

HEARTH, INC. AND AFFILIATES

**CONSOLIDATING FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

HEARTH, INC. AND AFFILIATES

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December 31, 2023 and 2022

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Independent Auditor's Report

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

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, 2023 and 2022, 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, 2023 and 2022, 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 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 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, that 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 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 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, that 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 32 through 35 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 32 through 35 is fairly stated in all material respects in relation to the consolidating financial statements as a whole.

AAFCPA, Inc.

Westborough, Massachusetts
December 11, 2024

HEARTH, INC. AND AFFILIATES

Consolidating Statement of Financial Position
December 31, 2023
(With Summarized Comparative Totals as of December 31, 2022)

Assets	2023					2022	
	Hearth, Inc.		Total	Rental Properties (Exhibit A)	Eliminations	Total	Total
	Operating	Real Estate Development					
Current Assets:							
Cash and cash equivalents	\$ 1,135,875	\$ 10,000	\$ 1,145,875	\$ 700,275	\$ -	\$ 1,846,150	\$ 1,322,503
Funds held in trust	121,815	-	121,815	64,133	-	185,948	195,645
Current portion of reserves and deposits	-	-	-	337,463	-	337,463	671,801
Rent and other receivables, net	217,167	-	217,167	197,764	-	414,931	372,612
Current portion of grants and contributions receivable, net	505,970	10,000	515,970	-	-	515,970	247,324
Prepaid expenses and deposits	38,834	-	38,834	79,404	-	118,238	106,010
Current portion of due (to) from affiliates, net	483,866	-	483,866	(248,076)	(235,790)	-	-
Total current assets	2,503,527	20,000	2,523,527	1,130,963	(235,790)	3,418,700	2,915,895
Other Assets:							
Grants and contributions receivable, net of current portion	-	-	-	-	-	-	10,000
Reserves and deposits, net of current portion	-	343,709	343,709	3,541,451	-	3,885,160	5,001,644
Right-of-use asset	-	-	-	2,921,323	(2,921,323)	-	-
Investments	4,813,926	-	4,813,926	-	-	4,813,926	5,074,509
Due (to) from affiliates, net of current portion	(1,039,439)	1,557,104	517,665	(2,928,372)	2,410,707	-	-
Investments in affiliates	-	51,942	51,942	-	(51,942)	-	-
Total other assets	3,774,487	1,952,755	5,727,242	3,534,402	(562,558)	8,699,086	10,086,153
Property and Equipment:							
Land	-	1,100,000	1,100,000	1,861,736	-	2,961,736	2,961,736
Buildings and improvements	167,486	-	167,486	46,392,292	(4,306,806)	42,252,972	42,163,712
Furniture and equipment	696,446	-	696,446	1,721,549	-	2,417,995	2,366,789
	863,932	1,100,000	1,963,932	49,975,577	(4,306,806)	47,632,703	47,492,237
Less - accumulated depreciation	854,279	-	854,279	16,373,521	(1,429,728)	15,798,072	14,508,765
Net property and equipment	9,653	1,100,000	1,109,653	33,602,056	(2,877,078)	31,834,631	32,983,472
Total assets	\$ 6,287,667	\$ 3,072,755	\$ 9,360,422	\$ 38,267,421	\$ (3,675,426)	\$ 43,952,417	\$ 45,985,520
Liabilities and Entities' Net Assets							
Current Liabilities:							
Current portion of long-term debt	\$ -	\$ -	\$ -	\$ 170,878	\$ -	\$ 170,878	\$ 163,715
Current portion of contingent debt	-	-	-	151,533	-	151,533	-
Accounts payable and accrued expenses	559,685	1,915	561,600	646,357	-	1,207,957	1,095,828
Line of credit	400,000	-	400,000	-	-	400,000	400,000
Current portion of developer and overhead fees payable and deferred interest	-	-	-	235,790	(235,790)	-	-
Funds held in trust	121,815	-	121,815	64,133	-	185,948	195,645
Total current liabilities	1,081,500	1,915	1,083,415	1,268,691	(235,790)	2,116,316	1,855,188
Other Liabilities:							
Long-term debt and unamortized debt issuance costs, net of current portion	-	-	-	7,157,176	-	7,157,176	7,316,133
Contingent debt and unamortized debt issuance costs, net of current portion	-	-	-	20,670,002	-	20,670,002	20,583,516
Lease liability	-	-	-	4,073,641	(4,073,641)	-	-
Notes payable and deferred interest - affiliates	-	-	-	5,090,656	(5,090,656)	-	-
Developer and overhead fees payable and deferred interest, net of current portion	-	-	-	1,293,646	(1,293,646)	-	-
Total other liabilities	-	-	-	38,285,121	(10,457,943)	27,827,178	27,899,649
Total liabilities	1,081,500	1,915	1,083,415	39,553,812	(10,693,733)	29,943,494	29,754,837
Entities' Net Assets:							
Net assets without donor restrictions:							
Operating	3,089,163	(3,255)	3,085,908	(435,929)	(405,381)	2,244,598	1,905,448
Board designated	2,107,351	-	2,107,351	-	-	2,107,351	2,107,351
Property and equipment	9,653	-	9,653	(850,462)	(938,997)	(1,779,806)	(147,426)
Real estate development	-	3,064,095	3,064,095	-	-	3,064,095	2,979,652
Total net assets without donor restrictions	5,206,167	3,060,840	8,267,007	(1,286,391)	(1,344,378)	5,636,238	6,845,025
Net assets with donor restrictions	-	10,000	10,000	-	-	10,000	87,500
Total Hearth entities' net assets	5,206,167	3,070,840	8,277,007	(1,286,391)	(1,344,378)	5,646,238	6,932,525
Non-controlling interest	-	-	-	-	8,362,685	8,362,685	9,298,158
Total entities' net assets	5,206,167	3,070,840	8,277,007	(1,286,391)	7,018,307	14,008,923	16,230,683
Total liabilities and entities' net assets	\$ 6,287,667	\$ 3,072,755	\$ 9,360,422	\$ 38,267,421	\$ (3,675,426)	\$ 43,952,417	\$ 45,985,520

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

HEARTH, INC. AND AFFILIATES

 Consolidating Statement of Financial Position
 December 31, 2022

Assets	Hearth, Inc.			Rental Properties (Exhibit B)	Eliminations	Total
	Operating	Real Estate Development	Total			
Current Assets:						
Cash and cash equivalents	\$ 931,653	\$ 87,500	\$ 1,019,153	\$ 303,350	\$ -	\$ 1,322,503
Funds held in trust	133,345	-	133,345	62,300	-	195,645
Current portion of reserves and deposits	-	-	-	671,801	-	671,801
Rent and other receivables, net	101,688	-	101,688	270,924	-	372,612
Current portion of grants and contributions receivable, net	222,324	25,000	247,324	-	-	247,324
Prepaid expenses and deposits	31,609	-	31,609	74,401	-	106,010
Current portion of due (to) from affiliates, net	734,223	-	734,223	(180,271)	(553,952)	-
Total current assets	<u>2,154,842</u>	<u>112,500</u>	<u>2,267,342</u>	<u>1,202,505</u>	<u>(553,952)</u>	<u>2,915,895</u>
Other Assets:						
Grants and contributions receivable, net of current portion	-	10,000	10,000	-	-	10,000
Reserves and deposits, net of current portion	-	343,512	343,512	4,658,132	-	5,001,644
Right-of-use asset	-	-	-	3,095,325	(3,095,325)	-
Investments	5,074,509	-	5,074,509	-	-	5,074,509
Due (to) from affiliates, net of current portion	(768,870)	1,447,858	678,988	(2,498,342)	1,819,354	-
Investments in affiliates	-	51,942	51,942	-	(51,942)	-
Total other assets	<u>4,305,639</u>	<u>1,853,312</u>	<u>6,158,951</u>	<u>5,255,115</u>	<u>(1,327,913)</u>	<u>10,086,153</u>
Property and Equipment:						
Land	-	1,100,000	1,100,000	1,861,736	-	2,961,736
Buildings and improvements	167,486	-	167,486	46,303,032	(4,306,806)	42,163,712
Furniture and equipment	696,445	-	696,445	1,670,344	-	2,366,789
	863,931	1,100,000	1,963,931	49,835,112	(4,306,806)	47,492,237
Less - accumulated depreciation	848,823	-	848,823	14,974,710	(1,314,768)	14,508,765
Net property and equipment	<u>15,108</u>	<u>1,100,000</u>	<u>1,115,108</u>	<u>34,860,402</u>	<u>(2,992,038)</u>	<u>32,983,472</u>
Total assets	<u>\$ 6,475,589</u>	<u>\$ 3,065,812</u>	<u>\$ 9,541,401</u>	<u>\$ 41,318,022</u>	<u>\$ (4,873,903)</u>	<u>\$ 45,985,520</u>
Liabilities and Entities' Equity (Deficit)						
Current Liabilities:						
Current portion of long-term debt	\$ -	\$ -	\$ -	\$ 163,715	\$ -	\$ 163,715
Accounts payable and accrued expenses	494,917	1,915	496,832	598,996	-	1,095,828
Line of credit	400,000	-	400,000	-	-	400,000
Current portion of developer and overhead fees payable and deferred interest	-	-	-	553,952	(553,952)	-
Funds held in trust	133,345	-	133,345	62,300	-	195,645
Total current liabilities	<u>1,028,262</u>	<u>1,915</u>	<u>1,030,177</u>	<u>1,378,963</u>	<u>(553,952)</u>	<u>1,855,188</u>
Other Liabilities:						
Long-term debt and unamortized debt issuance costs, net of current portion	-	-	-	7,316,133	-	7,316,133
Contingent debt and unamortized debt issuance costs	-	-	-	20,583,516	-	20,583,516
Lease liability	-	-	-	3,982,531	(3,982,531)	-
Notes payable and deferred interest - affiliates	-	-	-	5,026,417	(5,026,417)	-
Developer and overhead fees payable and deferred interest, net of current portion	-	-	-	1,319,282	(1,319,282)	-
Total other liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>38,227,879</u>	<u>(10,328,230)</u>	<u>27,899,649</u>
Total liabilities	<u>1,028,262</u>	<u>1,915</u>	<u>1,030,177</u>	<u>39,606,842</u>	<u>(10,882,182)</u>	<u>29,754,837</u>
Entities' Net Assets:						
Net assets without donor restrictions:						
Operating	3,324,868	(3,255)	3,321,613	(296,239)	(1,119,926)	1,905,448
Board designated	2,107,351	-	2,107,351	-	-	2,107,351
Property and equipment	15,108	-	15,108	2,007,419	(2,169,953)	(147,426)
Real estate development	-	2,979,652	2,979,652	-	-	2,979,652
Total net assets without donor restrictions	<u>5,447,327</u>	<u>2,976,397</u>	<u>8,423,724</u>	<u>1,711,180</u>	<u>(3,289,879)</u>	<u>6,845,025</u>
Net assets with donor restrictions	-	87,500	87,500	-	-	87,500
Total Hearth entities' net assets	<u>5,447,327</u>	<u>3,063,897</u>	<u>8,511,224</u>	<u>1,711,180</u>	<u>(3,289,879)</u>	<u>6,932,525</u>
Non-controlling interest	-	-	-	-	9,298,158	9,298,158
Total entities' net assets	<u>5,447,327</u>	<u>3,063,897</u>	<u>8,511,224</u>	<u>1,711,180</u>	<u>6,008,279</u>	<u>16,230,683</u>
Total liabilities and entities' net assets	<u>\$ 6,475,589</u>	<u>\$ 3,065,812</u>	<u>\$ 9,541,401</u>	<u>\$ 41,318,022</u>	<u>\$ (4,873,903)</u>	<u>\$ 45,985,520</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, 2023

(With Summarized Comparative Totals for the Year Ended December 31, 2022)

	2023					2022	
	Hearth, Inc.		Rental	Eliminations	Total	Total	
	Operating	Real Estate Development	Properties (Exhibit C)				Total
Changes in Net Assets Without Donor Restrictions:							
Operating revenues:							
Fee income and other revenue:							
Rental income, net	\$ -	\$ -	\$ -	\$ 5,333,111	\$ (45,000)	\$ 5,288,111	\$ 4,555,420
Government and other contracts	1,775,730	-	1,775,730	-	-	1,775,730	1,320,533
Program revenues	779,081	-	779,081	-	-	779,081	1,050,443
Resident service fees	319,142	-	319,142	-	-	319,142	276,177
Other	133,789	-	133,789	18,593	(105,330)	47,052	58,524
Interest income	318	-	318	16,978	-	17,296	5,253
Management and service fees	1,351,992	-	1,351,992	-	(1,351,992)	-	-
Total fee income and other revenue	4,360,052	-	4,360,052	5,368,682	(1,502,322)	8,226,412	7,266,350
Support:							
Private grants, contributions and special events	757,826	-	757,826	-	-	757,826	670,300
Net assets released from purpose restrictions	-	-	-	-	-	-	162,064
Total support	757,826	-	757,826	-	-	757,826	832,364
Total operating revenues	5,117,878	-	5,117,878	5,368,682	(1,502,322)	8,984,238	8,098,714
Operating expenses:							
Outreach	769,514	-	769,514	-	-	769,514	534,613
Housing and supportive services	2,717,010	-	2,717,010	5,174,989	(382,008)	7,509,991	7,195,140
General and administration	1,862,579	-	1,862,579	-	(438,621)	1,423,958	1,210,871
Institutional advancement	411,906	-	411,906	-	(6,750)	405,156	356,352
Total operating expenses before depreciation and amortization	5,761,009	-	5,761,009	5,174,989	(827,379)	10,108,619	9,296,976
Depreciation and amortization	5,455	-	5,455	1,401,408	(114,960)	1,291,903	1,305,715
Total operating expenses	5,766,464	-	5,766,464	6,576,397	(942,339)	11,400,522	10,602,691
Changes in net assets without donor restrictions from operations	(648,586)	-	(648,586)	(1,207,715)	(559,983)	(2,416,284)	(2,503,977)
Other revenues (expenses):							
Investment return, net	414,369	-	414,369	-	-	414,369	(1,236,866)
Net assets released from capital restrictions	-	77,500	77,500	-	-	77,500	753,377
Ground lease expense	-	-	-	(327,016)	327,016	-	-
General partner expenses	-	-	-	-	-	-	(1,368)
Write-off of debt issuance costs	-	-	-	-	-	-	(191,402)
Prepayment fee	-	-	-	-	-	-	(223,573)
Deferred interest on contingent debt	-	-	-	(349,458)	129,613	(219,845)	(209,583)
Total other revenues (expenses)	414,369	77,500	491,869	(676,474)	456,629	272,024	(1,109,415)
Changes in net assets without donor restrictions	(234,217)	77,500	(156,717)	(1,884,189)	(103,354)	(2,144,260)	(3,613,392)
Changes in Net Assets With Donor Restrictions:							
Grants	-	-	-	-	-	-	67,500
Net assets released from restrictions	-	(77,500)	(77,500)	-	-	(77,500)	(915,441)
Changes in net assets with donor restrictions	-	(77,500)	(77,500)	-	-	(77,500)	(847,941)
Changes in net assets	(234,217)	-	(234,217)	(1,884,189)	(103,354)	(2,221,760)	(4,461,333)
Changes in Net Assets Attributable to Non-Controlling Interest							
Changes in net assets attributable to Hearth	\$ (234,217)	\$ -	\$ (234,217)	\$ (948,716)	\$ (103,354)	\$ (1,286,287)	\$ (3,082,879)

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, 2022

	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 income, net	\$ -	\$ -	\$ -	\$ 4,600,420	\$ (45,000)	\$ 4,555,420
Government and other contracts	1,320,533	-	1,320,533	-	-	1,320,533
Program revenues	1,050,443	-	1,050,443	-	-	1,050,443
Resident service fees	276,177	-	276,177	-	-	276,177
Other	43,859	-	43,859	33,329	(18,664)	58,524
Interest income	-	219	219	5,034	-	5,253
Management and service fees	191,448	-	191,448	-	(191,448)	-
Total fee income and other revenue	<u>2,882,460</u>	<u>219</u>	<u>2,882,679</u>	<u>4,638,783</u>	<u>(255,112)</u>	<u>7,266,350</u>
Support:						
Private grants, contributions and special events	670,300	-	670,300	-	-	670,300
Net assets released from purpose restrictions	162,064	-	162,064	-	-	162,064
Total support	<u>832,364</u>	<u>-</u>	<u>832,364</u>	<u>-</u>	<u>-</u>	<u>832,364</u>
Total operating revenues	<u>3,714,824</u>	<u>219</u>	<u>3,715,043</u>	<u>4,638,783</u>	<u>(255,112)</u>	<u>8,098,714</u>
Operating expenses:						
Outreach	534,613	-	534,613	-	-	534,613
Housing and supportive services	2,602,738	-	2,602,738	4,840,302	(247,900)	7,195,140
General and administration	1,507,228	-	1,507,228	-	(296,357)	1,210,871
Institutional advancement	363,102	-	363,102	-	(6,750)	356,352
Total operating expenses before depreciation and amortization	<u>5,007,681</u>	<u>-</u>	<u>5,007,681</u>	<u>4,840,302</u>	<u>(551,007)</u>	<u>9,296,976</u>
Depreciation and amortization	10,711	-	10,711	1,409,964	(114,960)	1,305,715
Total operating expenses	<u>5,018,392</u>	<u>-</u>	<u>5,018,392</u>	<u>6,250,266</u>	<u>(665,967)</u>	<u>10,602,691</u>
Changes in net assets without donor restrictions from operations	<u>(1,303,568)</u>	<u>219</u>	<u>(1,303,349)</u>	<u>(1,611,483)</u>	<u>410,855</u>	<u>(2,503,977)</u>
Other revenues (expenses):						
Investment return, net	(1,236,866)	-	(1,236,866)	-	-	(1,236,866)
Net assets released from capital restrictions	-	753,377	753,377	-	-	753,377
Ground lease expense	-	-	-	(321,715)	321,715	-
General partner expenses	-	(1,368)	(1,368)	-	-	(1,368)
Write-off of debt issuance costs	-	-	-	(191,402)	-	(191,402)
Prepayment fee	-	-	-	(223,573)	-	(223,573)
Deferred interest on contingent debt	-	-	-	(334,814)	125,231	(209,583)
Total other revenues (expenses)	<u>(1,236,866)</u>	<u>752,009</u>	<u>(484,857)</u>	<u>(1,071,504)</u>	<u>446,946</u>	<u>(1,109,415)</u>
Changes in net assets without donor restrictions	<u>(2,540,434)</u>	<u>752,228</u>	<u>(1,788,206)</u>	<u>(2,682,987)</u>	<u>857,801</u>	<u>(3,613,392)</u>
Changes in Net Assets With Donor Restrictions:						
Grants	-	67,500	67,500	-	-	67,500
Net assets released from restrictions	(162,064)	(753,377)	(915,441)	-	-	(915,441)
Changes in net assets with donor restrictions	<u>(162,064)</u>	<u>(685,877)</u>	<u>(847,941)</u>	<u>-</u>	<u>-</u>	<u>(847,941)</u>
Changes in net assets	<u>(2,702,498)</u>	<u>66,351</u>	<u>(2,636,147)</u>	<u>(2,682,987)</u>	<u>857,801</u>	<u>(4,461,333)</u>
Changes in Net Assets Attributable to Non-Controlling Interest						
Changes in net assets attributable to Hearth	<u>\$ (2,702,498)</u>	<u>\$ 66,351</u>	<u>\$ (2,636,147)</u>	<u>\$ 1,378,454</u>	<u>\$ 857,801</u>	<u>\$ (3,082,879)</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, 2023 and 2022

	Hearth, Inc.			Rental Properties	Eliminations	Total	Non- Controlling Interest	Total
	Operating	Real Estate Development	Total					
Entities' Net Assets, December 31, 2021	\$ 8,149,825	\$ 2,997,546	\$ 11,147,371	\$ 3,936,977	\$ (5,068,944)	\$ 10,015,404	\$ 10,219,422	\$ 20,234,826
Capital contributions	-	-	-	457,190	(457,190)	-	457,190	457,190
Changes in net assets	<u>(2,702,498)</u>	<u>66,351</u>	<u>(2,636,147)</u>	<u>(2,682,987)</u>	<u>2,236,255</u>	<u>(3,082,879)</u>	<u>(1,378,454)</u>	<u>(4,461,333)</u>
Entities' Net Assets, December 31, 2022	5,447,327	3,063,897	8,511,224	1,711,180	(3,289,879)	6,932,525	9,298,158	16,230,683
Capital distribution	-	-	-	(1,113,382)	1,113,382	-	-	-
Changes in net assets	<u>(234,217)</u>	<u>-</u>	<u>(234,217)</u>	<u>(1,884,189)</u>	<u>832,119</u>	<u>(1,286,287)</u>	<u>(935,473)</u>	<u>(2,221,760)</u>
Transfers	<u>(6,943)</u>	<u>6,943</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Entities' Net Assets, December 31, 2023	<u>\$ 5,206,167</u>	<u>\$ 3,070,840</u>	<u>\$ 8,277,007</u>	<u>\$ (1,286,391)</u>	<u>\$ (1,344,378)</u>	<u>\$ 5,646,238</u>	<u>\$ 8,362,685</u>	<u>\$ 14,008,923</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, 2023

	Hearth	Rental Properties	Eliminations	Total
Cash Flows from Operating Activities:				
Changes in net assets	\$ (234,217)	\$ (1,884,189)	\$ (103,354)	\$ (2,221,760)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:				
Depreciation and amortization	5,455	1,401,408	(114,960)	1,291,903
Ground lease expense	-	327,016	(327,016)	-
Deferred interest	-	349,458	(129,613)	219,845
Interest - amortization of debt issuance costs	-	29,035	-	29,035
Investment return	(414,369)	-	-	(414,369)
Bad debt	467,449	80,047	(418,371)	129,125
Changes in operating assets and liabilities:				
Rent and other receivables	(115,479)	(6,887)	-	(122,366)
Grants and contributions receivable	(307,724)	-	-	(307,724)
Prepaid expenses and deposits	(7,225)	(7,601)	-	(14,826)
Due (to) from affiliates, net	(6,691)	426,759	(420,068)	-
Accounts payable and accrued expenses	64,768	47,361	-	112,129
Funds held in trust	(11,530)	1,833	-	(9,697)
Net cash provided by (used in) operating activities	<u>(559,563)</u>	<u>764,240</u>	<u>(1,513,382)</u>	<u>(1,308,705)</u>
Cash Flows from Investing Activities:				
Proceeds from sale of investments	674,952	-	-	674,952
Acquisition of property and equipment	-	(140,465)	-	(140,465)
Net cash provided by (used in) investing activities	<u>674,952</u>	<u>(140,465)</u>	<u>-</u>	<u>534,487</u>
Cash Flows from Financing Activities:				
Due (to) from affiliates, net	-	(400,000)	400,000	-
Financing fees refund	-	641	-	641
Principal payments of long-term debt	-	(163,295)	-	(163,295)
Capital distribution	-	(1,113,382)	1,113,382	-
Net cash used in financing activities	<u>-</u>	<u>(1,676,036)</u>	<u>1,513,382</u>	<u>(162,654)</u>
Net Change in Cash, Cash Equivalents and Restricted Cash	115,389	(1,052,261)	-	(936,872)
Cash, Cash Equivalents and Restricted Cash:				
Beginning of year	<u>1,496,010</u>	<u>5,695,583</u>	<u>-</u>	<u>7,191,593</u>
End of year	<u>\$ 1,611,399</u>	<u>\$ 4,643,322</u>	<u>\$ -</u>	<u>\$ 6,254,721</u>
Reconciliation of Cash, Cash Equivalents and Restricted Cash Reported Within the Consolidating Statement of Financial Position:				
Cash and cash equivalents	\$ 1,145,875	\$ 700,275	\$ -	\$ 1,846,150
Funds held in trust	121,815	64,133	-	185,948
Reserves and deposits	343,709	3,878,914	-	4,222,623
Total cash, cash equivalents and restricted cash	<u>\$ 1,611,399</u>	<u>\$ 4,643,322</u>	<u>\$ -</u>	<u>\$ 6,254,721</u>
Supplemental Disclosure of Non-Cash Transactions:				
Cash paid for interest	<u>\$ -</u>	<u>\$ 314,402</u>	<u>\$ -</u>	<u>\$ 314,402</u>

HEARTH, INC. AND AFFILIATES

 Consolidating Statement of Cash Flows
 For the Year Ended December 31, 2022

	<u>Hearth</u>	<u>Rental Properties</u>	<u>Eliminations</u>	<u>Total</u>
Cash Flows from Operating Activities:				
Changes in net assets	\$ (2,636,147)	\$ (2,682,987)	\$ 857,801	\$ (4,461,333)
Adjustments to reconcile changes in net assets to net cash used in operating activities:				
Depreciation and amortization	10,711	1,409,964	(114,960)	1,305,715
Ground lease expense	-	321,715	(321,715)	-
Deferred interest	-	334,814	(125,231)	209,583
Interest - amortization of debt issuance costs	-	31,760	-	31,760
Investment return	1,236,866	-	-	1,236,866
Bad debt	666,192	13,629	(276,107)	403,714
Write-off of debt issuance costs	-	191,402	-	191,402
Changes in operating assets and liabilities:				
Rent and other receivable	44,019	(150,148)	-	(106,129)
Grants and contributions receivable	(73,142)	-	-	(73,142)
Prepaid expenses and deposits	55,392	(4,468)	-	50,924
Due (to) from affiliates, net	(12,786)	396,133	(383,347)	-
Accounts payable and accrued expenses	111,281	958	-	112,239
Funds held in trust	15,069	1,824	-	16,893
Line of credit	400,000	-	-	400,000
Net cash used in operating activities	<u>(182,545)</u>	<u>(135,404)</u>	<u>(363,559)</u>	<u>(681,508)</u>
Cash Flows from Investing Activities:				
Purchases of investments	(30,430)	-	-	(30,430)
Acquisition of property and equipment	-	(201,739)	-	(201,739)
Net cash used in investing activities	<u>(30,430)</u>	<u>(201,739)</u>	<u>-</u>	<u>(232,169)</u>
Cash Flows from Financing Activities:				
Capital contributions	-	457,190	-	457,190
Due (to) from affiliates, net	-	(363,559)	363,559	-
Proceeds from long-term debt	-	6,356,200	-	6,356,200
Debt issuance costs	-	(233,371)	-	(233,371)
Proceeds from contingent debt	-	82,500	-	82,500
Principal payments of long-term debt	-	(5,340,467)	-	(5,340,467)
Net cash provided by financing activities	<u>-</u>	<u>958,493</u>	<u>363,559</u>	<u>1,322,052</u>
Net Change in Cash, Cash Equivalents and Restricted Cash	(212,975)	621,350	-	408,375
Cash, Cash Equivalents and Restricted Cash:				
Beginning of year	1,708,985	5,074,233	-	6,783,218
End of year	<u>\$ 1,496,010</u>	<u>\$ 5,695,583</u>	<u>\$ -</u>	<u>\$ 7,191,593</u>
Reconciliation of Cash, Cash Equivalents and Restricted Cash Reported Within the Consolidating Statement of Financial Position:				
Cash and cash equivalents	\$ 1,019,153	\$ 303,350	\$ -	\$ 1,322,503
Funds held in trust	133,345	62,300	-	195,645
Reserves and deposits	343,512	5,329,933	-	5,673,445
Total cash, cash equivalents and restricted cash	<u>\$ 1,496,010</u>	<u>\$ 5,695,583</u>	<u>\$ -</u>	<u>\$ 7,191,593</u>
Supplemental Disclosure of Non-Cash Transactions:				
Cash paid for interest	<u>\$ -</u>	<u>\$ 305,012</u>	<u>\$ -</u>	<u>\$ 305,012</u>
Property and equipment additions funded through developer and overhead fees payable	<u>\$ (396,605)</u>	<u>\$ 396,605</u>	<u>\$ -</u>	<u>\$ -</u>

HEARTH, INC. AND AFFILIATES

Consolidating Statement of Functional Expenses

For the Year Ended December 31, 2023

(With Summarized Comparative Totals for the Year Ended December 31, 2022)

	2023								2022		
	Program Services				Support Services				Eliminations	Total	Total
	Housing and Supportive Services			Total Program Services	General and Administration		Total Support Services				
Outreach	Hearth	Rental Properties	Total	Total Program Services	General and Administration	Institutional Advancement	Total Support Services	Eliminations	Total	Total	
Expenses:											
Personnel and related:											
Salaries	\$ 467,997	\$ 1,850,418	\$ 1,039,586	\$ 2,890,004	\$ 3,358,001	\$ 701,780	\$ 280,243	\$ 982,023	\$ -	\$ 4,340,024	\$ 3,833,965
Consultants and contracted services	-	28,267	583,280	611,547	611,547	170,959	2,149	173,108	-	784,655	654,339
Fringe benefits	47,225	195,397	118,138	313,535	360,760	72,938	28,959	101,897	-	462,657	352,884
Payroll taxes	40,546	167,898	92,860	260,758	301,304	59,782	23,879	83,661	-	384,965	331,721
Total personnel and related	555,768	2,241,980	1,833,864	4,075,844	4,631,612	1,005,459	335,230	1,340,689	-	5,972,301	5,172,909
Occupancy:											
Repairs and maintenance	-	5,016	993,738	998,754	998,754	20,537	71	20,608	-	1,019,362	946,134
Utilities	-	-	599,822	599,822	599,822	-	-	-	-	599,822	593,336
Mortgage interest	-	32,819	339,117	371,936	371,936	-	-	-	-	371,936	253,232
Real estate taxes	-	-	273,535	273,535	273,535	-	-	-	-	273,535	305,409
Insurance	-	15,054	233,775	248,829	248,829	8,184	-	8,184	-	257,013	269,776
Rent	18,000	-	-	-	18,000	20,250	6,750	27,000	(45,000)	-	-
Total occupancy	18,000	52,889	2,439,987	2,492,876	2,510,876	48,971	6,821	55,792	(45,000)	2,521,668	2,367,887
Other:											
Management and administrative fees	88,295	-	476,982	476,982	565,277	-	-	-	(238,610)	326,667	257,655
Professional fees	-	19,549	132,741	152,290	152,290	171,536	434	171,970	-	324,260	256,447
Office	11,165	22,503	75,790	98,293	109,458	34,490	3,523	38,013	-	147,471	112,752
Bad debt	-	49,078	80,047	129,125	129,125	418,371	-	418,371	(418,371)	129,125	403,714
Food and household supplies	11	122,097	-	122,097	122,108	6,427	31	6,458	-	128,566	136,540
Supplies and client expenses	74,227	28,939	9,973	38,912	113,139	-	14,839	14,839	-	127,978	168,716
Recruitment	513	121,151	-	121,151	121,664	2,397	1,010	3,407	-	125,071	66,648
Telephone	155	34,264	14,042	48,306	48,461	45,003	-	45,003	-	93,464	120,328
Miscellaneous	1,965	12,146	16,051	28,197	30,162	117,467	75	117,542	(62,485)	85,219	110,174
Meetings and events	-	163	-	163	163	3,648	36,590	40,238	-	40,401	8,521
Interest - amortization of debt issuance costs	-	-	29,035	29,035	29,035	-	-	-	-	29,035	31,760
Travel and training	19,415	3,568	-	3,568	22,983	4,841	809	5,650	-	28,633	15,499
Printing and copying	-	8,683	-	8,683	8,683	3,969	10,132	14,101	-	22,784	24,145
Advertising	-	-	3,564	3,564	3,564	-	2,412	2,412	-	5,976	5,932
Interest	-	-	62,913	62,913	62,913	-	-	-	(62,913)	-	-
Insurance	-	-	-	-	-	-	-	-	-	-	37,349
Total other	195,746	422,141	901,138	1,323,279	1,519,025	808,149	69,855	878,004	(782,379)	1,614,650	1,756,180
Total expenses before depreciation, amortization and general and administration allocation	769,514	2,717,010	5,174,989	7,891,999	8,661,513	1,862,579	411,906	2,274,485	(827,379)	10,108,619	9,296,976
Depreciation and Amortization	1,390	2,863	1,401,408	1,404,271	1,405,661	1,202	-	1,202	(114,960)	1,291,903	1,305,715
Total expenses before general and administration allocation	770,904	2,719,873	6,576,397	9,296,270	10,067,174	1,863,781	411,906	2,275,687	(942,339)	11,400,522	10,602,691
General and Administration Allocation	368,156	1,298,913	-	1,298,913	1,667,070	(1,863,781)	196,711	(1,667,070)	-	-	-
Total expenses	\$ 1,139,060	\$ 4,018,786	\$ 6,576,397	\$ 10,595,183	\$ 11,734,244	\$ -	\$ 608,617	\$ 608,617	\$ (942,339)	\$ 11,400,522	\$ 10,602,691

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

HEARTH, INC. AND AFFILIATES

 Consolidating Statement of Functional Expenses
 For the Year Ended December 31, 2022

	Program Services				Support Services				Eliminations	Total
	Housing and Supportive Services			Total Program Services	General and Adminis- tration	Institutional Advancement	Total Support Services			
	Outreach	Hearth	Rental Properties					Total		
Expenses:										
Personnel and related:										
Salaries	\$ 302,420	\$ 1,639,943	\$ 977,701	\$ 2,617,644	\$ 2,920,064	\$ 643,982	\$ 269,919	\$ 913,901	\$ -	\$ 3,833,965
Consultants and contracted services	300	-	636,108	636,108	636,408	10,033	7,898	17,931	-	654,339
Fringe benefits	23,074	113,591	96,574	210,165	233,239	100,963	18,682	119,645	-	352,884
Payroll taxes	25,283	149,962	81,429	231,391	256,674	53,990	21,057	75,047	-	331,721
Total personnel and related	<u>351,077</u>	<u>1,903,496</u>	<u>1,791,812</u>	<u>3,695,308</u>	<u>4,046,385</u>	<u>808,968</u>	<u>317,556</u>	<u>1,126,524</u>	<u>-</u>	<u>5,172,909</u>
Occupancy:										
Repairs and maintenance	-	1,220	936,559	937,779	937,779	8,241	114	8,355	-	946,134
Utilities	-	-	593,336	593,336	593,336	-	-	-	-	593,336
Mortgage interest	-	11,008	242,224	253,232	253,232	-	-	-	-	253,232
Real estate taxes	-	-	305,409	305,409	305,409	-	-	-	-	305,409
Insurance	1,608	7,725	258,781	266,506	268,114	54	1,608	1,662	-	269,776
Rent	18,000	-	-	-	18,000	20,250	6,750	27,000	(45,000)	-
Total occupancy	<u>19,608</u>	<u>19,953</u>	<u>2,336,309</u>	<u>2,356,262</u>	<u>2,375,870</u>	<u>28,545</u>	<u>8,472</u>	<u>37,017</u>	<u>(45,000)</u>	<u>2,367,887</u>
Other:										
Management and administrative fees	53,200	-	395,903	395,903	449,103	-	-	-	(191,448)	257,655
Professional fees	-	2,166	106,959	109,125	109,125	146,588	734	147,322	-	256,447
Office	5,763	14,673	69,321	83,994	89,757	19,622	3,373	22,995	-	112,752
Bad debt	-	390,085	13,629	403,714	403,714	276,107	-	276,107	(276,107)	403,714
Food and household supplies	-	136,074	-	136,074	136,074	455	11	466	-	136,540
Supplies and client expenses	95,825	22,369	29,889	52,258	148,083	1,081	19,552	20,633	-	168,716
Recruitment	-	20,293	-	20,293	20,293	46,355	-	46,355	-	66,648
Telephone	851	52,399	10,704	63,103	63,954	56,090	284	56,374	-	120,328
Miscellaneous	838	10,284	9,712	19,996	20,834	89,260	80	89,340	-	110,174
Meetings and events	-	40	-	40	40	3,044	5,437	8,481	-	8,521
Interest - amortization of debt issuance costs	-	-	31,760	31,760	31,760	-	-	-	-	31,760
Travel and training	6,562	5,492	-	5,492	12,054	3,224	221	3,445	-	15,499
Printing and copying	889	8,639	-	8,639	9,528	7,315	7,302	14,617	-	24,145
Advertising	-	-	5,852	5,852	5,852	-	80	80	-	5,932
Interest	-	-	38,452	38,452	38,452	-	-	-	(38,452)	-
Insurance	-	16,775	-	16,775	16,775	20,574	-	20,574	-	37,349
Total other	<u>163,928</u>	<u>679,289</u>	<u>712,181</u>	<u>1,391,470</u>	<u>1,555,398</u>	<u>669,715</u>	<u>37,074</u>	<u>706,789</u>	<u>(506,007)</u>	<u>1,756,180</u>
Total expenses before depreciation, amortization and general and administration allocation	534,613	2,602,738	4,840,302	7,443,040	7,977,653	1,507,228	363,102	1,870,330	(551,007)	9,296,976
Depreciation and Amortization	<u>2,654</u>	<u>6,855</u>	<u>1,409,964</u>	<u>1,416,819</u>	<u>1,419,473</u>	<u>1,202</u>	<u>-</u>	<u>1,202</u>	<u>(114,960)</u>	<u>1,305,715</u>
Total expenses before general and administration allocation	537,267	2,609,593	6,250,266	8,859,859	9,397,126	1,508,430	363,102	1,871,532	(665,967)	10,602,691
General and Administration Allocation	<u>230,894</u>	<u>1,121,489</u>	<u>-</u>	<u>1,121,489</u>	<u>1,352,383</u>	<u>(1,508,430)</u>	<u>156,047</u>	<u>(1,352,383)</u>	<u>-</u>	<u>-</u>
Total expenses	<u>\$ 768,161</u>	<u>\$ 3,731,082</u>	<u>\$ 6,250,266</u>	<u>\$ 9,981,348</u>	<u>\$ 10,749,509</u>	<u>\$ -</u>	<u>\$ 519,149</u>	<u>\$ 519,149</u>	<u>\$ (665,967)</u>	<u>\$ 10,602,691</u>

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

HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements
December 31, 2023 and 2022

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.

Recently Adopted Accounting Pronouncement

In June 2016, the FASB issued Accounting Standards Update (ASU) 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 replaces the “incurred loss” credit losses framework with a new accounting standard that requires management’s measurement of the allowance for credit losses to be based on a broader range of reasonable and supportable information for lifetime credit loss estimates. This amendment was adopted effective January 1, 2023, with no impact to the Agency’s consolidating financial statements.

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.

HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements
December 31, 2023 and 2022

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Grants and Contributions and Rent and Other Receivables

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

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 rent and other receivables is derived from a review of the Agency's historical losses based on the aging of receivables. This estimate is adjusted for management's assessment of current conditions, reasonable and supportable forecasts regarding future events, and any other factors deemed relevant by the Agency. The allowance for uncollectible rent and other receivables was approximately \$120,000 and \$41,000 as of December 31, 2023 and 2022, respectively.

Fair Value Measurements

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

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

The three-tier hierarchy of inputs is summarized in the three broad levels as follows:

Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets at the measurement date.

Level 2 - Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3 - Inputs that are unobservable and which require significant judgment or estimation.

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.

HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements
December 31, 2023 and 2022

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

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. Treasury bills are valued using Level 2 inputs as of December 21, 2023 and 2022. The remainder of investments are valued using Level 1 inputs as of December 31, 2023 and 2022 (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.

Investments

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 above).

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, 2023 and 2022. Depreciation expense, net of eliminations, during 2023 and 2022 was \$1,289,307 and \$1,301,559, 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 2023 and 2022.

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.

HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements
December 31, 2023 and 2022

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 as of December 31, 2023 and 2022. Accumulated amortization of capitalized costs was \$53,507 and \$50,911 as of December 31, 2023 and 2022, respectively. Amortization during 2023 and 2022 was \$2,596 and \$4,156, respectively. Amortization is expected to be \$2,596 annually until fully amortized.

Debt Issuance Costs

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

Leases

The Agency leases certain commercial and residential properties. The determination of whether an arrangement is a lease is made at the lease's inception. Under Topic 842, a contract is (or contains) a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is defined under the standard as having both the right to obtain substantially all of the economic benefits from use of the asset and the right to direct the use of the asset. Management only reassesses its determination if the terms and conditions of the contract are modified.

All of the Agency's leases are classified as operating and are presented as right-of-use (ROU) assets with a corresponding current and long-term lease liability in the consolidating statements of financial position. ROU assets represent the Agency's right to use an underlying asset during its lease term, and lease liabilities represent the obligation to make lease payments.

Operating lease ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. The Agency uses the implicit rate when it is readily determinable. Since most of the Agency's leases do not provide an implicit rate to determine the present value of lease payments, management uses the risk-free rate at the earlier of the adoption of Topic 842 or lease commencement. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

The Agency has certain leases that are for a period of twelve months or less or contain renewals for periods of twelve months or less. The Agency elected the practical expedient that allows them to not include short-term leases within the accompanying consolidating statements of financial position as ROU assets and lease liabilities.

The Agency has retroactively elected the practical expedient that was issued as part of ASU 2023-01, *Common Control Arrangements*, in March 2023, which allows the Agency to use the written terms and conditions of a common control arrangement to determine whether a lease exists and the classification of and accounting for such lease. The Agency applied this practical expedient to leases between related parties (see Note 10).

HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements
December 31, 2023 and 2022

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contingent Debt

The Agency has contingent loans from various organizations to assist in the development of its housing and other projects. These loans generally are not required to be repaid unless the project fails to maintain its status as low-income housing or the Agency fails to comply with other conditions. It is the intention of the Board of Directors and management of the Agency to maintain these properties as low-income housing and to meet other conditions; therefore, these loans have been classified as contingent debt in the accompanying consolidating statements of financial position (see Note 8).

Revenue Recognition

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

Developer and Overhead Fees and Management and Resident Service Fees

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.

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.

HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements
December 31, 2023 and 2022

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Developer and Overhead Fees and Management and Resident Service Fees (Continued)

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

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 \$155,000 and \$178,000 of total program revenues during 2023 and 2022, respectively.
- **Commonwealth Care Alliance (CCA)** - Reimbursements for CCA are billed based on a pre-determined rate per individual. CCA revenue accounted for approximately \$354,000 and \$402,000 of total program revenues during 2023 and 2022, 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 \$140,000 of total program revenues during 2022. There was no revenue from SWH during 2023.
- **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 \$66,000 and \$83,000 of total program revenues during 2023 and 2022, 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 \$192,000 of total program revenues during 2023 and 2022, respectively.
- **Other Program Revenue** - Reimbursements are recognized and billed based on the daily services provided. All other program revenue accounted for approximately \$56,000 and \$55,000 of total program revenues during 2023 and 2022, respectively.

HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements
December 31, 2023 and 2022

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Program Revenues (Continued)

Unpaid program revenues are included in accounts and other receivables in the accompanying consolidating statements of financial position. Program revenues receivable consisted of the following as of December 31:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Program revenues receivable	<u>\$ 217,167</u>	<u>\$ 101,688</u>	<u>\$ 145,707</u>

Grants and Contributions

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 Income

The Agency leases apartment units of various properties to various tenants for a period of twelve months or less. The lease agreements may contain renewals for a period of twelve months or less and do not require any variable lease payments. Because of the uncertainty of tenants' renewals and the existence of a mutual termination clause in the lease agreements, the Agency treats all residential leases as short-term leases.

HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements
December 31, 2023 and 2022

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Rental Income (Continued)

Rental income is accounted for in accordance with Topic 842 and is recognized over the rental period and is shown net of vacancies and concessions of \$392,993 and \$372,869 for 2023 and 2022, respectively. Advance receipts of rental income are classified as liabilities (prepaid rent) until earned.

All other revenue is recognized when earned.

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, 2023 and 2022, the General Partners have, for Federal income tax purposes, net operating loss carryforwards of approximately \$878,000 and \$872,000, respectively, available to offset future taxable income. Also, at December 31, 2023 and 2022, the General Partners have, for state income tax purposes, net operating loss carryforwards of approximately \$601,000 and \$597,000 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, 2023 and 2022, 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, 2023 and 2022. The Agency's information and income tax returns are subject to examination by the Federal and state jurisdictions.

Subsequent Events

Subsequent events have been evaluated through December 11, 2024, which is the date the consolidating financial statements were available to be issued. There were no events that met the criteria for recognition or disclosure in the consolidating financial statements.

HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements
December 31, 2023 and 2022

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2023 and 2022:

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 and ROU asset, 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, 2023 and 2022

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 are restricted for real estate development activities as of December 31, 2023 and 2022.

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:

<u>Entity</u>		<u>State Formed</u>	<u>Ownership Information</u>
General Partners:			
CEEH East Concord, Inc.	(CEC)	MA	79% of outstanding shares of common stock are owned by Hearth
Hearth Olmsted Manager LLC	(HOM)	MA	Wholly-owned by Hearth
NCS Ruggles, Inc.	(NCS)	MA	Wholly-owned by Hearth
Hearth Four Corners Manager LLC	(HFCM)	MA	79% of outstanding shares of common stock are owned by Hearth
Rental Properties – Non-Profit:			
4 Bishop Street, Inc.	(Bishop)	MA	100% controlled by Hearth
Hearth Beacon, Inc.	(Beacon)	MA	100% controlled by Hearth
Hearth at Burroughs, LLC	(Burroughs)	MA	100% controlled by Hearth
Rental Properties – For-Profit:			
East Concord Street Limited Partnership	(ECLP)	MA	99% controlled by Hearth
Hearth Olmsted Limited Partnership	(HOLP)	MA	.01% controlled by HOM as the general partner
Ruggles Assisted Living Limited Partnership	(Ruggles)	MA	99.9% controlled by Hearth
Hearth Four Corners, LLC	(Four Corners)	MA	.01% controlled by HFCM as the managing member

HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements
December 31, 2023 and 2022

3. AFFILIATES AND RELATED PARTY TRANSACTIONS (Continued)

RELATED PARTY TRANSACTIONS

Developer Fees

Beacon

Hearth has a \$166,700 developer fee note receivable from Beacon for services provided during the development of the project. The note accrues interest at 6%, compounded annually. Principal and interest payments are due annually if a certain cash flow level, as defined in the agreement, is achieved. Deferred interest expense on the developer fee payable was \$39,392 and \$37,162 for 2023 and 2022, respectively. Beacon has not made any payments on the note since the cash flow level has not been achieved. In addition, Beacon does not expect to generate the level of cash flow to make future payments on this note, and accordingly, Hearth has reserved the entire balance of principal and accrued interest.

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

	<u>2023</u>	<u>2022</u>
Beacon - developer fee	\$ 166,700	\$ 166,700
Deferred interest	<u>529,224</u>	<u>489,832</u>
	695,924	656,532
Less - reserve	<u>695,924</u>	<u>656,532</u>
Total	<u>\$ -</u>	<u>\$ -</u>

Four Corners

Developer fee receivable consist of the following at December 31:

	<u>2023</u>	<u>2022</u>
Four Corners - developer fee	\$ 792,609	\$ 1,192,609
Deferred interest	<u>40,903</u>	<u>24,093</u>
	833,512	1,216,702
Less - current portion	<u>235,790</u>	<u>553,952</u>
Total	<u>\$ 597,722</u>	<u>\$ 662,750</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. Payments are made subject to cash flow. All unpaid rent accrues interest at a rate of 3% compounding annually. Deferred interest on the ground lease payable was \$22,925 and \$13,752 as of December 31, 2023 and 2022, respectively. Four Corners is also required to pay as additional rent, all taxes on the land, plus certain operating expenses as defined in the ground lease agreement (see Note 10). The difference between actual cash payments and annual payments due under the ground lease is included in due (to) from affiliates in the accompanying consolidating statements of financial position. Deferred ground lease, ground lease receivable and deferred interest on the ground lease have been fully reserved by Hearth as of December 31, 2023 and 2022.

HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements
December 31, 2023 and 2022

3. AFFILIATES AND RELATED PARTY TRANSACTIONS (Continued)

RELATED PARTY TRANSACTIONS (Continued)

Due (to) from Affiliates

Due (to) from affiliates consist of the following as of December 31:

	<u>2023</u>	<u>2022</u>
Due to Hearth (construction and operational advances)	\$ 2,861,521	\$ 2,434,762
Ground lease and deferred interest	<u>314,927</u>	<u>243,851</u>
Total	<u>\$ 3,176,448</u>	<u>\$ 2,678,613</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. 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.

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

	<u>2023</u>	
	<u>Principal</u>	<u>Accrued Interest</u>
Four Corners - Sponsor notes	\$ 2,810,000	\$ 145,506
HOLP - Sponsor notes	1,780,136	-
Ruggles - Sponsor note	<u>250,000</u>	<u>105,014</u>
	4,840,136	250,520
Less - reserve	<u>4,840,136</u>	<u>250,520</u>
Total	<u>\$ -</u>	<u>\$ -</u>

HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements
December 31, 2023 and 2022

3. AFFILIATES AND RELATED PARTY TRANSACTIONS (Continued)

RELATED PARTY TRANSACTIONS (Continued)

Sponsor Notes (Continued)

	<u>2022</u>	
	<u>Principal</u>	<u>Accrued Interest</u>
Four Corners - Sponsor notes	\$ 2,810,000	\$ 81,267
HOLP - Sponsor notes	1,780,136	-
Ruggles - Sponsor note	<u>250,000</u>	<u>105,014</u>
	4,840,136	186,281
Less - reserve	<u>4,840,136</u>	<u>186,281</u>
Total	<u>\$ -</u>	<u>\$ -</u>

Personnel, Management and Service Fees

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

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

Ruggles has incurred recurring deficits from operations and owed Hearth \$1,659,955 and \$1,469,509 as of December 31, 2023 and 2022, respectively, for operating support and funding of reserves and deposits. Hearth has fully reserved these amounts as of December 31, 2023 and 2022.

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.

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.

HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements
December 31, 2023 and 2022

3. AFFILIATES AND RELATED PARTY TRANSACTIONS (Continued)

RELATED PARTY TRANSACTIONS (Continued)

Sponsor Obligations (Continued)

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 \$1,113,382 to its partners during 2023 based on 2022 surplus cash. This amount is reflected as capital distribution in the accompanying consolidating statement of changes in entities' net assets. ECLP made no capital distributions to its partners during 2022.

4. RESERVES AND DEPOSITS

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

Capital development cash consists of amounts remaining from construction related activities.

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.

Resident service reserve consists of an escrow required to be maintained under the provisions of Four Corner's operating agreement.

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, 2023 and 2022

4. RESERVES AND DEPOSITS (Continued)

Reserves and deposits consist of the following at December 31:

	<u>2023</u>	<u>2022</u>
Replacement reserves	\$ 1,813,568	\$ 2,936,254
Capital development cash	463,256	863,095
Operating and investor services reserves	1,179,885	1,176,601
Resident service reserve	547,998	545,277
Insurance and real estate tax escrow	<u>217,916</u>	<u>152,218</u>
	4,222,623	5,673,445
Less - current portion	<u>337,463</u>	<u>671,801</u>
	<u>\$ 3,885,160</u>	<u>\$ 5,001,644</u>

5. GRANTS AND CONTRIBUTIONS RECEIVABLE

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

	<u>2023</u>	<u>2022</u>
Due within one year	\$ 532,943	\$ 264,117
Due in one to five years	<u>-</u>	<u>10,000</u>
	532,943	274,117
Less - allowance for uncollectible amounts	16,793	16,793
Less - current portion, net of allowance	<u>515,970</u>	<u>247,324</u>
Long-term grants and contributions receivable	<u>\$ -</u>	<u>\$ 10,000</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>2023</u>	<u>2022</u>
Stocks - domestic equity	\$ 2,290,123	\$ 2,392,719
Exchange traded funds:		
Other	1,188,640	1,240,672
Fixed income:		
Corporate bonds	623,983	552,251
Treasury bills	536,453	545,773
Cash and cash equivalents	<u>174,727</u>	<u>343,094</u>
Total	<u>\$ 4,813,926</u>	<u>\$ 5,074,509</u>

7. LONG-TERM DEBT

Entity	Lender	Security	Payment Terms	Interest Rate	Maturity	Outstanding Balance	
						2023	2022
Non-Profit Rental Properties:							
Bishop	City of Boston	First mortgage on land and a building	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.	1.00%	June 2007	\$ 72,731	\$ 72,731
For-Profit Rental Properties:							
HOLP	Eastern Bank	First mortgage on the property, a security interest in all furnishings and equipment, and an assignment of leases and rents	Monthly principal and interest payments of \$6,311 through maturity.	4.50%	September 2027	266,354	328,394
ECLP	Orix Real Estate Capital, LLC	First mortgage on the land and building and related personal property, as well as rents and leases	During 2022, ECLP refinanced its primary mortgage. Monthly principal and interest payments of \$29,105 were made beginning December 1, 2022, through maturity.	4.25%	November 2057	6,268,644	6,349,607
Four Corners	Citizens Bank	First mortgage on the Four Corners property	Monthly principal and interest payments of \$5,009 through maturity.	3.80%	January 2042	1,036,744	1,057,036
	Total Rental Properties					7,644,473	7,807,768
	Less - unamortized debt issuance costs					(316,419)	(327,920)
	Less - current portion					(170,878)	(163,715)
	Total notes payable, net					\$ 7,157,176	\$ 7,316,133

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

Year Ending December 31,	Principal Payments	Amortization of Debt Issuance Costs
2024	\$ 170,878	\$ 29,222
2025	\$ 178,355	\$ 29,058
2026	\$ 186,160	\$ 28,887
2027	\$ 180,352	\$ 28,708
2028	\$ 124,624	\$ 28,495

The Agency must comply with various covenants under these loan agreements. As of December 31, 2023 and 2022, the Agency was in compliance with the various covenants under these loan agreements.

Debt issuance costs related to the various long-term debt totaling \$363,236 and \$363,877 as of December 31, 2023 and 2022, respectively, are net of accumulated imputed interest of \$46,817 and \$35,957 as of December 31, 2023 and 2022, respectively. Net debt issuance costs are reported as a direct reduction of the face amount of the related long-term debt.

8. CONTINGENT DEBT AND DEFERRED INTEREST

Contingent debt and deferred interest consist of:

Entity	Lender	Security	Payment Terms	Interest Rate	Maturity	2023		2022	
						Outstanding Principal	Deferred Interest	Outstanding Principal	Deferred Interest
Non-Profit Rental Properties:									
Beacon	Community Economic Development Assistance Corporation (CEDAC)	Second mortgage on land and a building	Payments are due annually from surplus cash as defined in the agreement.	0%	June 2029	\$ 426,000	\$ -	\$ 426,000	\$ -
Beacon	Town of Brookline	First mortgage on land and a building	The note is due in full at maturity.	0%	June 2039	349,000	-	349,000	-
Burroughs	CEDAC	Shared mortgage on land and a building	Payments are due annually from surplus cash as defined in the agreement. All unpaid principal is due at maturity.	0%	August 2038	750,000	-	750,000	-
Burroughs	City of Boston	Shared mortgage on land and a building, an assignment in leases and rents, and interest in all assets related to the land and building	The note is due in full at maturity.	0%	February 2038	625,000	-	625,000	-
For-Profit Rental Properties:									
HOLP	CEDAC	Shared second mortgage on the property	agreement. All unpaid principal is due at maturity. There is a \$151,533 payment due to CEDAC in 2024 based on HOLP's 2023 surplus cash flow calculation.	0%	March 2042	1,992,793	-	1,992,793	-
HOLP	Executive Office of Housing and Livable Communities (EOHLC) under the Affordable Housing Trust program	Shared second mortgage on the property	The note is due in full at maturity.	0%	March 2042	1,000,000	-	1,000,000	-
HOLP	City of Boston under HOME program	Shared second mortgage on the property	The note is due in full at maturity.	0%	May 2042	976,293	-	976,293	-
HOLP	EOHLC under the HOME program	Shared second mortgage on the property	The note is due in full at maturity.	0%	March 2042	958,989	-	958,989	-
HOLP	City of Boston under Neighborhood Housing Trust program	Shard second mortgage on the property	Principal due in full at maturity	0%	March 2042	750,000	-	750,000	-
HOLP	CEDAC	Shared second mortgage on the property	Principal is due annually from available cash flow as defined in the agreements. All unpaid principal due at maturity.	0%	March 2042	500,000	-	500,000	-
HOLP	City of Boston under the Leading the Way program	Shared second mortgage on the property	Unpaid principal is due upon maturity.	0%	March 2042	244,073	-	244,073	-
Ruggles	City of Boston	Shared first mortgage on the Project	Principal and interest are due annually if certain cash flow, as defined by agreement, is achieved. All unpaid principal and interest	6.49%	December 2030	707,458	2,244,462	707,458	2,064,559
Ruggles	EOHLC under the HOME program	Shared first mortgage on the Project	No payments for principal and interest are due until maturity, as long as the property remains affordable to low-income tenants.	6.49%	June 2032	600,000	880,938	600,000	841,998
Ruggles	CEDAC	Shared second mortgage on the property	Principal and deferred interest are due annually if certain cash flow, as defined in the agreement, is achieved. All unpaid principal and deferred interest are due in full at maturity.	0%	November 2030	500,000	173,044	500,000	173,044

8. CONTINGENT DEBT AND DEFERRED INTEREST (Continued)

Entity	Lender	Security	Payment Terms	Interest Rate	Maturity	2023		2022	
						Outstanding Principal	Deferred Interest	Outstanding Principal	Deferred Interest
Rental Properties (Continued):									
Four Corners	City of Boston under the Mayor's Office of Housing HOME program	Shared second mortgage on the property	The note is due in full at maturity.	0.05%	January 2062	2,000,000	2,704	2,000,000	1,703
Four Corners	MassHousing under the Affordable Housing Trust Fund program	Shared second mortgage on the property	The note is due in full at maturity.	0%	January 2062	1,150,000	-	1,150,000	-
Four Corners	Commonwealth of Massachusetts under EOHLC's Facilities Consolidation Fund Program	Second mortgage on the property	The note is due in full at maturity.	0%	January 2062	1,150,000	-	1,150,000	-
Four Corners	CEDAC	Shared second mortgage on the property	The note is due in full at maturity.	0%	January 2062	1,000,000	-	1,000,000	-
Four Corners	Federal Home Loan Bank of Boston	Third mortgage on the property	The note is due in full at maturity.	0%	January 2062	750,000	-	750,000	-
Four Corners	EOHLC under the HOME program	Shared second mortgage on the property	The note is due in full at maturity.	0%	January 2062	825,000	-	825,000	-
Four Corners	Mass Housing Partnership Fund under the Housing Stabilization Fund Program	Shared second mortgage on the property	The note is due in full at maturity.	0%	January 2072	517,500	-	517,500	-
	Total Rental Properties					17,772,106	3,301,148	17,772,106	3,081,304
	Less - current portion					(151,533)	-	-	-
	Less - unamortized debt issuance costs					(251,719)	-	(269,894)	-
	Total contingent debt and deferred interest, net					<u>\$ 17,368,854</u>	<u>\$ 3,301,148</u>	<u>\$ 17,502,212</u>	<u>\$ 3,081,304</u>

The Agency must comply with various covenants under these loan agreements. As of December 31, 2023 and 2022, the Agency was in compliance with the various covenants under these loan agreements.

Debt issuance costs related to the various contingent debt totaling \$308,814 as of December 31, 2023 and 2022, are net of accumulated imputed interest of \$57,095 and \$38,920 as of December 31, 2023 and 2022, respectively. Net debt issuance costs are reported as a direct reduction of the face amount of the related contingent debt.

HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements
December 31, 2023 and 2022

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 (8.50% and 7.50% at December 31, 2023 and 2022, respectively). The line of credit is secured by substantially all assets of Hearth. The outstanding balance of the line of credit was \$400,000 on December 31, 2023 and 2022.

10. GROUND LEASE

Four Corners entered into a ninety-nine-year ground lease with Hearth to lease the land the property's building is situated on. Ground lease expense was \$327,016 and \$321,715 for 2023 and 2022, respectively.

The future maturities of the lease liability are as follows as of December 31, 2023:

2024	\$	63,760
2025		65,673
2026		67,643
2027		69,672
2028		71,763
Thereafter		<u>31,744,074</u>
Total		32,082,585
Less - present value discount		<u>(28,008,944)</u>
Present value of lease liabilities	\$	<u>4,073,641</u>

Four Corners used its incremental borrowing rate of 3.8% to calculate the present value of the lease liabilities. The above future minimum payments assume Four Corners is generating cash flow as the payments required are to the extent of available cash flow. Accordingly, there is no current portion of lease liability due as of December 31, 2023 and 2022.

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. The remaining balance was paid to Four Corners once certain benchmarks were met as noted in Four Corners' partnership agreement during 2022.

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

In the ordinary course of the Agency's business, the Agency is, from time-to-time, involved in disputes concerning individuals' employment and other matters with the Agency. The Agency denies any wrongdoing in these cases and takes the appropriate legal steps in defense of any disputes. It is management's opinion that any potential settlement would not be material to the accompanying consolidating financial statements as of December 31, 2023 and 2022.

HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements
December 31, 2023 and 2022

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:

<u>Funding Source</u>	<u>2023</u>		<u>2022</u>	
	<u>Operating Revenues</u>	<u>Grants and Contributions and Rent and Other Receivables, Net</u>	<u>Operating Revenues</u>	<u>Grants and Contributions and Rent and Other Receivables, Net</u>
A	15%	18%	21%	25%
B	15%	37%	10%	17%
C	7%	9%	7%	22%

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, 2023 and 2022, or on the changes in entities' net assets for the years then ended.

Cash and Cash Equivalents

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

13. FUNDS HELD IN TRUST

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

14. PENSION PLAN

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

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. During 2023 and 2022, Hearth contributed \$88,201 and \$55,204, respectively, as a discretionary match to the plan.

HEARTH, INC. AND AFFILIATES

Notes to Consolidating Financial Statements
December 31, 2023 and 2022

15. 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, 2023 and 2022:

	2023	
	Hearth	Rental Programs
Cash and cash equivalents	\$ 1,145,875	\$ 700,275
Restricted deposits, current	-	337,463
Rent and other receivables, net	217,167	197,764
Current portion of grants and contributions receivable, net	515,970	-
Current portion of due (to) from affiliates, net	248,076	(248,076)
Less - cash and cash equivalents and current portion of grants and contributions receivable with purpose Restrictions	(10,000)	-
	<u>\$ 2,117,088</u>	<u>\$ 987,426</u>
	2022	
	Hearth	Rental Programs
Cash and cash equivalents	\$ 1,019,153	\$ 303,350
Restricted deposits, current	-	671,801
Rent and other receivables, net	101,688	270,924
Current portion of grants and contributions receivable, net	247,324	-
Current portion of due (to) from affiliates, net	180,271	(180,271)
Less - cash and cash equivalents and current portion of grants and contributions receivable with purpose restrictions	(77,500)	-
	<u>\$ 1,470,936</u>	<u>\$ 1,065,804</u>

Hearth has a policy to structure its financial assets to be available and liquid as its obligations become due. Hearth also has approximately \$4,800,000 and \$5,100,000 of investments as of December 31, 2023 and 2022, 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.

16. 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, \$663,419 and \$603,549 have not been reflected in the accompanying consolidating financial statements as of December 31, 2023 and 2022, 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, 2023 and 2022.

17. RECLASSIFICATION

Certain amounts in the 2022 consolidating financial statements have been reclassified to conform with the 2023 presentation.

HEARTH, INC. AND AFFILIATES

Supplementary Consolidating Statement of Financial Position - Rental Properties
December 31, 2023
(With Summarized Comparative Totals as of December 31, 2022)

Assets	2023										2022	
	Non-Profits				For-Profits						Total Rental Properties	Total Rental Properties
	Bishop	Beacon	Burroughs	Total Non-Profits	HOLP	ECLP	Ruggles	Four Corners	Total For-Profits	Total Rental Properties	Total Rental Properties	
Current Assets:												
Cash and cash equivalents	\$ 963	\$ 248,784	\$ 12,508	\$ 262,255	\$ 216,519	\$ 54,457	\$ 13,510	\$ 153,534	\$ 438,020	\$ 700,275	\$ 303,350	
Funds held in trust	1,701	1,719	2,724	6,144	14,738	11,161	11,123	20,967	57,989	64,133	62,300	
Current portion of reserves and deposits	-	-	-	-	172,471	45,445	-	119,547	337,463	337,463	671,801	
Government contracts and other receivables, net	10,190	13,702	11,952	35,844	27,973	8,773	53,059	72,115	161,920	197,764	270,924	
Prepaid expenses and deposits	892	955	1,287	3,134	8,589	26,919	1,815	38,947	76,270	79,404	74,401	
Current portion of due (to) from affiliates	-	-	-	-	(165,466)	(13,505)	-	(69,105)	(248,076)	(248,076)	(180,271)	
Total current assets	13,746	265,160	28,471	307,377	274,824	133,250	79,507	336,005	823,586	1,130,963	1,202,505	
Other Assets:												
Reserves and deposits, net of current portion	60,975	117,456	105,735	284,166	1,654,124	516,332	94,750	992,079	3,257,285	3,541,451	4,658,132	
Right-of-use asset	-	-	-	-	-	-	-	2,921,323	2,921,323	2,921,323	3,095,325	
Due to affiliates, net of current portion	(287,172)	(164,395)	(501,924)	(953,491)	-	-	(1,659,955)	(314,926)	(1,974,881)	(2,928,372)	(2,498,342)	
Total other assets	(226,197)	(46,939)	(396,189)	(669,325)	1,654,124	516,332	(1,565,205)	3,598,476	4,203,727	3,534,402	5,255,115	
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	1,861,736	
Buildings and improvements	773,805	1,485,427	1,395,207	3,654,439	13,896,188	6,626,033	5,233,892	16,981,740	42,737,853	46,392,292	46,303,032	
Furniture and equipment	67,682	39,769	76,512	183,963	451,812	251,514	360,141	474,119	1,537,586	1,721,549	1,670,344	
	867,087	1,592,696	1,769,219	4,229,002	15,488,806	7,029,547	5,638,033	17,590,189	45,746,575	49,975,577	49,835,112	
Less - accumulated depreciation	723,529	890,918	824,764	2,439,211	4,937,373	4,456,309	3,222,347	1,318,281	13,934,310	16,373,521	14,974,710	
Net property and equipment	143,558	701,778	944,455	1,789,791	10,551,433	2,573,238	2,415,686	16,271,908	31,812,265	33,602,056	34,860,402	
Total assets	\$ (68,893)	\$ 919,999	\$ 576,737	\$ 1,427,843	\$ 12,480,381	\$ 3,222,820	\$ 929,988	\$ 20,206,389	\$ 36,839,578	\$ 38,267,421	\$ 41,318,022	
Liabilities and Entities' Net Assets												
Current Liabilities:												
Current portion of long-term debt	\$ -	\$ -	\$ -	\$ -	\$ 65,331	\$ 84,471	\$ -	\$ 21,076	\$ 170,878	\$ 170,878	\$ 163,715	
Current portion of contingent debt	-	-	-	-	151,533	-	-	-	151,533	151,533	-	
Accounts payable and accrued expenses	71,689	45,078	59,407	176,174	53,723	83,563	136,178	196,719	470,183	646,357	598,996	
Current portion of developer and overhead fees payable and deferred interest	-	-	-	-	-	-	-	235,790	235,790	235,790	553,952	
Funds held in trust	1,701	1,719	2,724	6,144	14,738	11,161	11,123	20,967	57,989	64,133	62,300	
Total current liabilities	73,390	46,797	62,131	182,318	285,325	179,195	147,301	474,552	1,086,373	1,268,691	1,378,963	
Other Liabilities:												
Long-term debt and unamortized debt issuance costs, net of current portion	72,731	-	-	72,731	139,224	5,929,553	-	1,015,668	7,084,445	7,157,176	7,316,133	
Contingent debt and unamortized debt issuance costs, net of current portion	-	775,000	1,340,745	2,115,745	6,270,615	-	5,105,902	7,177,740	18,554,257	20,670,002	20,583,516	
Lease liability	-	-	-	-	-	-	-	4,073,641	4,073,641	4,073,641	3,982,531	
Notes payable and deferred interest - affiliates	-	-	-	-	1,780,136	-	355,014	2,955,506	5,090,656	5,090,656	5,026,417	
Developer and overhead fees payable and deferred interest, net of current portion	-	695,924	-	695,924	-	-	-	597,722	597,722	1,293,646	1,319,282	
Total other liabilities	72,731	1,470,924	1,340,745	2,884,400	8,189,975	5,929,553	5,460,916	15,820,277	35,400,721	38,285,121	38,227,879	
Total liabilities	146,121	1,517,721	1,402,876	3,066,718	8,475,300	6,108,748	5,608,217	16,294,829	36,487,094	39,553,812	39,606,842	
Entities' Net Assets:												
Operating	(346,816)	53,968	(535,584)	(828,432)	1,438,041	38,526	(1,727,749)	643,685	392,503	(435,929)	(296,239)	
Property and equipment	131,802	(651,690)	(290,555)	(810,443)	2,567,040	(2,924,454)	(2,950,480)	3,267,875	(40,019)	(850,462)	2,007,419	
Total entities' net assets	(215,014)	(597,722)	(826,139)	(1,638,875)	4,005,081	(2,885,928)	(4,678,229)	3,911,560	352,484	(1,286,391)	1,711,180	
Total liabilities and entities' net assets	\$ (68,893)	\$ 919,999	\$ 576,737	\$ 1,427,843	\$ 12,480,381	\$ 3,222,820	\$ 929,988	\$ 20,206,389	\$ 36,839,578	\$ 38,267,421	\$ 41,318,022	

HEARTH, INC. AND AFFILIATES

Supplementary Consolidating Statement of Financial Position - Rental Properties
December 31, 2022

Assets	Non-Profits				For-Profits				Total Rental Properties	
	Bishop	Beacon	Burroughs	Total Non-Profits	HOLP	ECLP	Ruggles	Four Corners		Total For-Profits
Current Assets:										
Cash and cash equivalents	\$ 2,725	\$ 113,086	\$ 4,855	\$ 120,666	\$ 955	\$ 136,720	\$ 20,039	\$ 24,970	\$ 182,684	\$ 303,350
Funds held in trust	847	1,969	2,883	5,699	15,421	9,445	11,499	20,236	56,601	62,300
Current portion of reserves and deposits	-	-	-	-	115,732	36,486	-	519,583	671,801	671,801
Government contracts and other receivables, net	15,983	10,605	34,809	61,397	46,830	29,903	28,327	104,467	209,527	270,924
Prepaid expenses and deposits	847	746	170	1,763	7,374	23,902	1,800	39,562	72,638	74,401
Current portion of due (to) from affiliates	-	-	-	-	(116,961)	(21,353)	-	(41,957)	(180,271)	(180,271)
Total current assets	<u>20,402</u>	<u>126,406</u>	<u>42,717</u>	<u>189,525</u>	<u>69,351</u>	<u>215,103</u>	<u>61,665</u>	<u>666,861</u>	<u>1,012,980</u>	<u>1,202,505</u>
Other Assets:										
Reserves and deposits, net of current portion	16,155	116,975	92,467	225,597	1,660,109	1,779,609	25,076	967,741	4,432,535	4,658,132
Right-of-use asset	-	-	-	-	-	-	-	3,095,325	3,095,325	3,095,325
Due to affiliates, net of current portion	(187,553)	(164,395)	(439,684)	(791,632)	-	-	(1,469,509)	(237,201)	(1,706,710)	(2,498,342)
Total other assets	<u>(171,398)</u>	<u>(47,420)</u>	<u>(347,217)</u>	<u>(566,035)</u>	<u>1,660,109</u>	<u>1,779,609</u>	<u>(1,444,433)</u>	<u>3,825,865</u>	<u>5,821,150</u>	<u>5,255,115</u>
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
Buildings and improvements	773,805	1,485,427	1,395,207	3,654,439	13,896,188	6,556,333	5,233,892	16,962,180	42,648,593	46,303,032
Furniture and equipment	67,682	39,769	76,512	183,963	411,952	251,514	348,796	474,119	1,486,381	1,670,344
	<u>867,087</u>	<u>1,592,696</u>	<u>1,769,219</u>	<u>4,229,002</u>	<u>15,448,946</u>	<u>6,959,847</u>	<u>5,626,688</u>	<u>17,570,629</u>	<u>45,606,110</u>	<u>49,835,112</u>
Less - accumulated depreciation	709,928	846,083	769,204	2,325,215	4,521,449	4,244,578	3,075,789	807,679	12,649,495	14,974,710
Net property and equipment	<u>157,159</u>	<u>746,613</u>	<u>1,000,015</u>	<u>1,903,787</u>	<u>10,927,497</u>	<u>2,715,269</u>	<u>2,550,899</u>	<u>16,762,950</u>	<u>32,956,615</u>	<u>34,860,402</u>
Total assets	<u>\$ 6,163</u>	<u>\$ 825,599</u>	<u>\$ 695,515</u>	<u>\$ 1,527,277</u>	<u>\$ 12,656,957</u>	<u>\$ 4,709,981</u>	<u>\$ 1,168,131</u>	<u>\$ 21,255,676</u>	<u>\$ 39,790,745</u>	<u>\$ 41,318,022</u>
Liabilities and Entities' Net Assets										
Current Liabilities:										
Current portion of long-term debt	\$ -	\$ -	\$ -	\$ -	\$ 62,461	\$ 80,963	\$ -	\$ 20,291	\$ 163,715	\$ 163,715
Accounts payable and accrued expenses	66,398	9,858	41,499	117,755	78,216	129,883	99,644	173,498	481,241	598,996
Current portion of developer and overhead fees payable and deferred interest	-	-	-	-	-	-	-	553,952	553,952	553,952
Funds held in trust	847	1,969	2,883	5,699	15,421	9,445	11,499	20,236	56,601	62,300
Total current liabilities	<u>67,245</u>	<u>11,827</u>	<u>44,382</u>	<u>123,454</u>	<u>156,098</u>	<u>220,291</u>	<u>111,143</u>	<u>767,977</u>	<u>1,255,509</u>	<u>1,378,963</u>
Other Liabilities:										
Long-term debt and unamortized debt issuance costs, net of current portion	72,731	-	-	72,731	200,763	6,005,894	-	1,036,745	7,243,402	7,316,133
Contingent debt and unamortized debt issuance costs	-	775,000	1,339,298	2,114,298	6,422,148	-	4,887,059	7,160,011	18,469,218	20,583,516
Lease liability	-	-	-	-	-	-	-	3,982,531	3,982,531	3,982,531
Notes payable and deferred interest - affiliates	-	-	-	-	1,780,136	-	355,014	2,891,267	5,026,417	5,026,417
Developer and overhead fees payable and deferred interest, net of current portion	-	656,532	-	656,532	-	-	-	662,750	662,750	1,319,282
Total other liabilities	<u>72,731</u>	<u>1,431,532</u>	<u>1,339,298</u>	<u>2,843,561</u>	<u>8,403,047</u>	<u>6,005,894</u>	<u>5,242,073</u>	<u>15,733,304</u>	<u>35,384,318</u>	<u>38,227,879</u>
Total liabilities	<u>139,976</u>	<u>1,443,359</u>	<u>1,383,680</u>	<u>2,967,015</u>	<u>8,559,145</u>	<u>6,226,185</u>	<u>5,353,216</u>	<u>16,501,281</u>	<u>36,639,827</u>	<u>39,606,842</u>
Entities' Net Assets:										
Operating	(234,396)	(49,816)	(441,349)	(725,561)	1,204,247	75,775	(1,518,987)	668,287	429,322	(296,239)
Property and equipment	100,583	(567,944)	(246,816)	(714,177)	2,893,565	(1,591,979)	(2,666,098)	4,086,108	2,721,596	2,007,419
Total entities' net assets	<u>(133,813)</u>	<u>(617,760)</u>	<u>(688,165)</u>	<u>(1,439,738)</u>	<u>4,097,812</u>	<u>(1,516,204)</u>	<u>(4,185,085)</u>	<u>4,754,395</u>	<u>3,150,918</u>	<u>1,711,180</u>
Total liabilities and entities' net assets	<u>\$ 6,163</u>	<u>\$ 825,599</u>	<u>\$ 695,515</u>	<u>\$ 1,527,277</u>	<u>\$ 12,656,957</u>	<u>\$ 4,709,981</u>	<u>\$ 1,168,131</u>	<u>\$ 21,255,676</u>	<u>\$ 39,790,745</u>	<u>\$ 41,318,022</u>

HEARTH, INC. AND AFFILIATES

Supplementary Consolidating Statement of Activities - Rental Properties
For the Year Ended December 31, 2023

(With Summarized Comparative Totals for the Year Ended December 31, 2022)

	2023									2022	
	Non-Profits				For-Profits					Total Rental Properties	Total Rental Properties
	Bishop	Beacon	Burroughs	Total Non-Profits	HOLP	ECLP	Ruggles	Four Corners	Total For-Profits	Total Rental Properties	Total Rental Properties
Changes in Net Assets Without Donor Restrictions:											
Operating revenues:											
Fee income and other revenue:											
Rental income, net	\$ 91,307	\$ 276,707	\$ 167,290	\$ 535,304	\$ 1,508,868	\$ 1,360,308	\$ 760,118	\$ 1,168,513	\$ 4,797,807	\$ 5,333,111	\$ 4,600,420
Other	-	-	-	-	308	-	15,165	3,120	18,593	18,593	33,329
Investment income	330	487	419	1,236	6,126	4,649	95	4,872	15,742	16,978	5,034
Total operating revenues	91,637	277,194	167,709	536,540	1,515,302	1,364,957	775,378	1,176,505	4,832,142	5,368,682	4,638,783
Operating expenses:											
Housing and supportive services	159,237	172,929	250,124	582,290	1,192,109	1,409,568	903,118	1,087,904	4,592,699	5,174,989	4,840,302
Depreciation and amortization	13,601	44,835	55,559	113,995	415,924	211,731	146,560	513,198	1,287,413	1,401,408	1,409,964
Total operating expenses	172,838	217,764	305,683	696,285	1,608,033	1,621,299	1,049,678	1,601,102	5,880,112	6,576,397	6,250,266
Changes in net assets without donor restrictions from operations	(81,201)	59,430	(137,974)	(159,745)	(92,731)	(256,342)	(274,300)	(424,597)	(1,047,970)	(1,207,715)	(1,611,483)
Other expenses:											
Ground lease expense	-	-	-	-	-	-	-	(327,016)	(327,016)	(327,016)	(321,715)
Write-off of debt issuance costs	-	-	-	-	-	-	-	-	-	-	(191,402)
Prepayment fee	-	-	-	-	-	-	-	-	-	-	(223,573)
Deferred interest on contingent debt	-	(39,392)	-	(39,392)	-	-	(218,844)	(91,222)	(310,066)	(349,458)	(334,814)
Total other expenses	-	(39,392)	-	(39,392)	-	-	(218,844)	(418,238)	(637,082)	(676,474)	(1,071,504)
Changes in net assets without donor restrictions	(81,201)	20,038	(137,974)	(199,137)	(92,731)	(256,342)	(493,144)	(842,835)	(1,685,052)	(1,884,189)	(2,682,987)
Changes in Net Assets Attributable to Non-Controlling Interest	-	-	-	-	92,722	-	-	842,751	935,473	935,473	1,378,454
Changes in net assets attributable to Hearth	\$ (81,201)	\$ 20,038	\$ (137,974)	\$ (199,137)	\$ (9)	\$ (256,342)	\$ (493,144)	\$ (84)	\$ (749,579)	\$ (948,716)	\$ (1,304,533)

HEARTH, INC. AND AFFILIATES

Supplementary Consolidating Statement of Activities - Rental Properties
For the Year Ended December 31, 2022

	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 income, net	\$ 88,589	\$ 222,362	\$ 147,831	\$ 458,782	\$ 1,152,726	\$ 1,290,462	\$ 683,409	\$ 1,015,041	\$ 4,141,638	\$ 4,600,420
Other	1,695	-	-	1,695	18,828	-	7,186	5,620	31,634	33,329
Investment income	11	237	119	367	2,869	744	28	1,026	4,667	5,034
Total operating revenues	90,295	222,599	147,950	460,844	1,174,423	1,291,206	690,623	1,021,687	4,177,939	4,638,783
Operating expenses:										
Housing and supportive services	136,172	147,121	181,774	465,067	1,044,675	1,303,698	841,456	1,185,406	4,375,235	4,840,302
Depreciation and amortization	21,266	43,728	57,373	122,367	420,425	207,508	146,955	512,709	1,287,597	1,409,964
Total operating expenses	157,438	190,849	239,147	587,434	1,465,100	1,511,206	988,411	1,698,115	5,662,832	6,250,266
Changes in net assets without donor restrictions from operations	(67,143)	31,750	(91,197)	(126,590)	(290,677)	(220,000)	(297,788)	(676,428)	(1,484,893)	(1,611,483)
Other expenses:										
Ground lease expense	-	-	-	-	-	-	-	(321,715)	(321,715)	(321,715)
Write-off of debt issuance costs	-	-	-	-	-	(191,402)	-	-	(191,402)	(191,402)
Prepayment fee	-	-	-	-	-	(223,573)	-	-	(223,573)	(223,573)
Deferred interest on contingent debt	-	(37,162)	-	(37,162)	-	-	(207,880)	(89,772)	(297,652)	(334,814)
Total other expenses	-	(37,162)	-	(37,162)	-	(414,975)	(207,880)	(411,487)	(1,034,342)	(1,071,504)
Changes in net assets without donor restrictions	(67,143)	(5,412)	(91,197)	(163,752)	(290,677)	(634,975)	(505,668)	(1,087,915)	(2,519,235)	(2,682,987)
Changes in Net Assets Attributable to Non-Controlling Interest	-	-	-	-	290,648	-	-	1,087,806	1,378,454	1,378,454
Changes in net assets attributable to Hearth	<u>\$ (67,143)</u>	<u>\$ (5,412)</u>	<u>\$ (91,197)</u>	<u>\$ (163,752)</u>	<u>\$ (29)</u>	<u>\$ (634,975)</u>	<u>\$ (505,668)</u>	<u>\$ (109)</u>	<u>\$ (1,140,781)</u>	<u>\$ (1,304,533)</u>