490)</u>	<u>295,367</u>
Changes in Net Assets Attributable to Non-Controlling Interest	<u>-</u>	<u>-</u>	<u>-</u>	<u>246,281</u>	<u>-</u>	<u>246,281</u>
Changes in net assets attributable to Hearth	<u>\$ 719,017</u>	<u>\$ 617,631</u>	<u>\$ 1,336,648</u>	<u>\$ (640,510)</u>	<u>\$ (154,490)</u>	<u>\$ 541,648</u>

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, 2021 and 2020

	Hearth, Inc.						Non-	
	Operating	Real Estate Development	Total	Rental Properties	Eliminations	Total	Controlling Interest	Total
Entities' Net Assets , December 31, 2019, as previously stated	\$ 6,244,255	\$ 1,494,749	\$ 7,739,004	\$ 412,778	\$ (2,391,510)	\$ 5,760,272	\$ 4,903,486	\$ 10,663,758
Prior period adjustment	-	1,100,000	1,100,000	(141,558)	141,558	1,100,000	-	1,100,000
Entities' Net Assets , December 31, 2019, as restated	6,244,255	2,594,749	8,839,004	271,220	(2,249,952)	6,860,272	4,903,486	11,763,758
Capital distribution	-	-	-	(32,990)	32,990	-	-	-
Changes in net assets	719,017	617,631	1,336,648	(886,791)	91,791	541,648	(246,281)	295,367
Transfers	(92,561)	92,561	-	-	-	-	-	-
Entities' Net Assets , December 31, 2020, as restated	6,870,711	3,304,941	10,175,652	(648,561)	(2,125,171)	7,401,920	4,657,205	12,059,125
Capital distribution	-	-	-	(300,000)	300,000	-	-	-
Syndication costs	-	-	-	(25,000)	25,000	-	(25,000)	(25,000)
Capital contributions	-	-	-	6,659,330	(6,659,330)	-	6,659,330	6,659,330
Changes in net assets	1,491,771	(520,052)	971,719	(1,748,792)	3,418,268	2,641,195	(1,099,824)	1,541,371
Transfers	(212,657)	212,657	-	-	-	-	-	-
Entities' Net Assets , December 31, 2021	<u>\$ 8,149,825</u>	<u>\$ 2,997,546</u>	<u>\$ 11,147,371</u>	<u>\$ 3,936,977</u>	<u>\$ (5,041,233)</u>	<u>\$ 10,043,115</u>	<u>\$ 10,191,711</u>	<u>\$ 20,234,826</u>

HEARTH, INC. AND AFFILIATES

Consolidating Statement of Cash Flows
For the Year Ended December 31, 2021

	Hearth	Rental Properties	Eliminations	Total
Cash Flows from Operating Activities:				
Changes in net assets	\$ 971,719	\$ (1,748,792)	\$ 2,318,444	\$ 1,541,371
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:				
Depreciation and amortization	16,278	1,200,590	(98,866)	1,118,002
Ground lease expense	-	327,016	(327,016)	-
Deferred interest	-	262,612	(64,325)	198,287
Interest - amortization of debt issuance costs	-	16,550	-	16,550
Investment return	(1,078,292)	-	-	(1,078,292)
Capital grant	(750,000)	-	-	(750,000)
Bad debt	54,075	9,257	-	63,332
Forgiveness of debt	(683,492)	-	-	(683,492)
Provision for notes receivable - related parties	2,810,000	-	(2,810,000)	-
Provision for amounts due from affiliates	184,248	-	(184,248)	-
Changes in operating assets and liabilities:				
Accounts and other receivables	8,763	(67,114)	-	(58,351)
Grants and contributions receivable	200,278	-	-	200,278
Prepaid expenses and deposits	1,652	34,452	-	36,104
Due from affiliates, net	(236,545)	(265,920)	502,465	-
Accounts payable and accrued expenses	40,616	152,182	-	192,798
Funds held in trust	(22,630)	16,827	-	(5,803)
Net cash provided by (used in) operating activities	<u>1,516,670</u>	<u>(62,340)</u>	<u>(663,546)</u>	<u>790,784</u>
Cash Flows from Investing Activities:				
Withdrawal from investment portfolio	649,241	-	-	649,241
Tax credit application fees	-	(38,947)	-	(38,947)
Acquisition of property and equipment	-	(4,586,616)	363,546	(4,223,070)
Net cash provided by (used in) investing activities	<u>649,241</u>	<u>(4,625,563)</u>	<u>363,546</u>	<u>(3,612,776)</u>
Cash Flows from Financing Activities:				
Proceeds from capital grant	750,000	-	-	750,000
Capital contributions	-	6,659,330	-	6,659,330
Syndication costs	-	(25,000)	-	(25,000)
Debt issuance costs	-	(280,290)	-	(280,290)
Notes payable - affiliates	-	2,810,000	(2,810,000)	-
Proceeds from contingent debt	-	2,784,948	-	2,784,948
Principal payments of long-term debt	-	(5,747,254)	-	(5,747,254)
Capital distribution	-	(300,000)	300,000	-
Sponsor notes	(2,810,000)	-	2,810,000	-
Net cash provided by (used in) financing activities	<u>(2,060,000)</u>	<u>5,901,734</u>	<u>300,000</u>	<u>4,141,734</u>
Net Change in Cash, Cash Equivalents and Restricted Cash	105,911	1,213,831	-	1,319,742
Cash, Cash Equivalents and Restricted Cash:				
Beginning of year	<u>1,603,074</u>	<u>3,860,402</u>	<u>-</u>	<u>5,463,476</u>
End of year	<u>\$ 1,708,985</u>	<u>\$ 5,074,233</u>	<u>\$ -</u>	<u>\$ 6,783,218</u>
Reconciliation of Cash, Cash Equivalents and Restricted Cash Reported Within the Consolidating Statement of Financial Position:				
Cash and cash equivalents	\$ 1,247,416	\$ 401,908	\$ -	\$ 1,649,324
Funds held in trust	118,276	60,476	-	178,752
Reserves and deposits	343,293	4,611,849	-	4,955,142
Total cash, cash equivalents and restricted cash	<u>\$ 1,708,985</u>	<u>\$ 5,074,233</u>	<u>\$ -</u>	<u>\$ 6,783,218</u>
Supplemental Disclosure of Non-Cash Transactions:				
Cash paid for interest	<u>\$ -</u>	<u>\$ 309,503</u>	<u>\$ -</u>	<u>\$ 309,503</u>
Property and equipment additions funded through developer and overhead fees payable	<u>\$ (507,255)</u>	<u>\$ 507,255</u>	<u>\$ -</u>	<u>\$ -</u>
Property and equipment additions included in accounts payable - construction	<u>\$ -</u>	<u>\$ 138,849</u>	<u>\$ -</u>	<u>\$ 138,849</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	\$ (886,791)	\$ (154,490)	\$ 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
Ground lease expense	-	327,016	(327,016)	-
Deferred interest	-	222,064	(34,149)	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:				
Grants and contributions receivable	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	-
Accounts payable and accrued expenses	(155,786)	(533,298)	-	(689,084)
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	\$ -	\$ 187,692	\$ -	\$ 187,692
Property and equipment additions funded through due from affiliates	\$ (674,403)	\$ 674,403	\$ -	\$ -
Property and equipment additions funded through developer and overhead fees payable	\$ (733,355)	\$ 733,355	\$ -	\$ -
Property and equipment additions included in accounts payable - construction	\$ -	\$ 1,691,735	\$ -	\$ 1,691,735

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

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HEARTH, INC. AND AFFILIATES

Consolidating Statement of Functional Expenses
For the Year Ended December 31, 2021
(With Summarized Comparative Totals for the Year Ended December 31, 2020)

	2021										2020	
	Program Services					Support Services						
	Housing and Supportive Services											
	Outreach	Hearth	Real Estate Development	Rental Properties	Total	Total Program Services	General and Adminis- tration	Institutional Advancement	Total Support Services	Eliminations	Total	Total
Expenses:												
Personnel and related:												
Salaries	\$ 335,958	\$ 1,729,474	\$ 169,735	\$ 843,918	\$ 2,743,127	\$ 3,079,085	\$ 596,174	\$ 262,810	\$ 858,984	\$ -	\$ 3,938,069	\$ 4,171,871
Consultants and contracted services	12,619	89,968	-	273,580	363,548	376,167	26,323	29,760	56,083	-	432,250	160,760
Payroll taxes	27,553	166,030	16,975	73,586	256,591	284,144	28,285	20,759	49,044	-	333,188	387,603
Fringe benefits	25,775	114,105	25,460	102,068	241,633	267,408	52,670	12,868	65,538	-	332,946	351,727
Total personnel and related	401,905	2,099,577	212,170	1,293,152	3,604,899	4,006,804	703,452	326,197	1,029,649	-	5,036,453	5,071,961
Occupancy:												
Repairs and maintenance	899	2,492	-	648,726	651,218	652,117	9,112	621	9,733	-	661,850	411,824
Utilities	-	-	-	481,948	481,948	481,948	-	-	-	-	481,948	339,075
Mortgage interest	-	-	-	235,680	235,680	235,680	-	-	-	-	235,680	177,701
Real estate taxes	-	-	-	196,876	196,876	196,876	-	-	-	-	196,876	127,533
Insurance	-	213	-	173,457	173,670	173,670	-	-	-	-	173,670	108,830
Rent	15,000	-	-	-	-	15,000	15,000	15,000	30,000	(45,000)	-	-
Total occupancy	15,899	2,705	-	1,736,687	1,739,392	1,755,291	24,112	15,621	39,733	(45,000)	1,750,024	1,164,963
Other:												
Supplies and client expenses	251,078	24,437	-	34,503	58,940	310,018	-	32,104	32,104	-	342,122	194,356
Miscellaneous	1,585	12,521	93	172,904	185,518	187,103	35,090	211	35,301	-	222,404	45,049
Management and administrative fees	65,832	-	-	390,268	390,268	456,100	-	-	-	(217,128)	238,972	220,833
Professional fees	-	1,423	-	89,719	91,142	91,142	97,871	1,027	98,898	-	190,040	185,315
Office	8,239	31,306	-	66,395	97,701	105,940	26,214	11,553	37,767	-	143,707	125,071
Food and household supplies	-	120,091	-	-	120,091	120,091	-	9,342	9,342	-	129,433	116,741
Advertising	-	-	-	80,000	80,000	80,000	-	1,268	1,268	-	81,268	520
Telephone	4,884	42,955	736	10,384	54,075	58,959	11,803	3,541	15,344	-	74,303	73,729
Recruitment	4,964	57,982	-	-	57,982	62,946	488	-	488	-	63,434	26,130
Bad debt	-	54,075	-	9,257	63,332	63,332	-	-	-	-	63,332	83,009
Insurance	-	-	-	-	-	-	49,866	-	49,866	-	49,866	35,260
Printing and copying	2,292	6,083	-	-	6,083	8,375	2,951	10,102	13,053	-	21,428	25,988
Interest - amortization of debt issuance costs	-	-	-	16,550	16,550	16,550	-	-	-	-	16,550	16,778
Travel and training	9,472	1,506	-	-	1,506	10,978	4,592	514	5,106	-	16,084	12,784
Meetings and events	-	7,555	-	-	7,555	7,555	1,852	3,969	5,821	-	13,376	8,657
Insurance loss	-	-	-	-	-	-	-	-	-	-	-	13,771
Interest	-	-	-	24,838	24,838	24,838	-	-	-	(24,838)	-	-
Total other	348,346	359,934	829	894,818	1,255,581	1,603,927	230,727	73,631	304,358	(241,966)	1,666,319	1,183,991
Total expenses before depreciation, amortization and allocation	766,150	2,462,216	212,999	3,924,657	6,599,872	7,366,022	958,291	415,449	1,373,740	(286,966)	8,452,796	7,420,915
Depreciation and Amortization	2,655	12,421	-	1,200,590	1,213,011	1,215,666	1,202	-	1,202	(98,866)	1,118,002	843,474
Total expenses before allocation	768,805	2,474,637	212,999	5,125,247	7,812,883	8,581,688	959,493	415,449	1,374,942	(385,832)	9,570,798	8,264,389
General and Administration Allocation	190,518	613,240	52,783	-	666,023	856,541	(959,493)	102,952	(856,541)	-	-	-
Total expenses	\$ 959,323	\$ 3,087,877	\$ 265,782	\$ 5,125,247	\$ 8,478,906	\$ 9,438,229	\$ -	\$ 518,401	\$ 518,401	\$ (385,832)	\$ 9,570,798	\$ 8,264,389

HEARTH, INC. AND AFFILIATES

Consolidating Statement of Functional Expenses
For the Year Ended December 31, 2020

	Program Services					Support Services						
	Housing and Supportive Services						General and	Institutional	Total			
	Outreach	Hearth	Real Estate	Rental	Total	Total	Adminis-	Advancement	Support	Eliminations	Total	
			Development	Properties		Program	tration		Services			
						Services						
Expenses:												
Personnel and related:												
Salaries	\$ 393,683	\$ 1,851,902	\$ 71,200	\$ 1,048,880	\$ 2,971,982	\$ 3,365,665	\$ 526,822	\$ 279,384	\$ 806,206	\$ -	\$ 4,171,871	
Consultants and contracted services	7,783	52,268	-	42,921	95,189	102,972	49,364	8,424	57,788	-	160,760	
Payroll taxes	31,949	191,209	7,181	85,677	284,067	316,016	47,874	23,713	71,587	-	387,603	
Fringe benefits	28,429	132,709	10,680	133,786	277,175	305,604	22,749	23,374	46,123	-	351,727	
Total personnel and related	461,844	2,228,088	89,061	1,311,264	3,628,413	4,090,257	646,809	334,895	981,704	-	5,071,961	
Occupancy:												
Repairs and maintenance	180	22,422	-	384,296	406,718	406,898	4,766	160	4,926	-	411,824	
Utilities	-	-	-	339,075	339,075	339,075	-	-	-	-	339,075	
Mortgage interest	-	-	-	177,701	177,701	177,701	-	-	-	-	177,701	
Real estate taxes	-	-	-	127,533	127,533	127,533	-	-	-	-	127,533	
Insurance	1,787	8,464	-	96,792	105,256	107,043	-	1,787	1,787	-	108,830	
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	
Other:												
Supplies and client expenses	167,191	13,868	-	6,072	19,940	187,131	247	6,978	7,225	-	194,356	
Miscellaneous	891	10,234	-	14,791	25,025	25,916	18,885	248	19,133	-	45,049	
Management and administrative fees	73,355	-	-	387,369	387,369	460,724	-	-	-	(239,891)	220,833	
Professional fees	-	839	-	81,853	82,692	82,692	90,924	11,699	102,623	-	185,315	
Office	7,997	33,103	-	41,289	74,392	82,389	30,046	12,636	42,682	-	125,071	
Food and household supplies	-	116,492	-	-	116,492	116,492	-	249	249	-	116,741	
Advertising	-	-	-	-	-	-	-	520	520	-	520	
Telephone	7,258	41,509	-	9,957	51,466	58,724	12,758	2,247	15,005	-	73,729	
Recruitment	2,028	23,574	-	-	23,574	25,602	528	-	528	-	26,130	
Bad debt	-	78,228	-	4,781	83,009	83,009	-	-	-	-	83,009	
Insurance	-	17,979	-	-	17,979	17,979	17,281	-	17,281	-	35,260	
Printing and copying	965	8,116	-	-	8,116	9,081	2,121	14,786	16,907	-	25,988	
Interest - amortization of debt issuance costs	-	-	-	16,778	16,778	16,778	-	-	-	-	16,778	
Travel and training	5,363	1,827	-	-	1,827	7,190	5,251	343	5,594	-	12,784	
Meetings and events	-	827	-	-	827	827	7,658	172	7,830	-	8,657	
Insurance loss	-	-	-	13,771	13,771	13,771	-	-	-	-	13,771	
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	
Total expenses before depreciation, amortization and allocation	746,859	2,605,570	89,061	3,040,404	5,735,035	6,481,894	857,524	393,470	1,250,994	(311,973)	7,420,915	
Depreciation and Amortization	3,579	19,863	-	895,165	915,028	918,607	1,202	-	1,202	(76,335)	843,474	
Total expenses before allocation	750,438	2,625,433	89,061	3,935,569	6,650,063	7,400,501	858,726	393,470	1,252,196	(388,308)	8,264,389	
General and Administration Allocation	167,018	584,315	19,821	-	604,136	771,154	(858,725)	87,571	(771,154)	-	-	
Total expenses	\$ 917,456	\$ 3,209,748	\$ 108,882	\$ 3,935,569	\$ 7,254,199	\$ 8,171,655	\$ 1	\$ 481,041	\$ 481,042	\$ (388,308)	\$ 8,264,389	

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

HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements
December 31, 2021 and 2020

1. OPERATIONS

Hearth, Inc. (Hearth) is a nonprofit 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.

Grants and Contributions and Accounts and Other Receivables

Grants and contributions receivable and accounts 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.

HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements
December 31, 2021 and 2020

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Grants and Contributions and Accounts and Other Receivables (Continued)

The allowance for uncollectible grants and contributions receivable 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. The allowance for uncollectible accounts and other receivables was \$65,928 as of December 31, 2021 and 2020.

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, 2021 and 2020. Depreciation expense, net of eliminations, during 2021 and 2020 was \$1,111,807 and \$838,794, 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 2021 and 2020.

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 \$85,747 and \$46,800 as of December 31, 2021 and 2020, respectively. Accumulated amortization of capitalized costs was \$46,755 and \$40,560 as of December 31, 2021 and 2020, respectively. Amortization during 2021 and 2020 was \$6,195 and \$4,680, respectively. Amortization is expected to be \$4,156 in 2022 and \$2,596 annually until fully amortized.

HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements
December 31, 2021 and 2020

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Debt Issuance Costs

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

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, 2021 and 2020

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 \$238,000 and \$253,000 of total program revenues during 2021 and 2020, respectively.
- **Commonwealth Care Alliance (CCA)** - Reimbursements for CCA are billed based on a pre-determined rate per individual. CCA revenue accounted for approximately \$260,000 and \$504,000 of total program revenues during 2021 and 2020, 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 \$74,000 and \$117,000 of total program revenues during 2021 and 2020, 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 \$94,000 and \$107,000 of total program revenues during 2021 and 2020, respectively.
- **Uphams Elder Services (UES)** - Reimbursements for UES are billed based on pre-determined daily rates per individual. UES revenue accounted for approximately \$148,000 and \$171,000 of total program revenues during 2021 and 2020, respectively.
- **Other Program Revenue** - Reimbursements are recognized and billed based on the daily services provided. All other program revenue accounted for approximately \$33,000 and \$29,000 of total program revenues during 2021 and 2020, respectively.

HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements
December 31, 2021 and 2020

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 the adoption of Topic 958, the standard is not required to be retrospectively applied. Prior to the adoption of Topic 958, 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 are net of vacancies of \$332,060 and \$124,512 for 2021 and 2020, 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 \$33,861 and \$30,137 of donated goods for 2021 and 2020, respectively. The Agency received \$23,730 of donated services for 2020. 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, 2021 and 2020

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, 2021 and 2020, the General Partners have, for Federal income tax purposes, net operating loss carryforwards of approximately \$863,000 and \$860,000, respectively, available to offset future taxable income. Also, at December 31, 2021 and 2020, the General Partners have, for state income tax purposes, net operating loss carryforwards of approximately \$588,000 and \$586,000, 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, 2021 and 2020, 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, 2021 and 2020. 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, 2021 and 2020

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, 2021 and 2020 (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 November 2, 2022, which is the date the consolidating financial statements were available to be issued. See Note 20 for events 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, 2021 and 2020

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 expectations 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, 2021 and 2020:

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, 2021 and 2020

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>2021</u>	<u>2020</u>
Restricted for real estate development activities	\$ 773,377	\$ 1,273,377
Restricted for programs	111,421	260,070
Restricted for non-capital equipment and maintenance	50,643	12,536
Time restricted	<u>-</u>	<u>24,000</u>
Total net assets with donor restrictions	<u>\$ 935,441</u>	<u>\$ 1,569,983</u>

Non-controlling interest represents the interests of the investor limited partner in HOLP and Four Corners (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 ECLP (see page 20), 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 owns 79% of the outstanding shares of the common stock of HFCM.

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, INC. AND AFFILIATES

Notes to Consolidating Financial Statements
December 31, 2021 and 2020

3. AFFILIATES AND RELATED PARTY TRANSACTIONS (Continued)

AFFILIATES (Continued)

Rental Properties (Continued)

Non-profit (Continued)

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 operates 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.

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 \$35,085 and \$33,049 for 2021 and 2020, 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.

HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements
December 31, 2021 and 2020

3. AFFILIATES AND RELATED PARTY TRANSACTIONS (Continued)

RELATED PARTY TRANSACTIONS (Continued)

Developer Fees (Continued)

Beacon (Continued)

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

	<u>2021</u>	<u>2020</u>
Beacon - developer fee	\$ 166,700	\$ 166,700
Deferred interest	<u>452,670</u>	<u>417,585</u>
	619,370	584,285
Less - reserve	<u>619,370</u>	<u>584,285</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, 2021 and 2020:

<u>Project</u>	<u>Total Contract</u>	<u>Recognized Prior to 2020</u>	<u>Recognized During 2020</u>	<u>Recognized During 2021</u>	<u>Remaining Contract Balance</u>
Four Corners	<u>\$ 1,748,480</u>	<u>\$ 120,000</u>	<u>\$ 722,265</u>	<u>\$ 906,215</u>	<u>\$ -</u>

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. In accordance with ASC Topic, *Leases*, the rent expense on the ground lease is recorded on a straight-line basis over the term of the lease regardless of actual cash payments. A deferred ground lease of \$625,590 and \$356,924 has been recorded as of December 31, 2021 and 2020, respectively, representing the difference between ground lease expense and cash payments due under the ground lease agreement terms. Ground lease payable of \$170,000 and \$111,650 has been recorded as of December 31, 2021 and 2020, respectively. Payments are made subject to cash flow. Deferred interest on the ground lease payable was \$6,650 and \$1,100 as of December 31, 2021 and 2020, respectively. Deferred ground lease, ground lease receivable and deferred interest on the ground lease have been fully reserved by Hearth as of December 31, 2021 and 2020. Ground lease expense for 2021 and 2020 was \$327,016.

HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements
December 31, 2021 and 2020

3. AFFILIATES AND RELATED PARTY TRANSACTIONS (Continued)

RELATED PARTY TRANSACTIONS (Continued)

Lease Agreements (Continued)

Amounts due to/from Hearth consist of the following as of December 31:

	<u>2021</u>	<u>2020</u>
Developer fees, overhead and deferred interest	\$ 1,240,610	\$ 733,355
Ground lease, deferred ground lease and deferred interest	802,240	469,674
Due to Hearth (construction and operational advances)	<u>330,298</u>	<u>674,403</u>
	<u>\$ 2,373,148</u>	<u>\$ 1,877,432</u>

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.

Hearth provided three sponsor notes to Four Corners. The first sponsor note bears interest at 3%, has an outstanding balance of \$1,560,000, and matures in July 2062. This note was made with the proceeds from the sale of Hearth's share of state tax credits, which is reflected as sale of state tax credits in the accompanying 2021 consolidating statement of activities. The second sponsor note is non-interest bearing, has an outstanding balance of \$750,000, and matures in January 2062. The third sponsor note bears interest at 3%, has an outstanding balance of \$500,000, and matures in July 2062. Commencing in 2022, annual payments of principal and interest are due subject to cash flow on the first and third sponsor notes. Hearth does not expect to receive any payments under these agreements. Accordingly, these notes are fully reserved.

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.

HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements
December 31, 2021 and 2020

3. AFFILIATES AND RELATED PARTY TRANSACTIONS (Continued)

RELATED PARTY TRANSACTIONS (Continued)

Sponsor Notes (Continued)

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

	2021	
	Principal	Accrued Interest
Four Corners - Sponsor notes	\$ 2,810,000	\$ 18,900
HOLP - Sponsor notes	1,780,136	-
Ruggles - Sponsor note	250,000	105,014
	4,840,136	123,914
Less - reserve	4,840,136	123,914
Total	\$ -	\$ -

	2020	
	Principal	Accrued Interest
HOLP - Sponsor notes	\$ 1,780,136	\$ -
Ruggles - Sponsor note	250,000	105,014
	2,030,136	105,014
Less - reserve	2,030,136	105,014
Total	\$ -	\$ -

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 \$1,307,848 and \$1,204,939 as of December 31, 2021 and 2020, respectively, for operating support and funding of reserves and deposits. Hearth has fully reserved these amounts as of December 31, 2021 and 2020.

Under the normal course of business, Hearth provides operational advances to the Rental Properties. These amounts are included in due to affiliates in the consolidating statements of financial position.

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, 2021 and 2020

3. AFFILIATES AND RELATED PARTY TRANSACTIONS (Continued)

RELATED PARTY TRANSACTIONS (Continued)

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. The maximum guarantee under these agreements totals \$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.

Capital Distribution

ECLP may make payment of any compensation or distributions of income or other assets to any of its officers, directors or partners upon approval from the U.S. Department of Housing and Urban Development (HUD) in accordance with HUD regulations. Such distributions may only be made from surplus cash. ECLP made capital distributions of \$300,000 and \$32,990 to its partners during 2021 and 2020 based on 2020 and 2019 surplus cash, respectively. These amounts are reflected as capital distribution in the accompanying consolidating statements of changes in entities' net assets.

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, 2021 and 2020

4. RESERVES AND DEPOSITS (Continued)

Reserves and deposits consist of the following at December 31:

	<u>2021</u>	<u>2020</u>
Replacement reserves	\$ 1,614,523	\$ 1,639,024
Construction cash	1,521,551	1,005,602
Operating and investor services reserves	1,174,677	762,414
Resident service reserve	544,707	-
Insurance and real estate tax escrow	99,684	87,958
	<u>4,955,142</u>	<u>3,494,998</u>
Less - current portion	<u>99,684</u>	<u>87,958</u>
	<u>\$ 4,855,458</u>	<u>\$ 3,407,040</u>

5. GRANTS AND CONTRIBUTIONS RECEIVABLE

Grants and contributions receivable consist of the following at December 31:

	<u>2021</u>	<u>2020</u>
Due within one year	\$ 598,342	\$ 705,620
Due in one to five years	<u>30,000</u>	<u>123,000</u>
	628,342	828,620
Less - allowance for uncollectible amounts	54,075	-
Less - current portion, net of allowance	<u>544,267</u>	<u>705,620</u>
Long-term grants and contributions receivable	<u>\$ 30,000</u>	<u>\$ 123,000</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>2021</u>	<u>2020</u>
Stocks - domestic equity	\$ 4,248,063	\$ 3,303,608
Exchange traded funds:		
Other	1,326,934	1,274,630
Cash and cash equivalents	146,291	178,335
Fixed income:		
Treasury bills	237,365	583,913
Corporate bonds	<u>322,292</u>	<u>511,408</u>
Total	<u>\$ 6,280,945</u>	<u>\$ 5,851,894</u>

HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements
December 31, 2021 and 2020

6. INVESTMENTS (Continued)

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

	<u>2021</u>	<u>2020</u>
Realized and unrealized gains on investments	\$ 1,029,414	\$ 770,856
Dividend and interest income	109,215	92,567
Investment management fees	<u>(60,337)</u>	<u>(48,180)</u>
Total	<u>\$ 1,078,292</u>	<u>\$ 815,243</u>

Investments are reported in the accompanying consolidating statements of financial position as long-term assets based on management's intent with respect to the use of investments. Investments, excluding the insured 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>2021</u>	<u>2020</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>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>387,672</u>	<u>444,312</u>

HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements
December 31, 2021 and 2020

7. LONG-TERM DEBT (Continued)

For-Profit Rental Properties (Continued)	2021	2020
<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>4,549,000</u>	<u>4,639,490</u>
<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) (0.19% and 0.15% at December 31, 2021 and 2020, respectively), plus 1.58%, with a term of thirty months. Payments of interest only were due monthly commencing on August 1, 2019, and all unpaid interest and principal were due upon maturity on January 26, 2022, at which time the balance was repaid with the remaining mortgage note payable receipts and capital contribution installments. Capitalized interest on this note was \$232,092 and \$158,721 as of December 31, 2021 and 2020, respectively. Interest expense for the year ended December 31, 2021, was \$63,916. This note was secured by a first mortgage on the Four Corners property.	1,782,632	6,667,979
Non-interest-bearing note payable to the investor limited partner. This note was due at the earlier of payment of the initial capital contribution, or eighteen months from closing. The note was repaid in full during 2021. This note was secured by a security agreement, assignment of leases and rents, and a fourth mortgage on the Four Corners property.	-	714,777
Subtotal Four Corners	<u>1,782,632</u>	<u>7,382,756</u>
	6,719,304	12,466,558
Less - unamortized debt issuance costs	<u>550,455</u>	<u>285,268</u>
Total for-profit rental properties	<u>6,168,849</u>	<u>12,181,290</u>
Total long-term debt, net of unamortized debt issuance costs	6,241,580	12,254,021
Less - total current portion	<u>170,970</u>	<u>147,585</u>
Total long-term debt	<u>\$ 6,070,610</u>	<u>\$ 12,106,436</u>

HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements
December 31, 2021 and 2020

7. LONG-TERM DEBT (Continued)

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:

	<u>Principal Payments</u>	<u>Amortization of Debt Issuance Costs</u>
2022	\$ 170,970	\$ 27,415
2023	\$ 178,984	\$ 27,174
2024	\$ 185,645	\$ 26,925
2025	\$ 192,561	\$ 26,668
2026	\$ 199,743	\$ 26,403

Debt issuance costs related to the various long-term and contingent debt totaling \$700,732 and \$420,442 as of December 31, 2021 and 2020, respectively, are net of accumulated imputed interest of \$113,218 and \$96,577 as of December 31, 2021 and 2020, 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).

8. CONTINGENT DEBT

Contingent debt consists of the following at December 31:

Non-Profit Rental Properties	<u>2021</u>	<u>2020</u>
<i>Beacon</i>		
Non-interest-bearing note payable to Community Economic Development Assistance Corporation (CEDAC). All unpaid principal is due in June 2029. This note is secured by a 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, 2021 and 2020. 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>

HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements
December 31, 2021 and 2020

8. CONTINGENT DEBT (Continued)

Non-Profit Rental Properties (Continued)	2021	2020
<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, 2021 and 2020. 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.	625,000	625,000
	1,375,000	1,375,000
Less - unamortized debt issuance costs	37,150	38,597
Subtotal Burroughs	1,337,850	1,336,403
Total non-profit rental properties	2,112,850	2,111,403
For-Profit Rental Properties		
<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, prior years' surplus cash payments were due to CEDAC in 2021 based on prior years' cash flows. These amounts are included in current portion of contingent debt in the accompanying consolidating statement of financial position as of December 31, 2020. There are no payments due in 2022 based on 2021 cash flow.	1,992,793	1,992,793
Non-interest-bearing note payable to the Commonwealth of Massachusetts through the Department of Housing and Community Development's (DHCD) Affordable Housing Trust (AHT) program, due upon maturity in March 2042. DHCD may extend the maturity date of this note until March 2061, provided that the property continues to be used for low-income housing. This note is secured by a shared second mortgage on the property.	1,000,000	1,000,000

HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements
December 31, 2021 and 2020

8. CONTINGENT DEBT (Continued)

For-Profit Rental Properties (Continued)	2021	2020
HOLP (Continued)		
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
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, prior years' surplus cash payments were due to CEDAC in 2021 based on prior years' cash flows. These amounts are included in current portion of long-term and contingent debt in the accompanying consolidating statement of financial position as of December 31, 2020. There are no payments due in 2022 based on 2021 cash flow.	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
Total contingent debt - HOLP, net of current portion	6,422,148	6,366,360

HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements
December 31, 2021 and 2020

8. CONTINGENT DEBT (Continued)

For-Profit Rental Properties (Continued)	2021	2020
<i>Ruggles</i>		
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, 2021 and 2020. All unpaid principal and deferred interest are due in full on December 31, 2030. As of December 31, 2021 and 2020, deferred interest totaled \$1,895,619 and \$1,736,975, 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, 2021 and 2020, deferred interest totaled \$803,058 and \$764,118, respectively. This note is secured by a shared first mortgage on the Project.	600,000	600,000
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 2021 or 2020. All unpaid principal and deferred interest are due in full on November 30, 2030. As of December 31, 2021 and 2020, 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	2,871,721	2,674,137
Total contingent debt and deferred interest - Ruggles	4,679,179	4,481,595
<i>Four Corners</i>		
0.05% note payable to the Commonwealth of Massachusetts through DND's HOME program. This note is due in January 2062 and is secured by a shared second mortgage on the property.	2,000,000	1,207,126

HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements
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8. CONTINGENT DEBT (Continued)

For-Profit Rental Properties (Continued)	2021	2020
<i>Four Corners</i> (Continued)		
Non-interest-bearing note payable to the Commonwealth of Massachusetts through MassHousing's AHTF program. This note is due in January 2062 and is secured by a shared second mortgage on the property.	1,150,000	940,750
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.	1,150,000	608,102
Non-interest-bearing note payable to CEDAC through the Housing Preservation and Stabilization Trust Fund Program. This note is due in January 2062 and is secured by a shared second mortgage on the property. The maturity may be extended for an additional forty-three years after the original maturity date.	1,000,000	-
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	742,500
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.	517,500	276,574
Subtotal - Four Corners	7,310,000	4,525,052
Plus - deferred interest	703	-
Total contingent debt and deferred interest - Four Corners	7,310,703	4,525,052
Total for-profit rental properties	18,412,030	15,428,795
	20,524,880	17,428,622
Less - current portion	-	55,788
Total contingent debt, net of current portion	\$ 20,524,880	\$ 17,484,410

HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements
December 31, 2021 and 2020

8. CONTINGENT DEBT (Continued)

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

	<u>2021</u>	<u>2020</u>
CEDAC - 2021 cash flow payment - HOLP	\$ -	\$ 55,788

The current portion of the amounts due on the CEDAC notes payable for HOLP (see pages 28 and 29) as of December 31, 2020, was not 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 deposited the 2020 cash flow payment into the replacement reserve account with permission from CEDAC.

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, 2021 and 2020.

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% at December 31, 2021 and 2020). The line of credit is secured by substantially all assets of Hearth. There was no balance outstanding as of December 31, 2021 and 2020.

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. During 2021, the balance of the note and all accrued interest were forgiven and are presented as forgiveness of debt in the accompanying consolidating statement of activities.

11. COMMITMENTS AND CONTINGENCIES

Four Corners' limited partner has committed a total of \$7,147,768 in capital contributions, which were reduced by \$131,050 with a one-time adjustment. As of December 31, 2021, \$6,659,330 has been paid. The remaining 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.

HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements
December 31, 2021 and 2020

11. COMMITMENTS AND CONTINGENCIES (Continued)

In the ordinary course of the Agency's business, the Agency is, from time-to-time, involved in disputes concerning individuals' employment and other matters with the Agency. The Agency denies any wrongdoing in these cases and takes the appropriate legal steps in defense of any disputes. It is management's opinion that any potential settlement would not be material to the accompanying consolidating financial statements as of December 31, 2021 and 2020.

During 2021, COVID-19 continued to be 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.

12. CONCENTRATIONS

Funding

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

Funding Source	2021		2020	
	Operating Revenues	Grants and Contributions and Accounts and Other Receivables, Net	Operating Revenues	Grants and Contributions and Accounts and Other Receivables, Net
A	15%	25%	15%	6%
B	12%	11%	13%	11%
C	5%	6%	10%	5%
D	0%	0%	0%	20%

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, 2021 and 2020, 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.

HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements
December 31, 2021 and 2020

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 had started predevelopment on a project (the Project) in Dorchester, Massachusetts. The Agency incurred a total of \$14,813,352 of predevelopment costs, net of eliminations, as of December 31, 2020. During 2021, the Project was completed, and placed in service as a rental property of the Agency, at which time capitalized costs began depreciating.

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, 2021 and 2020:

	2021	
	Hearth	Rental Programs
Cash and cash equivalents	\$ 1,247,416	\$ 401,908
Restricted deposits, current	-	99,684
Accounts and other receivables, net	145,707	134,405
Current portion of grants and contributions receivable, net	544,267	-
Current portion of due (to) from affiliates, net	399,253	(399,253)
Less - cash and cash equivalents and current portion of grants and contributions receivable with purpose restrictions	<u>(905,441)</u>	<u>-</u>
	<u>\$ 1,431,202</u>	<u>\$ 236,744</u>
	2020	
	Hearth	Rental Programs
Cash and cash equivalents	\$ 1,118,995	\$ 664,928
Restricted deposits, current	-	87,958
Accounts and other receivables, net	154,470	76,548
Current portion of grants and contributions receivable, net	705,620	-
Current portion of due (to) from affiliates, net	150,310	(150,310)
Less - cash and cash equivalents and current portion of grants and contributions receivable with purpose restrictions	<u>(1,422,983)</u>	<u>-</u>
	<u>\$ 706,412</u>	<u>\$ 679,124</u>

Hearth has a policy to structure its financial assets to be available and liquid as its obligations become due. Hearth also has approximately \$6,300,000 and \$5,800,000 of investments as of December 31, 2021 and 2020, 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.

HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements
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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, \$497,077 and \$455,389 have not been reflected in the accompanying consolidating financial statements as of December 31, 2021 and 2020, respectively. Amounts received prior to incurring qualifying expenditures are reported as deferred revenue in the consolidating statements of financial position. There was no deferred revenue as of December 31, 2021 and 2020.

18. RECLASSIFICATION

Certain amounts in the 2020 consolidating financial statements have been reclassified to conform with the 2021 presentation.

19. PRIOR PERIOD ADJUSTMENT

During the year ended December 31, 2021, Hearth and Four Corners discovered that their net assets were misstated at December 31, 2019. This misstatement was caused by Hearth not recording a donation of land of \$1,100,000 and by Four Corners not recording ground lease expense and accrued interest on the unpaid balance of the ground lease for the period from July 25, 2019 through December 31, 2020. The correction of this error is shown as a prior period adjustment in the accompanying consolidating statements of changes in entities' net assets. The ground lease is with Hearth (see Note 3) and is therefore eliminated in the consolidating statements of changes in entities' net assets. The effect of the restatement in the consolidating financial statements is as follows as of December 31, 2020:

	<u>As Previously Stated</u>	<u>Restated</u>
Land	\$ 1,727,406	\$ 2,827,406
Net assets without donor restrictions	\$ 4,731,937	\$ 5,831,937

20. SUBSEQUENT EVENTS

Retirement plans

Effective March 1, 2022, Hearth terminated the voluntary defined contribution retirement plan in accordance with IRC Section 403(b) plan and established a retirement plan in accordance with IRC Section 401(k). Employees who have completed three months of service and have attained the age of 21 are eligible to participate in the plan. Employees can contribute a portion of their salary up to limits established by the IRC. Hearth can match a discretionary amount of employee compensation.

Commitment

On July 26, 2022, ORIX Real Estate Capital, LLC approved a loan commitment in the amount of \$6,315,900 (+/- 5%) in connection with refinancing ECLP's existing mortgage note payable to Red Mortgage Capital, LLC. This loan will mature in 35 years and bear interest at 4.25% per annum.

HEARTH, INC. AND AFFILIATES

Supplementary Consolidating Statement of Financial Position - Rental Properties
December 31, 2021
(With Summarized Comparative Totals as of December 31, 2020)

Assets	2021									2020	
	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	\$ 2,948	\$ 40,607	\$ 10,862	\$ 54,417	\$ 31,142	\$ 143,565	\$ 2,192	\$ 170,592	\$ 347,491	\$ 401,908	\$ 664,928
Funds held in trust	1,074	2,027	3,125	6,226	14,845	10,399	6,944	22,062	54,250	60,476	43,649
Current portion of reserves and deposits		-	-	-	61,343	38,341	-	-	99,684	99,684	87,958
Current portion of government contracts and other receivables, net	5,193	10,980	18,077	34,250	20,616	1,306	42,272	35,961	100,155	134,405	76,548
Prepaid expenses and deposits	163	603	326	1,092	10,869	11,763	814	45,395	68,841	69,933	71,633
Current portion of due (to) from affiliates	-	-	-	-	8,361	(12,033)	(65,283)	(330,298)	(399,253)	(399,253)	(150,310)
Total current assets	9,378	54,217	32,390	95,985	147,176	193,341	(13,061)	(56,288)	271,168	367,153	794,406
Other Assets:											
Reserves and deposits, net of current portion	16,150	144,326	92,347	252,823	1,580,653	502,964	48,054	2,127,671	4,259,342	4,512,165	3,063,867
Due to affiliates, net of current portion	(150,490)	(150,454)	(416,918)	(717,862)	-	-	(1,242,565)	-	(1,242,565)	(1,960,427)	(2,475,290)
Total other assets	(134,340)	(6,128)	(324,571)	(465,039)	1,580,653	502,964	(1,194,511)	2,127,671	3,016,777	2,551,738	588,577
Property and Equipment:											
Land	25,600	67,500	297,500	390,600	1,140,806	152,000	44,000	134,330	1,471,136	1,861,736	1,727,406
Buildings and improvements	773,805	1,441,427	1,395,207	3,610,439	13,896,188	6,486,049	5,213,117	16,962,180	42,557,534	46,167,973	28,934,994
Furniture and equipment	67,682	39,769	76,512	183,963	355,977	244,234	331,191	474,119	1,405,521	1,589,484	1,075,726
Project under development	-	-	-	-	-	-	-	-	-	-	15,492,352
	867,087	1,548,696	1,769,219	4,185,002	15,392,971	6,882,283	5,588,308	17,570,629	45,434,191	49,619,193	47,230,478
Less - accumulated depreciation	688,662	802,355	711,831	2,202,848	4,102,584	4,037,070	2,928,834	297,566	11,366,054	13,568,902	12,374,507
Net property and equipment	178,425	746,341	1,057,388	1,982,154	11,290,387	2,845,213	2,659,474	17,273,063	34,068,137	36,050,291	34,855,971
Total assets	\$ 53,463	\$ 794,430	\$ 765,207	\$ 1,613,100	\$ 13,018,216	\$ 3,541,518	\$ 1,451,902	\$ 19,344,446	\$ 37,356,082	\$ 38,969,182	\$ 36,238,954
Liabilities and Entities' Net Assets											
Current Liabilities:											
Current portion of long-term debt	\$ -	\$ -	\$ -	\$ -	\$ 59,718	\$ 93,316	\$ -	\$ 17,936	\$ 170,970	\$ 170,970	\$ 147,585
Current portion of contingent debt	-	-	-	-	-	-	-	-	-	-	55,788
Accounts payable and accrued expenses	46,328	10,381	21,200	77,909	93,467	94,342	90,182	84,250	362,241	440,150	287,968
Current portion of developer and overhead fees payable and deferred interest	-	-	-	-	-	-	-	597,163	597,163	597,163	-
Funds held in trust	1,074	2,027	3,125	6,226	14,845	10,399	6,944	22,062	54,250	60,476	43,649
Total current liabilities	47,402	12,408	24,325	84,135	168,030	198,057	97,126	721,411	1,184,624	1,268,759	534,990
Other Liabilities:											
Accounts payable - construction	-	-	-	-	-	-	-	138,849	138,849	138,849	2,839,215
Long-term debt and unamortized debt issuance costs, net of current portion	72,731	-	-	72,731	259,413	4,224,690	-	1,513,776	5,997,879	6,070,610	12,106,436
Contingent debt and unamortized debt issuance costs, net of current portion	-	775,000	1,337,850	2,112,850	6,422,148	-	4,679,179	7,310,703	18,412,030	20,524,880	17,484,410
Ground lease payable and deferred interest on ground lease	-	-	-	-	-	-	-	176,650	176,650	176,650	112,750
Deferred ground lease	-	-	-	-	-	-	-	625,590	625,590	625,590	356,924
Notes payable and deferred interest - affiliates	-	-	-	-	1,780,136	-	355,014	2,828,900	4,964,050	4,964,050	2,135,150
Developer and overhead fees payable and deferred interest, net of current portion	-	619,370	-	619,370	-	-	-	643,447	643,447	1,262,817	1,317,640
Total other liabilities	72,731	1,394,370	1,337,850	2,804,951	8,461,697	4,224,690	5,034,193	13,237,915	30,958,495	33,763,446	36,352,525
Total liabilities	120,133	1,406,778	1,362,175	2,889,086	8,629,727	4,422,747	5,131,319	13,959,326	32,143,119	35,032,205	36,887,515
Entities' Net Assets:											
Operating	(188,514)	(108,645)	(408,853)	(706,012)	808,835	88,600	(1,352,752)	(53,562)	(508,879)	(1,214,891)	(581,924)
Property and equipment	121,844	(503,703)	(188,115)	(569,974)	3,579,654	(969,829)	(2,326,665)	5,438,682	5,721,842	5,151,868	(66,637)
Total entities' net assets	(66,670)	(612,348)	(596,968)	(1,275,986)	4,388,489	(881,229)	(3,679,417)	5,385,120	5,212,963	3,936,977	(648,561)
Total liabilities and entities' net assets	\$ 53,463	\$ 794,430	\$ 765,207	\$ 1,613,100	\$ 13,018,216	\$ 3,541,518	\$ 1,451,902	\$ 19,344,446	\$ 37,356,082	\$ 38,969,182	\$ 36,238,954

HEARTH, INC. AND AFFILIATES

Supplementary Consolidating Statement of Financial Position - Rental Properties
December 31, 2020

	Non-Profits				For-Profits				Total	
				Total				Four	Total	Rental
Assets	Bishop	Beacon	Burroughs	Non-Profits	HOLP	ECLP	Ruggles	Corners	For-Profits	Properties
Current Assets:										
Cash and cash equivalents	\$ 2,720	\$ 29,578	\$ 11,261	\$ 43,559	\$ 134,565	\$ 463,060	\$ 23,744	\$ -	\$ 621,369	\$ 664,928
Funds held in trust	1,429	1,642	2,741	5,812	14,864	11,231	11,742	-	37,837	43,649
Current portion of reserves and deposits	2,604	-	-	2,604	55,304	30,050	-	-	85,354	87,958
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
Prepaid expenses and deposits	1,644	3,916	3,906	9,466	31,785	15,070	15,312	-	62,167	71,633
Current portion of due (to) from affiliates	(10,000)	10,000	-	-	(41,663)	(18,376)	(90,271)	-	(150,310)	(150,310)
Total current assets	3,189	45,948	34,474	83,611	210,635	501,496	(1,336)	-	710,795	794,406
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
Due to affiliates, net of current portion	(147,739)	(144,418)	(394,062)	(686,219)	-	-	(1,114,668)	(674,403)	(1,789,071)	(2,475,290)
Total other assets	(131,596)	(12,841)	(232,968)	(377,405)	1,461,385	550,693	(1,034,122)	(11,974)	965,982	588,577
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	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
Furniture and equipment	67,682	39,769	76,512	183,963	351,427	244,234	296,102	-	891,763	1,075,726
Project under development	-	-	-	-	-	-	-	15,492,352	15,492,352	15,492,352
	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
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
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
Total assets	\$ 78,337	\$ 821,465	\$ 844,970	\$ 1,744,772	\$ 13,385,510	\$ 3,901,815	\$ 1,726,479	\$ 15,480,378	\$ 34,494,182	\$ 36,238,954
Liabilities and Entities' Net Assets										
Current Liabilities:										
Current portion of long-term debt	\$ -	\$ -	\$ -	\$ -	\$ 57,095	\$ 90,490	\$ -	\$ -	\$ 147,585	\$ 147,585
Current portion of contingent debt	-	-	-	-	55,788	-	-	-	55,788	55,788
Accounts payable and accrued expenses	13,899	17,806	26,507	58,212	87,075	59,418	83,263	-	229,756	287,968
Funds held in trust	1,429	1,642	2,741	5,812	14,864	11,231	11,742	-	37,837	43,649
Total current liabilities	15,328	19,448	29,248	64,024	214,822	161,139	95,005	-	470,966	534,990
Other Liabilities:										
Accounts payable - construction	-	-	-	-	-	-	-	2,839,215	2,839,215	2,839,215
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
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
Ground lease payable and deferred interest on ground lease	-	-	-	-	-	-	-	112,750	112,750	112,750
Deferred ground lease	-	-	-	-	-	-	-	356,924	356,924	356,924
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	-	584,285	-	584,285	-	-	-	733,355	733,355	1,317,640
Total other liabilities	72,731	1,359,285	1,336,403	2,768,419	8,461,801	4,335,644	4,836,609	15,950,052	33,584,106	36,352,525
Total liabilities	88,059	1,378,733	1,365,651	2,832,443	8,676,623	4,496,783	4,931,614	15,950,052	34,055,072	36,887,515
Entities' Net Assets:										
Operating	(159,878)	(117,918)	(388,836)	(666,632)	864,870	430,847	(1,211,009)	-	84,708	(581,924)
Property and equipment	150,156	(439,350)	(131,845)	(421,039)	3,844,017	(1,025,815)	(1,994,126)	(469,674)	354,402	(66,637)
Total entities' net assets	(9,722)	(557,268)	(520,681)	(1,087,671)	4,708,887	(594,968)	(3,205,135)	(469,674)	439,110	(648,561)
Total liabilities and entities' net assets	\$ 78,337	\$ 821,465	\$ 844,970	\$ 1,744,772	\$ 13,385,510	\$ 3,901,815	\$ 1,726,479	\$ 15,480,378	\$ 34,494,182	\$ 36,238,954

HEARTH, INC. AND AFFILIATES

Supplementary Consolidating Statement of Activities - Rental Properties
For the Year Ended December 31, 2021
(With Summarized Comparative Totals for the Year Ended December 31, 2020)

	2021									2020
	Non-Profits				For-Profits					Total Rental Properties
	Bishop	Beacon	Burroughs	Total Non-Profits	HOLP	ECLP	Ruggles	Four Corners	Total For-Profits	Total Rental Properties
Changes in Net Assets Without Donor Restrictions:										
Operating revenues:										
Fee income and other revenue:										
Rental fees, net	\$ 98,348	\$ 145,032	\$ 156,364	\$ 399,744	\$ 1,077,562	\$ 1,268,618	\$ 647,146	\$ 564,183	\$ 3,557,509	\$ 3,957,253
Investment income	6	100	228	334	7,918	472	106	-	8,496	8,830
Total operating revenues	98,354	145,132	156,592	400,078	1,085,480	1,269,090	647,252	564,183	3,566,005	3,966,083
Operating expenses:										
Housing and supportive services	126,983	123,110	179,343	429,436	973,545	1,063,569	770,428	687,679	3,495,221	3,924,657
Depreciation and amortization	28,319	42,017	53,536	123,872	432,333	191,782	153,522	299,081	1,076,718	1,200,590
Total operating expenses	155,302	165,127	232,879	553,308	1,405,878	1,255,351	923,950	986,760	4,571,939	5,125,247
Changes in net assets without donor restrictions from operations	(56,948)	(19,995)	(76,287)	(153,230)	(320,398)	13,739	(276,698)	(422,577)	(1,005,934)	(1,159,164)
Other expenses:										
Ground lease expense	-	-	-	-	-	-	-	(327,016)	(327,016)	(327,016)
Deferred interest	-	(35,085)	-	(35,085)	-	-	(197,584)	(29,943)	(227,527)	(262,612)
Total other expenses	-	(35,085)	-	(35,085)	-	-	(197,584)	(356,959)	(554,543)	(589,628)
Changes in net assets without donor restrictions	(56,948)	(55,080)	(76,287)	(188,315)	(320,398)	13,739	(474,282)	(779,536)	(1,560,477)	(1,748,792)
Changes in Net Assets Attributable to Non-Controlling Interest	-	-	-	-	320,366	-	-	779,458	1,099,824	1,099,824
Changes in net assets attributable to Hearth	\$ (56,948)	\$ (55,080)	\$ (76,287)	\$ (188,315)	\$ (32)	\$ 13,739	\$ (474,282)	\$ (78)	\$ (460,653)	\$ (648,968)

HEARTH, INC. AND AFFILIATES

Supplementary Consolidating Statement of Activities - Rental Properties
For the Year Ended December 31, 2020

	Non-Profits				For-Profits				Total Rental Properties
	Bishop	Beacon	Burroughs	Total Non-Profits	HOLP	ECLP	Ruggles	Four Corners	Total For-Profits
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
Investment income	157	941	1,138	2,236	11,150	1,024	964	-	13,138
Total operating revenues	98,501	133,314	152,004	383,819	1,136,191	1,421,182	656,666	-	3,214,039
Operating expenses:									
Housing and supportive services	106,668	120,118	164,810	391,596	950,187	947,419	751,202	-	2,648,808
Depreciation and amortization	28,374	41,921	51,974	122,269	432,310	186,627	153,959	-	772,896
Total operating expenses	135,042	162,039	216,784	513,865	1,382,497	1,134,046	905,161	-	3,421,704
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)
Other expenses:									
Ground lease expense	-	-	-	-	-	-	-	(327,016)	(327,016)
Deferred interest	-	(33,049)	-	(33,049)	-	-	(187,915)	(1,100)	(189,015)
Total other expenses	-	(33,049)	-	(33,049)	-	-	(187,915)	(328,116)	(516,031)
Changes in net assets without donor restrictions	(36,541)	(61,774)	(64,780)	(163,095)	(246,306)	287,136	(436,410)	(328,116)	(723,696)
Changes in Net Assets Attributable to Non-Controlling Interest	-	-	-	-	246,281	-	-	-	246,281
Changes in net assets attributable to Hearth	\$ (36,541)	\$ (61,774)	\$ (64,780)	\$ (163,095)	\$ (25)	\$ 287,136	\$ (436,410)	\$ (328,116)	\$ (477,415)