

CONSOLIDATED FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITOR'S REPORT

**CARITAS COMMUNITIES, INC. AND  
SUBSIDIARIES**

DECEMBER 31, 2010  
(WITH COMPARATIVE TOTALS FOR 2009)

Caritas Communities, Inc. and Subsidiaries

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITORS' REPORT	3
CONSOLIDATED FINANCIAL STATEMENTS	
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION	5
CONSOLIDATED STATEMENTS OF ACTIVITIES	7
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES	8
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS	9
CONSOLIDATED STATEMENTS OF CASH FLOWS	10
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	11
SUPPLEMENTAL INFORMATION	
CONSOLIDATING SCHEDULE OF FINANCIAL POSITION	44
CONSOLIDATING SCHEDULE OF ACTIVITIES	46
CONSOLIDATING SCHEDULE OF CHANGES IN NET ASSETS	48

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Caritas Communities, Inc. and Subsidiaries

We have audited the accompanying consolidated statement of financial position of Caritas Communities, Inc. and Subsidiaries as of December 31, 2010, and the related consolidated statements of activities, functional expenses, changes in net assets and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior-year summarized comparative information have been derived from Caritas Communities, Inc.'s 2009 financial statements. The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with Caritas Communities, Inc.'s financial statements for the year ended December 31, 2009, from which the summarized information was derived.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Caritas Communities, Inc. and Subsidiaries as of December 31, 2010, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole of Caritas Communities, Inc. and Subsidiaries as of and for the year ended December 31, 2010, which are presented in the preceding section of this report. The supplemental information for the year ended December 31, 2010 presented hereinafter is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of basic financial statements and, in our opinion is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Reznick Group, P.C.*

Boston, Massachusetts  
July 11, 2011

Caritas Communities, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2010 (with comparative totals for 2009)

ASSETS

	<u>2010</u>	<u>2009</u>
Current assets		
Cash and cash equivalents	\$ 1,088,547	\$ 991,985
Short-term investments	1,478,053	1,381,313
Tenant security deposits	241,425	210,871
Accounts receivable - (net of allowance for bad debts of \$41,720 and \$21,624, respectively)	159,108	142,505
Accounts receivable - other	153,041	186,000
Prepaid expenses and escrows	<u>246,294</u>	<u>228,959</u>
Total current assets	<u>3,366,468</u>	<u>3,141,633</u>
Property and equipment		
Land and site improvements	4,218,364	2,654,318
Buildings and improvements	40,794,091	35,112,316
Construction in progress	10,142	2,049,955
Furnishings and equipment	<u>1,125,514</u>	<u>941,408</u>
	46,148,111	40,757,997
Less: Accumulated depreciation	<u>(9,893,314)</u>	<u>(8,636,394)</u>
Net property and equipment	<u>36,254,797</u>	<u>32,121,603</u>
Other assets		
Reserve for replacements	1,365,795	1,267,613
Operating and debt service reserves	690,990	662,630
Long-term investments	-	87,276
Deferred fees	239,881	223,016
Development costs	<u>306,722</u>	<u>169,626</u>
Total other assets	<u>2,603,388</u>	<u>2,410,161</u>
TOTAL ASSETS	<u>\$ 42,224,653</u>	<u>\$ 37,673,397</u>

(continued)

Caritas Communities, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION - CONTINUED

December 31, 2010 (with comparative totals for 2009)

LIABILITIES AND NET ASSETS

	<u>2010</u>	<u>2009</u>
Current liabilities		
Current maturities of long-term debt	\$ 184,966	\$ 231,437
Accounts payable and accrued expenses	228,354	252,351
Accounts payable - construction	-	720,835
Accrued interest payable - first mortgage	905	2,450
Tenant security deposits	228,169	201,220
Prepaid rent	39,847	31,062
	<u>682,241</u>	<u>1,439,355</u>
Total current liabilities		
Long-term debt		
Mortgages payable, less current maturities	31,012,740	26,320,432
Bonds payable, less current maturities	4,555,000	4,675,000
	<u>35,567,740</u>	<u>30,995,432</u>
Total long-term debt		
Other liabilities		
Deferred interest	1,956,692	1,615,181
Deferred revenue	6,702	11,433
	<u>1,963,394</u>	<u>1,626,614</u>
Total other liabilities		
Total liabilities	<u>38,213,375</u>	<u>34,061,401</u>
Net assets :		
Unrestricted undesignated controlling	870,852	(192,081)
Unrestricted undesignated noncontrolling	3,077,926	3,514,973
	<u>3,948,778</u>	<u>3,322,892</u>
Total unrestricted net assets		
Temporarily restricted	<u>62,500</u>	<u>289,104</u>
Total net assets	<u>4,011,278</u>	<u>3,611,996</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 42,224,653</u>	<u>\$ 37,673,397</u>

See notes to consolidated financial statements

Caritas Communities, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF ACTIVITIES

Year ended December 31, 2010 (with comparative totals for 2009)

	2010			2009
	Unrestricted	Temporarily restricted	Total	Total
Revenue, gains and other support				
Net rents	\$ 4,569,187	\$ -	\$ 4,569,187	\$ 4,265,552
Annual dinner	289,298	-	289,298	214,825
Contributions	27,430	-	27,430	24,745
Foundation grants	1,112,342	58,130	1,170,472	628,727
Investment income	28,576	-	28,576	38,142
Miscellaneous income (loss)	8,569	-	8,569	14,769
Net assets released from restrictions:				
Satisfaction of restrictions	284,734	(284,734)	-	-
Total revenue, gains and other support	6,320,136	(226,604)	6,093,532	5,186,760
Expenses				
Program services	5,775,002	-	5,775,002	5,261,974
Supporting services:				
Management and general	562,562	-	562,562	575,136
Fundraising	224,295	-	224,295	168,730
Total expenses	6,561,859	-	6,561,859	6,005,840
Excess of expenses over revenue before other revenue	(241,723)	(226,604)	(468,327)	(819,080)
Other revenue				
Gain on acquisition	917,609	-	917,609	-
Total other revenue	917,609	-	917,609	-
Excess of revenue over expenses	675,886	(226,604)	449,282	(819,080)
Excess of expenses over revenue attributable to noncontrolling interests	(437,047)	-	(437,047)	(377,760)
Excess of revenue over expenses attributable to the organization	\$ 1,112,933	\$ (226,604)	\$ 886,329	\$ (441,320)

See notes to consolidated financial statements

Caritas Communities, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

Year ended December 31, 2010 (with comparative totals for 2009)

	2010				2009
	Program services	Management and general	Fundraising	Total	Total
Compensation	\$ 803,605	\$ 269,367	\$ 51,265	\$ 1,124,237	\$ 1,034,198
Payroll taxes	91,935	30,816	5,865	128,616	128,168
Employee benefits	133,958	44,902	8,546	187,406	187,454
Management fee expense	926	311	59	1,296	-
Insurance	101,632	32,466	7,058	141,155	142,010
Automobile	31,582	10,089	2,193	43,864	45,000
Rent	117,514	37,539	8,161	163,214	132,215
Office and telephone	71,274	22,768	4,950	98,991	73,264
Legal and accounting	140,449	44,866	9,753	195,068	160,782
Meetings	-	4,388	-	4,388	3,068
Dinner costs	-	-	112,304	112,304	81,643
Other costs	203,635	65,050	14,141	282,826	249,963
Social services	139,574	-	-	139,574	109,622
Undeveloped properties	141,352	-	-	141,352	-
Utilities	699,929	-	-	699,929	643,758
Real estate tax	212,841	-	-	212,841	169,528
Depreciation and amortization	1,229,412	-	-	1,229,412	1,095,424
Repairs and maintenance	591,797	-	-	591,797	552,661
On-site manager's salary and apartment	335,377	-	-	335,377	318,331
Interest	728,212	-	-	728,212	728,751
Impairment loss	-	-	-	-	150,000
	<u>\$ 5,775,002</u>	<u>\$ 562,562</u>	<u>\$ 224,295</u>	<u>\$ 6,561,859</u>	<u>\$ 6,005,840</u>

See notes to consolidated financial statements



Caritas Communities, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES OF NET ASSETS

Year ended December 31, 2010 (with comparative totals for 2009)

	Unrestricted net assets			Temporarily restricted net assets	Net assets
	Controlling	Noncontrolling	Total	Controlling	Total
Beginning balance, January 1, 2009	\$ 277,717	\$ 3,892,733	\$ 4,170,450	\$ 260,626	\$ 4,431,076
Excess of revenue over expenses attributable to noncontrolling interests	-	(377,760)	(377,760)	-	(377,760)
Excess of expenses over revenue attributable to the Organization	(469,798)	-	(469,798)	28,478	(441,320)
Ending balance, December 31, 2009	(192,081)	3,514,973	3,322,892	289,104	3,611,996
Release of restrictions	176,604	-	176,604	(226,604)	(50,000)
Excess of expenses over revenue attributable to noncontrolling interests	-	(437,047)	(437,047)	-	(437,047)
Excess of revenue over expenses attributable to the Organization	886,329	-	886,329	-	886,329
Ending balance, December 31, 2010	<u>\$ 870,852</u>	<u>\$ 3,077,926</u>	<u>\$ 3,948,778</u>	<u>\$ 62,500</u>	<u>\$ 4,011,278</u>

See reclassification in note 1.

See notes to consolidated financial statements

Caritas Communities, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended December 31, 2010 (with comparative totals for 2009)

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities		
Excess of revenue over expenses (expenses over revenue)	\$ 449,282	\$ (819,080)
Adjustments to reconcile excess of revenue over expenses (expenses over revenue) to cash provided by operating activities		
Depreciation and amortization	1,229,412	1,095,424
Gain on acquisition of property	(917,609)	-
Interest on short-term investments	(7,758)	-
Interest on first mortgage payable	(1,545)	-
Deferred interest on mortgages	341,511	299,862
Impairment loss	-	150,000
Increase (decrease) in allowance for bad debt	20,096	4,024
Changes in:		
Accounts receivable - tenant	(36,699)	(48,405)
Accounts receivable - other	(247,560)	-
Prepaid expenses and escrows	(17,335)	(20,424)
Deferred revenue	-	(4,732)
Tenant security deposits, net	(3,605)	(884)
Accounts payable, accrued expenses and prepaid rent	<u>(19,939)</u>	<u>(2,346)</u>
Net cash provided by operating activities	<u>788,251</u>	<u>653,439</u>
Cash flows from investing activities		
Funding of reserve for replacements and interest thereon, net of withdrawals	(98,182)	(160,518)
Funding of operating and debt reserves and interest thereon, net of withdrawals	(28,360)	34,588
Purchase of short-term investments	(1,155,015)	(126,873)
Purchase of long-term investments	-	(87,276)
Sale of short-term and long-term investment	1,259,513	-
Development costs paid	(868,073)	(1,307,615)
Purchase of property and equipment	<u>(2,942,086)</u>	<u>(3,610,303)</u>
Net cash used in investing activities	<u>(3,832,203)</u>	<u>(5,257,997)</u>
Cash flows from financing activities		
Payments on mortgages and construction loans	(155,000)	(602,555)
Repayment of mortgage and note principal	(391,299)	(112,078)
Repayment of bond principal	(115,000)	(105,000)
Mortgage and notes proceeds	3,843,284	5,787,811
Financing costs paid	<u>(41,471)</u>	<u>(2,110)</u>
Net cash provided by financing activities	<u>3,140,514</u>	<u>4,966,068</u>
Net increase (decrease) in cash and cash equivalents	<u>96,562</u>	<u>361,510</u>
Cash and cash equivalents, beginning of year	<u>991,985</u>	<u>630,475</u>
Cash and cash equivalents, end of year	<u>\$ 1,088,547</u>	<u>\$ 991,985</u>
Supplemental disclosure of cash flow information		
Cash paid for interest, net of amount capitalized	<u>\$ 388,246</u>	<u>\$ 426,439</u>

Significant noncash investing and financing activities:

As of December 31, 2010, fixed asset additions included in accrued interest totaled \$126,742.

During 2010, development costs of \$2,042,515 were reclassified to fixed assets.

During 2010, the Organization acquired two properties in which the fair value of debt assumed totaled \$1,121,366.

In 2009, as a result of the involuntary conversion, accounts receivable increased by \$186,000, property and equipment decreased by \$273,168 and accumulated depreciation decreased by \$87,168.

See notes to consolidated financial statements

Caritas Communities, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

NOTE 1 - ORGANIZATION AND NATURE OF OPERATIONS

Caritas Communities, Inc. (Caritas), a Massachusetts nonprofit organization founded March 7, 1985, was established to acquire and develop housing to benefit low-income members of society. Caritas is supported primarily through rents, its annual dinner, contributions and grants. Approximately 23% of Caritas' support for the year ended December 31, 2010 came from its annual dinner, fundraising events, contributions and grants.

**Parkview Housing, Inc.:** During 1991, Caritas acquired the 100% interest in Parkview Housing, Inc., a real estate development company. Parkview Housing, Inc. is the general partner in the Parkview Limited Partnership which provides affordable single room housing in two buildings on Westland Avenue, Boston, Massachusetts. Caritas currently owns 100% of Parkview Limited Partnership, which it acquired during 2005. Effective January 1, 2010, Parkview Housing, Inc. became an LLC for tax purposes.

**17 Rooms Corporation:** On December 19, 2000, Caritas acquired a 100% interest in 17 Rooms Corporation, a real estate development company. 17 Rooms Corporation is the general partner in the Dudley Inn Limited Partnership which provides affordable single room housing in four buildings on Dudley Street, Boston, Massachusetts.

**One Lenox Street Corporation:** On March 5, 2005, Caritas acquired a 100% interest in One Lenox Street Corporation, a real estate development company. One Lenox Street Corporation is the general partner in the One Lenox Limited Partnership which provides affordable single room housing in a building on the corner of Lenox Street and Washington Street, Boston, Massachusetts.

**Alaska Housing LLC:** On August 31, 2007, Caritas acquired a 100% interest in Alaska Housing LLC. Alaska Housing LLC owns and operates affordable single room housing in a building at 23-25 Alaska Street, Boston, Massachusetts.

**Caritas Worcester House LLC:** On January 8, 2010, Caritas acquired a 100% interest in Caritas Worcester House LLC. Caritas Worcester House LLC owns and operates affordable studios, one-bedroom units, and single room housing in a building located at 186 Marlborough Street, Boston, Massachusetts.

**Caritas Acquisition LLC:** On December 28, 2010, Caritas acquired a 100% interest in Caritas Acquisition LLC. Caritas Acquisition LLC owns and operates affordable single room housing in a building located on Cortes Street, Boston, Massachusetts.

Caritas Communities, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2010

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Caritas and its wholly-owned subsidiaries (the Organization): 17 Rooms Corporation, One Lenox Street Corporation, Parkview Housing LLC, Alaska Housing LLC, Caritas Acquisition LLC, Caritas Worcester House LLC, and two nonprofit entities in which Caritas is the sole voting member, Bedford Veterans Quarters, Inc. and Sean Brook House, Inc. Additionally, the consolidated statements include the assets, liabilities, partners' capital and financial activities of Dudley Inn Limited Partnership and One Lenox Limited Partnership in which affiliates serve as the general partner. The effect of all significant inter-company transactions have been eliminated in consolidation.

ASC 810-20

Caritas accounts for subsidiary partnerships in accordance with the Financial Accounting Standards Board's (FASB's) Emerging Issues Task Force (EITF) Issue No. 04-05, *Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights*. Effective July 1, 2009, this guidance was codified into ASC-810-20, *Control of Partnerships and Similar Entities*. Caritas uses ASC-810-20 to evaluate each partnership and determine whether control over the partnership lies with the general partner, or the limited partners when the limited partners have certain rights. The general partner in a limited partnership is presumed to control that limited partnership, unless that presumption is overcome by the limited partners having either (i) the substantive ability, either by a single limited partner or through a simple majority vote, to dissolve the limited partnership or otherwise remove the general partner without cause; or (ii) substantive participating rights. If Caritas or its wholly owned subsidiary is the general partner and has control over the partnership, or if the limited partnership ownership does not include the ability to dissolve the partnership or does not have substantive participating rights, as discussed above, Caritas consolidates the partnership.

In accordance with ASC 810-20, all the entities that are controlled by the Organization are consolidated, all significant intercompany balances are eliminated and an equity account is established for the non-controlling members' interest.

Caritas Communities, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2010

Caritas is the sole voting member of two nonprofit entities, Bedford Veterans Quarters, Inc. (Bedford) and Sean Brook House, Inc. (Sean Brook), 501(c)(3) nonprofit organizations. In accordance with accounting principles generally accepted in the United States of America, a nonprofit should consolidate a related nonprofit in which it has a controlling financial interest. Therefore, Bedford and Sean Brook have been consolidated into Caritas and all inter-company transactions have been eliminated.

Basis of Presentation

The financial statements of Caritas Communities, Inc. and Subsidiaries have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America.

Comparative Information

The consolidated financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2009 from which the summarized information was derived.

Net assets

The Organization has classified its net assets for accounting and reporting purposes into the following three net asset categories according to externally (donor) imposed restrictions.

Unrestricted net assets - Net assets that are not subject to donor-imposed restrictions.

Temporarily restricted net assets - Net assets subject to donor-imposed restrictions that may or will be met either by actions of the Organization and/or the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed restrictions that they be maintained permanently by the Organization. There are no permanently restricted net assets in 2010.

Caritas Communities, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2010

Depreciation and Amortization

Property and equipment are stated at cost. The Organization capitalizes operating income, expenses and renovations for the operating properties during the development period. The Organization depreciates the costs of the assets over their estimated useful lives using the straight-line method.

Building and leasehold improvements	27.5 - 35 years
Site improvements	15 years
Furnishings	7 - 10 years
Equipment	5 - 7 years

Construction in progress consists of cost incurred rehabilitating projects. Such costs will begin to depreciate when the rehabilitation costs are placed in service.

Expenditures for maintenance and repairs are charged to expense as incurred; betterments, which add to the value of the related assets or materially extend the life of the assets are capitalized.

Development Costs

These costs consists primarily of predevelopment and development costs incurred in connection with acquiring and redeveloping properties. Such costs will be reclassified to property and equipment when the projects are placed in service or they will be expensed upon management's decision to not move forward with the project.

Fair Value Measurement

The Organization adopted a framework for measuring fair values as defined as the exchange price that would be received for certain assets or liabilities in the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date. The Organization utilizes the valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. For land, building and notes payable, fair value is calculated using the present value cash flow models based on a discount rate (see note 13). The Organization has not adopted a framework for measuring fair values of certain nonfinancial assets and liabilities.

Caritas Communities, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2010

Deferred Fees and Amortization

Financing fees are amortized over the term of the loan using the straight-line method. Accounting principles generally accepted in the United States of America require that the effective yield method be used to amortize financing costs; however, the effect of using the straight-line method is not materially different from the results that would have been obtained under the effective yield method. Amortization expense for the year ended December 31, 2010 was \$23,041. Accumulated amortization as of December 31, 2010 was \$221,514.

Estimated annual amortization expense for each of the ensuing years through December 31, 2015 is as follows:

December 31, 2011	\$ 22,379
2012	22,379
2013	22,379
2014	21,522
2015	20,077

Costs related to obtaining low-income housing tax credits are being amortized over the mandatory 15-year compliance period. Amortization expense for the year ended December 31, 2010 was \$1,565. Accumulated amortization as of December 31, 2010 was \$10,459. Estimated amortization expense for each of the ensuing years through December 31, 2015 is \$1,565 per year.

Reserve for Replacements

The Organization maintains savings accounts for future major repairs and replacements. The Organization funds these accounts as required by mortgage loan covenants and as determined by management.

Operating and Debt Service Reserves

The Organization has established operating and debt service reserve accounts as required by the loan covenants. These reserve accounts are held by the lender.

Caritas Communities, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2010

Grant Revenue

Revenue from various grants are recognized as costs incurred have satisfied their respective restrictions. The grants are subject to audit by their grantor agencies. No provisions for possible adjustments resulting from the audit has been made in the accompanying consolidated financial statements because, in the opinion of management, such adjustments, if any, would not have a material effect on the consolidated financial statements.

Promises to Give

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor- restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents except for short term investments, the reserve for replacements account and operating and debt service reserves.

Investments

Investments are recorded at market value. Investment income consists of interest and dividends. Gains and losses on sales of investments using the market value basis are recorded on the trade date, and are based on specific identification. Short-term investments at December 31, 2010 consist of certificates of deposit. They are considered to be Level 1 investments.

Tenant Account Receivable

The Organization uses the allowance method to account for uncollectible accounts receivable. The allowance is based on management's estimate of possible bad debt. The allowance for doubtful accounts was \$41,720 and \$21,624 at December 31, 2010 and 2009, respectively.



Caritas Communities, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2010

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Functional Expenses

Expenses are charged directly to program, management and general, or fundraising categories based on specific identification. Certain expenses have been allocated based on salary expenditures.

Designation of Unrestricted Net Assets

It is the policy of the Board of Directors of the Organization to review its plans for future property improvements and acquisitions from time to time, and to designate appropriate sums of unrestricted net assets to assure adequate financing of such improvements, acquisitions and for general reserve purposes. In 2010, there were no designations of unrestricted net assets.

Rental Income

Rents are recognized for room rentals as they accrue. Advance receipts of rental income are deferred and classified as liabilities until earned. All leases between the Organization and tenants of the properties are operating leases.

Impairment of Long-Lived Assets

The Organization reviews its rental property for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. When recovery is reviewed, if the undiscounted cash flows estimated to be generated by the property are less than its carrying amount, management compares the carrying amount of the property to its fair value in order to determine whether an impairment loss has occurred. The amount of the impairment loss is equal to the excess of the asset's carrying value over its estimated fair value. During 2010, no impairment loss was recognized.

Caritas Communities, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2010

Low-Income Housing Tax Credit

Dudley Inn Limited Partnership has received an allocation of low-income housing tax credits from the Commonwealth of Massachusetts Department of Housing and Community Development (DHCD). This credit, which commenced in 2001, was calculated at 8.39% of qualified rehabilitation costs and at 3.59% of acquisition costs. The Organization intends to maintain 67 apartments (100% of the total) as qualified low-income units for tax credit purposes. The annual allocation, which may be claimed each year for ten years, is subject to adjustment by DHCD, and is estimated to be \$255,000 annually.

One Lenox Limited Partnership has received an allocation of low-income housing tax credits from the Commonwealth of Massachusetts Department of Housing and Community Development (DHCD). This credit, which commenced in 2006, was calculated at 8.08% of qualified development costs. The annual allocation, which may be claimed each year for ten years, is subject to adjustment by DHCD, and is estimated to be \$295,000 annually.

Provisions of Section 42 of the Internal Revenue Code regulate the use of the projects as to occupancy eligibility and unit gross rent, among other requirements. Recapture of low-income credits could result in a required repayment by the partners of a portion of the credits if these provisions are not met. The partnerships entered into extended low-income housing agreements which extends the low-income housing tax credit restrictions under Section 42 of the Internal Revenue Code beyond the initial 15-year compliance period.

Reclassification

Certain items from the prior year financial statements have been reclassified to conform to the current year presentation. Most notably is the presentation of net assets and noncontrolling interest on the 2009 statement of financial position which has been combined on the 2010 balance sheet in accordance with current accounting pronouncements.

Recent Accounting Pronouncements

In April 2009, the Financial Accounting Standards Board (FASB) issued authoritative guidance on mergers and acquisitions for nonprofit entities. The guidance established the principles and requirements for accounting for a combination of nonprofit entities, which is a transaction or other event that results in a nonprofit entity initially recognizing another nonprofit entity, a business, or nonprofit activity in its financial statements. The guidance also changed the manner in which nonprofit entities account for changes in a parent's ownership interests in consolidated subsidiaries after control is obtained. This guidance

Caritas Communities, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2010

applies to a combination that meets the definition of either a merger of nonprofit entities or an acquisition by a nonprofit entity. Mergers are accounted for using the carryover method, which is based on the historical cost information of both entities. Acquisitions are accounted for using the acquisition method, which follows the same rules used by for-profit entities with some notable exceptions. For existing consolidated subsidiaries with noncontrolling interests, the accounting guidance requires the noncontrolling ownership interests to be included in net assets of the Organization. It was effective for financial statements issued for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2009, and therefore, was adopted by the Organization for the year ended December 31, 2010. The adoption of this new guidance did not have a material effect on the Organization's consolidated financial statements.

NOTE 3 - RENTAL PROPERTY

On December 15, 2010, Caritas Acquisition LLC acquired a property totaling \$2,731,211 for cash paid of \$38,795 and the assumption of the outstanding mortgage balances, which had face value and accrued interest amounts totaling \$2,683,376 and fair value of \$676,368. The initial carrying amount of the property is stated at fair value. The cost of the acquired property is allocated to various components, including land and building. A summary of the purchase price allocated to rental property is as follows:

Land	\$ 819,501
Building	<u>907,582</u>
	<u>\$ 1,727,083</u>

On January 8, 2010, Caritas Worcester House LLC acquired a property totaling \$447,607 for cash paid of \$16,577 and the assumption of the outstanding mortgage balances, which had face value and accrued interest amounts totaling \$445,000. The face value of the debt approximated its fair value. The initial carrying amount of the property is stated at fair value. The cost of the acquired property is allocated to various components, including land and building.

Caritas Communities, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2010

A summary of the purchase price allocated to rental property is as follows:

Land	\$ 45,000
Building	<u>450,309</u>
	<u>\$ 495,309</u>

For additional details, see note 13 - Fair Value.

NOTE 4 - FEDERAL INCOME TAX

The corporation has received a determination letter from the Internal Revenue Service (IRS) to be treated as a tax exempt entity pursuant to Section 501(c)(3) of the Internal Revenue Code and did not have any unrelated business income for the year ended December 31, 2010. The organization is publicly supported and is not a private foundation. The corporation is required to file and does file tax returns with the IRS and other taxing authorities. Accordingly, these financial statements do not reflect a provision for income taxes and the corporation has no other tax positions which must be considered for disclosure.

The partnerships and limited liability companies have elected to be treated as pass-through entities for income tax purposes, and as such, are not subject to income taxes. Rather, all items of taxable income, deductions and tax credits are passed through to and are reported by its owners on their respective income tax returns. The partnerships and limited liability companies' federal tax status as pass-through entities are based on its legal status as partnerships. Accordingly, the partnerships limited liability companies are not required to take any tax positions in order to qualify as pass-through entities. The partnerships limited liability companies are required to file and do file tax returns with the Internal Revenue Service and other taxing authorities. Accordingly, these financial statements do not reflect a provision for income taxes and the partnerships limited liability companies have no other tax positions which much be considered for disclosure.

The Organization's subsidiaries, 17 Rooms Corporation and One Lenox Street Corporation, (the wholly owned subsidiaries) are subject to both federal and state corporate taxes. The amount of federal and state corporate taxes associated with these entities are immaterial as the activity is recorded at the partnership level. No provision has been made for income taxes for any of the partnerships as the results of operations are included in the tax returns of the partners.

Caritas Communities, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2010

NOTE 5 - LONG-TERM DEBT

Long-term debt consists of the following notes and bonds payable:

	2010	2009
Caritas Communities, Inc.		
Massachusetts Housing Partnership Fund Massachusetts Tax-Exempt Revenue Bonds Interest rate - 1.6% to 5.043% (current rate 3.8%) Current monthly payments - \$29,324 for principal and interest Final payments - July 15, 2022 Secured by mortgages on various properties with primary rights	\$ 4,675,000	\$ 4,790,000
Massachusetts Housing Partnership Interest rate - None Final payments - June 28, 2018 to November 18, 2029 Secured by mortgages on various properties with subordinate rights	2,706,000	2,706,000
Community Economic Development Assistance Corporation (CEDAC) Interest rate - None Monthly payments - Subject to cash flow Final payments - Due July 24, 2009 to May 4, 2030 Secured by mortgages on five properties with subordinate rights	357,500	357,500

Caritas Communities, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2010

	<u>2010</u>	<u>2009</u>
Department of Housing and Community Development (DHCD) Interest rate - None Monthly payments - None Final payment - October 2, 2026 Secured by real estate in Everett with subordinate rights	499,000	499,000
DHCD Private Housing Interest rate - None Monthly payments - None Final payment - December 31, 2028 Secured by real estate in Arlington with subordinate rights	275,000	275,000
CEDAC Interest rate - None Monthly payments - Subject to cash flow Final payments - January 5, 2029 to November 18, 2029 Secured by various real estate with subordinate rights	764,995	764,995
CEDAC - Housing Innovation Fund Interest rate - None Monthly payments - Subject to cash flow Final payment - March 7, 2032 Secured by real estate in Wakefield with subordinate rights	500,000	500,000

Caritas Communities, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2010

	<u>2010</u>	<u>2009</u>
DHCD - Housing Stabilization Fund	750,000	750,000
Interest rate - None		
Monthly payments - None		
Final payment - March 7, 2032		
Secured by real estate in Wakefield with subordinate rights		
 Affordable Housing Trust Fund	 210,000	 210,000
Interest rate - None		
Monthly payments - None		
Final payment - March 1, 2032		
Secured by real estate in Wakefield with subordinate rights		
 Town of Brookline	 1,100,000	 1,100,000
Interest rate - 5% simple interest through March 18, 2033		
Monthly payments - None		
Final payments - March 18, 2033		
Secured by real estate in Brookline with subordinate rights		
 Massachusetts Housing Partnership - SSRP Loan	 500,000	 500,000
Interest rate - None		
Monthly payments - None		
Final payment - July 1, 2024		
Secured by real estate in Brookline with subordinate rights		
 Affordable Housing Trust Fund	 316,000	 316,000
Interest rate - None		
Monthly payments - None		
Final payment - March 18, 2033		
Secured by real estate in Brookline with subordinate rights		

Caritas Communities, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2010

	<u>2010</u>	<u>2009</u>
DHCD - Housing Stabilization Fund	465,000	465,000
Interest rate - 5% compounded annually		
Monthly payments - None		
Final payments - December 22, 2027		
Secured by real estate in Salem with subordinate rights		
DHCD - Housing Stabilization Fund	750,000	750,000
Interest rate - None		
Monthly payments - None		
Final payment - October 20, 2054		
Secured by real estate in Quincy with primary rights		
CEDAC - Housing Innovation Fund	640,000	640,000
Interest rate - None		
Monthly payments - Subject to cash flow		
Final payments - October 20, 2034		
Secured by real estate in Quincy with subordinate rights		
City of Quincy	100,000	100,000
Interest rate - None		
Monthly payments - None		
Final payment - November 1, 2034		
Secured by real estate in Quincy with subordinate rights		
A Massachusetts Savings Bank	350,186	361,716
Interest rate - 5.75%		
Monthly payment - \$2,779		
Final payments - March 7, 2027		
Secured by real estate in Wakefield with primary rights		



Caritas Communities, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2010

	<u>2010</u>	<u>2009</u>
Citizens Bank	429,630	441,366
Interest rate - 4.75%		
Monthly payment - \$2,728		
Final payments - October 20, 2029		
Secured by real estate in Quincy with primary rights		
Massachusetts Housing Partnership - 1st Mortgage	323,876	328,857
Interest rate - 7.09%		
Monthly payments - \$2,350		
Final payments - July 1, 2024		
Secured by real estate in Brookline with subordinate rights		
Danvers Savings Bank	703,688	722,273
Interest rate - 6.25%		
Monthly payment - \$5,319		
Final payments - November 23, 2014		
Secured by real estate in Salem with primary rights		
Bank of Canton	615,558	631,707
Interest rate - 6.85% to 2013 and index rate thereafter		
Monthly payment - \$4,925		
Final payments - February 1, 2018		
Secured by real estate in Chelsea with primary rights		

Caritas Communities, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2010

	<u>2010</u>	<u>2009</u>
CEDAC - Housing Innovation Fund	728,000	728,000
Interest rate - None		
Monthly payments - Subject to cash flow		
Final payment - January 14, 2039		
Secured by real estate in Melrose with subordinate rights		
DHCD - CATNHP Loan	650,000	650,000
Interest rate - None		
Monthly payments - None		
Final payment - September 30, 2059		
Secured by real estate in Melrose with subordinate rights		
DHCD - Housing Stabilization Fund Loan	113,825	113,825
Interest rate - None		
Monthly payments - None		
Final payment - September 30, 2059		
Secured by real estate in Melrose with subordinate rights		
North Suburban Consortium HOME Loan	775,000	736,633
Interest rate - None		
Monthly payments - Subject to cash flow		
Final payment - September, 2039		
Secured by real estate in Melrose with subordinate rights.		

Caritas Communities, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2010

	<u>2010</u>	<u>2009</u>
Stoneham Bank	49,191	50,000
Interest rate - 6%		
Monthly payments - \$325		
Final payments - January 15, 2020		
Secured by real estate in Melrose with primary rights		
Alaska Housing LLC		
City of Boston - Leading the Way Loan	877,431	877,431
Interest rate - 1% compounded starting in 2011		
Monthly payments - Subject to cash flow		
Final payments - January 1, 2040		
Secured by real estate in Boston with subordinate rights and subject to annual cash flow requirements		
DHCD - CATNHP Loan	750,000	375,000
Interest rate - None		
Monthly payments - None		
Final payment - January 29, 2040		
Secured by real estate in Boston with subordinate rights		
DHCD - Housing Stabilization Fund Loan	822,150	374,007
Interest rate - None		
Monthly payments - None		
Final payment - January 29, 2060		
Secured by real estate in Boston with subordinate rights		

Caritas Communities, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2010

	<u>2010</u>	<u>2009</u>
The Property and Casualty Initiative, LLC	274,424	-
Interest rate - 5.75%		
Monthly payments - \$1,737		
Final payments - October 27, 2020		
Secured by real estate in Boston with primary rights		
Parkview Housing LLC		
CEDAC - Housing Innovation Fund	350,000	350,000
Interest rate - None		
Monthly payments - Subject to cash flow		
Final payment - July 15, 2033		
Secured by real estate in Boston with subordinate rights		
CDBG - LEND Loan	200,000	200,000
Interest rate - 2%		
Monthly payments - None		
Final payments - December 7, 2105		
Secured by real estate in Boston with subordinate rights		
City of Boston - Linkage Program	550,000	550,000
Interest rate - 1.5%		
Monthly payments - None		
Final payments - December 6, 2021		
Secured by real estate in Boston with subordinate rights		

Caritas Communities, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2010

	<u>2010</u>	<u>2009</u>
Dudley Inn Limited Partnership		
Massachusetts Property and Casualty Insurance Co.	352,084	363,895
Interest rate - 7%		
Monthly payments - \$3,032		
Final payments - June, 2017		
Secured by real estate in Boston with primary rights		
City of Boston - Home Program	480,000	480,000
Interest rate - 6.4% compounded annually		
Monthly payments - Subject to cash flow		
Final payments - January 1, 2032		
Secured by real estate in Boston with subordinate rights		
CEDAC - Housing Innovation Fund	500,000	500,000
Interest rate - None		
Monthly payments - Subject to cash flow		
Final payment - December, 2030		
Secured by real estate in Boston with subordinate rights		
Massachusetts Housing Partnership Fund Board - HSF Loan	600,000	600,000
Interest rate - None		
Monthly payments - None		
Final payment - December, 2030 (with 10-year extension option)		
Secured by real estate in Boston with subordinate rights		

Caritas Communities, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2010

	2010	2009
One Lenox Limited Partnership		
MHIC - Permanent Loan (Assigned to Caritas in 2010) Interest rate - 6.5% Monthly payments - \$338 Final payments - February 2032 Secured by real estate in Boston with primary rights During 2010, this loan was eliminated in consolidation.	-	47,515
City of Boston - Home Loan Interest rate - 4.83% compounded annually Monthly payments - Subject to cash flow Final payments - November 30, 2036 Secured by real estate in Boston with subordinate rights	559,516	559,516
DHCD - Home Loan Interest rate - 4.33% compounded annually Monthly payments - None Final payments - August 3, 2035 Secured by real estate in Boston with subordinate rights	550,000	550,000
DHCD - HSF Loan Interest rate - 0.1% Monthly payments - None Final payments - August 3, 2055 (with 10-year extension option) Secured by real estate in Boston with subordinate rights	745,520	745,520

Caritas Communities, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2010

	<u>2010</u>	<u>2009</u>
Bedford Veterans Quarters, Inc.		
Massachusetts Affordable Housing Trust Fund	1,000,000	1,000,000
Interest rate - None		
Monthly payments - None		
Final payment - October 19, 2056		
Secured by leasehold in Bedford with subordinate rights		
CEDAC - Housing Innovation Loan	900,000	900,000
Interest rate - None		
Monthly payments - Subject to cash flow		
Final payment - October 19, 2036		
Secured by leasehold in Bedford with subordinate rights		
DHCD - HSF Loan	900,000	900,000
Interest rate - None		
Monthly payments - None		
Final payment - October 19, 2056		
Secured by leasehold in Bedford with subordinate rights		
Brookline Bank	417,499	463,198
Interest rate - 5.78%		
Monthly payments - \$5,941		
Final payments - February 7, 2018		
Secured by leasehold in Bedford with primary rights		

Caritas Communities, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2010

	2010	2009
Bedford Housing Trust	20,000	20,000
Interest rate - None		
Monthly payments - None		
Final payment - October 19, 2036		
Secured by leasehold in Bedford with subordinate rights		
Sean Brook House, Inc.		
Citizens Bank construction/permanent loan	280,000	435,000
Interest rate - One month LIBOR Advantage plus 3.5% not to exceed 7%, current rate: 3.76%		
Monthly payment - interest-only through December 31, 2010; \$1,442 beginning in 2011		
Final payments - December 26, 2025		
Secured by real estate in New Bedford with subordinate rights		
RBS Citizens / FHLB Subsidy Note	280,000	70,000
Interest rate - None		
Monthly payments - None		
Subsidy expiration - May 28, 2025		
Secured by real estate in New Bedford with subordinate rights		
MHPF Housing Stabilization Fund	1,311,945	103,805
Interest rate - None		
Monthly payments - None		
Final payment - June 15, 2060		
Secured by real estate in New Bedford with subordinate rights		



Caritas Communities, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2010

	<u>2010</u>	<u>2009</u>
CEDAC Housing Innovation Fund	1,274,110	1,274,110
Interest rate - None		
Monthly payments - Subject to cash flow		
Final payment - June 16, 2039		
Secured by real estate in New Bedford with subordinate rights and subject to annual cash flow requirements		
DHCD - AHTF Loan	789,210	-
Interest rate - None		
Monthly payments - None		
Final payment - June 15, 2040		
Secured by real estate in New Bedford with subordinate rights		
City of New Bedford HOME Loan	500,000	-
Interest rate - 3%		
Monthly payments - None		
Final payments - June 15, 2040		
Secured by real estate in New Bedford with subordinate rights		
Caritas Acquisition LLC		
CEDAC Housing Innovation Fund - recorded at fair value	138,349	-
Interest rate - None		
Monthly payments - Subject to cash flow		
Final payment - April 1, 2031		
Secured by real estate in Boston with subordinate rights		

Caritas Communities, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2010

	2010	2009
At the time of acquisition and as of December 31, 2010, the face value of the assumed note was \$500,000. The difference between the fair value and the face amount of the note will be amortized based on the effective yield method over the remaining life of the loan.		
MassDevelopment - recorded at fair value	400,482	-
Interest rate - 4%		
Monthly payments - Interest-only		
Final payments - May 15, 2013		
Secured by real estate in Boston with subordinate rights		
At the time of acquisition and as of December 31, 2010, the face value of the assumed note was \$478,977. The difference between the fair value and the face amount of the note will be amortized based on the effective yield method over the remaining life of the loan.		
City of Boston - NHT Loan - recorded at fair value	137,537	-
Interest rate - 3%		
Monthly payments - None		
Final payments - December 3, 2109		
Secured by real estate in Boston with subordinate rights		
At the time of acquisition and as of December 31, 2010, the face value of the assumed note was \$615,000. The difference between the fair value and the face amount of the note will be amortized based on the effective yield method over the remaining life of the loan.		
Boston Aging Concerns - Young and Old United Loan - recorded at fair value	-	-
Interest rate - 0%		
Monthly payments - None		
Final payments - December 15, 2010		

Caritas Communities, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2010

	<u>2010</u>	<u>2009</u>
Secured by real estate in Boston with subordinate rights The face value of the assumed note at acquisition was \$714,399. This loan was forgiven upon acquisition.		
City of Boston - LEND Loan - recorded at fair value Interest rate - 0% Monthly payments - None Final payments - December 15, 2010 Secured by real estate in Boston with subordinate rights The face value of the assumed note at acquisition was \$375,000. This loan was forgiven upon acquisition.	-	-
Caritas Worcester House LLC		
CEDAC - Housing Innovation Fund I Loan Interest rate - None Monthly payments - Subject to cash flow Final payment - July 9, 2030 Secured by real estate in Boston with subordinate rights	245,000	-
CEDAC - Housing Innovation Fund II Loan Interest rate - None Monthly payments - Subject to cash flow Final payment - June 30, 2025 Secured by real estate in Boston with subordinate rights	200,000	-
	<u>35,752,706</u>	<u>31,226,869</u>
Less: Current maturities included in current liabilities	<u>(184,966)</u>	<u>(231,437)</u>
	<u>\$ 35,567,740</u>	<u>\$ 30,995,432</u>

Caritas Communities, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2010

Terms of certain loan agreements require the Organization to maintain and provide for operating and debt service reserve accounts and certain escrows.

Interest expense charged to the consolidated statements of activities for the years ended December 31, 2010 and 2009 was \$728,212 and \$728,751, respectively, of which \$215,674 and \$299,862 was deferred. During the years ended December 31, 2010 and 2009, interest capitalized totaled \$15,080 and \$35,028, respectively.

Annual maturities of debt based on the fair value for the ensuing five years and thereafter are summarized as follows:

	<u>Bonds payable</u>	<u>Mortgages and notes payable</u>	<u>Total</u>
Years ending December 31, 2011	\$ 120,000	\$ 64,966	\$ 184,966
2012	125,000	143,428	268,428
2013	130,000	600,405	730,405
2014	140,000	776,378	916,378
2015	145,000	146,074	291,074
Thereafter	<u>4,015,000</u>	<u>29,346,455</u>	<u>33,361,455</u>
	<u>\$ 4,675,000</u>	<u>\$ 31,077,706</u>	<u>\$ 35,752,706</u>

Caritas Communities, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2010

Annual maturities of debt based on the face value on the outstanding principal due to the lender for the ensuing five years and thereafter are summarized as follows:

	<u>Bonds payable</u>	<u>Mortgages and notes payable</u>	<u>Total</u>
Years ending December 31, 2011	\$ 120,000	\$ 135,043	\$ 255,043
2012	125,000	143,428	268,428
2013	130,000	631,481	761,481
2014	140,000	776,378	916,378
2015	145,000	146,074	291,074
Thereafter	4,015,000	30,162,910	34,177,910
	<u>\$ 4,675,000</u>	<u>\$ 31,995,315</u>	<u>\$ 36,670,315</u>

NOTE 6 - INVESTMENTS

Cost and market value of short-term investments at December 31, 2010 are as follows:

	<u>Cost</u>	<u>Gross unrealized</u>	<u>Market value</u>
December 31, 2010			
Certificates of deposit	<u>\$ 1,478,053</u>	<u>\$ -</u>	<u>\$ 1,478,053</u>

NOTE 7 - CREDIT RISK

The Organization maintains its cash balances and reserves in several accounts in various banks. At times, these balances may exceed the federal insurance and deposit insurance fund limits; however, the Organization has not experienced any losses with respect to its bank balances in excess of government provided insurance. Management believes that no significant concentration of credit risk exists with respect to these balances at December 31, 2010.

Caritas Communities, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2010

NOTE 8 - RETIREMENT PLAN

The Organization has established a defined contribution salary deferral plan following SIMPLE IRA requirements. Under this SIMPLE IRA plan, Caritas must contribute a defined percentage (1% to 3%) of each eligible employee's salary.

Caritas incurred \$27,865 and \$29,829 in retirement plan contribution costs for the years ended December 31, 2010 and 2009, respectively.

NOTE 9 - OPERATING LEASE

The Organization had a non-cancelable lease for its Braintree office location which expired on October 31, 2009. In November 2009, the Organization leased office space in another facility for a 5 year period with an option to extend for an additional 5 years. The monthly rent is \$6,066 which increases by approximately 3 - 5% each year thereafter. This lease requires Caritas to maintain insurance and pay additional rent for real estate taxes and operating expenses exceeding defined amounts. Office rental expense for the years ended December 31, 2010 and 2009 were \$79,015 and \$50,372, respectively.

The Organization has a non-cancellable lease in Boston for a property that expires February 28, 2011. Minimum monthly payments of \$606 are required. The Organization has the option to purchase this property at the end of the lease; however, at this time the Organization does not intend to purchase this property.

The following represents the minimum lease payments due under the non-cancellable leases for the following 5 years:

2011	\$	76,861
2012		79,574
2013		82,072
2014		71,367
2015		-
		<hr/>
	\$	<u>309,874</u>

The Organization has a non-cancelable lease for land and property located in Bedford, Massachusetts that expires in September 2057. During the first twelve-month period after the Construction and Initial Occupancy Period rents shall be computed at \$3.14 per square foot

Caritas Communities, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2010

per year multiplied by 23,686 payable monthly. Subsequent to this date and for the remainder of the lease term rents shall be recomputed annually based on a predetermined formula. Rental expense under this lease for the year ended December 31, 2010 and 2009 totaled \$84,199 and \$81,843, respectively.

NOTE 10 - COMMITMENTS

Caritas has guaranteed the tax credits on Dudley Inn Limited Partnership and One Lenox Limited Partnership.

Guarantees

The Organization has guaranteed to fund operating deficits in the amount up to \$75,000 to One Lenox Limited Partnership. This obligation begins at the period of "breakeven operations," as defined, and ends on the third anniversary of such time, June 30, 2010 and no amounts have been required.

Purchase Option

One Lenox Limited Partnership has entered into a Purchase Option and Right of First Refusal Agreement with the Organization whereby Caritas has an option to purchase the project after the closing of the 15-year low-income tax housing tax credit compliance period. The purchase price will be determined in accordance with such agreement.

NOTE 11 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2010</u>	<u>2009</u>
Strategic planning	\$ -	\$ 21,075
Building improvements	50,000	249,000
Resident services	12,500	19,029
	<u>\$ 62,500</u>	<u>\$ 289,104</u>

Caritas Communities, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2010

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by donors.

Purpose Restrictions Accomplished	2010	2009
Strategic planning	\$ -	\$ 30,551
Building improvements	275,317	310,578
Resident services	9,417	170,295
	\$ 284,734	\$ 511,424

NOTE 12 - INVOLUNTARY CONVERSION OF NON-MONETARY ASSET

As a result of a fire which occurred in November 2009 on the upper floor of a Medford lodging house, an involuntary conversion resulted in the loss of a portion of a building with a net carrying value of \$186,000 on the date of the involuntary conversion. During 2010, the building was restored and improved in the restoration process and insurance proceeds of \$289,450 were received. At December 31, 2010, the Company has accrued a \$91,841 insurance claim receivable for loss of rents. Management expects to collect this receivable in 2011.

NOTE 13 - FAIR VALUE

The accounting standard for fair value measurement and disclosures defines fair value, establishes a framework for measuring fair value, and provides for expanded disclosure about fair value measurements. Fair value is defined by the accounting standard for fair value measurement and disclosures as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. It also establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three levels. The following summarizes the three levels of hierarchy of fair value the Organization uses when measuring fair value:

- Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access;



Caritas Communities, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2010

- Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as interest rates and yield curves that are observable at commonly quoted intervals; and
- Level 3 inputs are unobservable inputs for the asset or liability that are typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the fair value measurement will fall within the lowest level input that is significant to the fair value measurement in its entirety.

The acquisition of Caritas Worcester House LLC is classified within level 3 of the fair value hierarchy. The land, building, and mortgage payable are measured at fair value as of January 8, 2010.

The following table presents the acquisition that the Company measured at fair value during the period January 8, 2010 (date of acquisition) through December 31, 2010:

	Level 1	Level 2	Level 3	Total
Land	\$ -	\$ -	\$ 45,000	\$ 45,000
Building	-	-	450,309	450,309
Mortgage payable	-	-	445,000	445,000

The acquisition of Caritas Acquisition LLC is classified within level 3 of the fair value hierarchy. The land, building and mortgage payable are measured at fair value as of December 28, 2010. The following table presents the acquisition that the Company measured at fair value during the period December 28, 2010 (date of acquisition) through December 31, 2010:

	Level 1	Level 2	Level 3	Total
Gain on acquisition	\$ -	\$ -	\$ 917,609	\$ 917,609
Land	-	-	819,501	819,501
Building	-	-	907,582	907,582
Mortgage payable	-	-	676,368	676,368

Caritas Communities, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2010

NOTE 14 - SUBSEQUENT EVENTS

Events that occur after the statement of financial position date but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the statement of financial position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the statement of financial position date require disclosure in the accompanying notes. Management evaluated the activity of the Organization through July 11, 2011 (the date the financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements, with the exception as noted below.

SUPPLEMENTAL INFORMATION

Caritas Communities, Inc. and Subsidiaries

SUPPLEMENTAL INFORMATION

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION

December 31, 2010

	2010					Totals	Eliminating entries	Consolidation total	2009
	Caritas Communities Inc.	Dudley Inn, LP	One Lenox, LP	Bedford Veterans Quarters, Inc.	Sean Brook House Inc.				Consolidation total
ASSETS:									
CURRENT ASSETS:									
Cash and cash equivalents	\$ 666,896	\$ 74,466	\$ 37,455	\$ 285,136	\$ 24,594	\$ 1,088,547	\$ -	\$ 1,088,547	\$ 991,985
Short-term investments	1,355,034	-	-	123,019	-	1,478,053	-	1,478,053	1,381,313
Cash - tenant security deposits	185,168	23,750	16,806	9,832	5,869	241,425	-	241,425	210,871
Account receivables, net of allowance for bad debts	110,614	10,679	7,312	29,029	1,474	159,108	-	159,108	142,505
Account receivables - other	107,822	-	-	5,610	39,609	153,041	-	153,041	186,000
Prepaid expenses and escrows	172,705	50,099	8,149	10,004	7,518	248,475	(2,181)	246,294	228,959
Total current assets	2,598,239	158,994	69,722	462,630	79,064	3,368,649	(2,181)	3,366,468	3,141,633
PROPERTY AND EQUIPMENT NET	23,634,201	2,910,056	3,643,518	3,004,924	4,610,136	37,802,835	(1,548,038)	36,254,797	32,121,603
OTHER ASSETS:									
Note receivables	46,523	-	-	-	-	46,523	(46,523)	-	-
Reserve for replacements	1,112,735	84,089	87,565	81,324	82	1,365,795	-	1,365,795	1,267,613
Operating and debt service reserves	189,799	339,897	161,294	-	-	690,990	-	690,990	662,630
Long-term investments	-	-	-	-	-	-	-	-	87,276
Unamortized finance costs	179,718	9,882	46,930	3,351	-	239,881	-	239,881	223,016
Due from affiliates	-	-	-	-	87,964	87,964	(87,964)	-	-
Development costs	306,722	-	-	-	-	306,722	-	306,722	169,626
Total other assets	1,835,497	433,868	295,789	84,675	88,046	2,737,875	(134,487)	2,603,388	2,410,161
	<u>\$ 28,067,937</u>	<u>\$ 3,502,918</u>	<u>\$ 4,009,029</u>	<u>\$ 3,552,229</u>	<u>\$ 4,777,246</u>	<u>\$ 43,909,359</u>	<u>\$ (1,684,706)</u>	<u>\$ 42,224,653</u>	<u>\$ 37,673,397</u>

Caritas Communities, Inc. and Subsidiaries

SUPPLEMENTAL INFORMATION - CONTINUED

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION - CONTINUED

December 31, 2010

	2010							2009	
	Caritas Communities Inc.	Dudley Inn, LP	One Lenox, LP	Bedford Veterans Quarters, Inc.	Sean Brook House Inc.	Totals	Eliminating Entries	Consolidation total	Consolidation total
<b>LIABILITIES:</b>									
<b>CURRENT LIABILITIES:</b>									
Current maturities of									
long-term debt	\$ 117,979	\$ 11,640	\$ 1,058	\$ 48,469	\$ 6,878	\$ 186,024	\$ (1,058)	\$ 184,966	\$ 231,437
Accounts payable and accrued									
expenses	137,621	21,594	18,938	49,085	1,205	228,443	(89)	228,354	252,351
Accounts payable - construction									
expenses	-	-	-	-	-	-	-	-	720,835
Accrued interest payable - first									
mortgage	905	-	-	-	-	905	-	905	2,450
Tenant security deposits	175,491	22,528	14,414	9,871	5,865	228,169	-	228,169	201,220
Prepaid rent	31,725	4,194	786	2,470	672	39,847	-	39,847	31,062
<b>Total current liabilities</b>	<b>463,721</b>	<b>59,956</b>	<b>35,196</b>	<b>109,895</b>	<b>14,620</b>	<b>683,388</b>	<b>(1,147)</b>	<b>682,241</b>	<b>1,439,355</b>
<b>LONG TERM DEBT:</b>									
Mortgages payable, less									
current maturities	19,619,843	1,920,444	1,900,501	3,189,030	4,428,387	31,058,205	(45,465)	31,012,740	26,320,432
Bond payable, less current									
maturities	4,555,000	-	-	-	-	4,555,000	-	4,555,000	4,675,000
<b>Total long-term debt</b>	<b>24,174,843</b>	<b>1,920,444</b>	<b>1,900,501</b>	<b>3,189,030</b>	<b>4,428,387</b>	<b>35,613,205</b>	<b>(45,465)</b>	<b>35,567,740</b>	<b>30,995,432</b>
<b>OTHER LIABILITIES:</b>									
Deferred interest	1,235,911	463,477	257,304	-	-	1,956,692	-	1,956,692	1,615,181
Deferred revenue	-	6,702	-	-	-	6,702	-	6,702	11,433
Due to affiliates	87,964	-	-	-	-	87,964	(87,964)	-	-
<b>Total other liabilities</b>	<b>1,323,875</b>	<b>470,179</b>	<b>257,304</b>	<b>-</b>	<b>-</b>	<b>2,051,358</b>	<b>(87,964)</b>	<b>1,963,394</b>	<b>1,626,614</b>
<b>Total liabilities</b>	<b>25,962,439</b>	<b>2,450,579</b>	<b>2,193,001</b>	<b>3,298,925</b>	<b>4,443,007</b>	<b>38,347,951</b>	<b>(134,576)</b>	<b>38,213,375</b>	<b>34,061,401</b>
<b>NET ASSETS:</b>									
Unrestricted undesignated									
controlling	2,050,498	(197)	(105)	253,304	326,739	2,630,239	(1,759,387)	870,852	(192,081)
Unrestricted undesignated									
noncontrolling		1,052,536	1,816,133			2,868,669	209,257	3,077,926	3,514,973
<b>Total unrestricted net assets</b>	<b>2,050,498</b>	<b>1,052,339</b>	<b>1,816,028</b>	<b>253,304</b>	<b>326,739</b>	<b>5,498,908</b>	<b>(1,550,130)</b>	<b>3,948,778</b>	<b>3,322,892</b>
Temporarily restricted net assets	55,000	-	-	-	7,500	62,500	-	62,500	289,104
<b>Total net assets</b>	<b>2,105,498</b>	<b>1,052,339</b>	<b>1,816,028</b>	<b>253,304</b>	<b>334,239</b>	<b>5,561,408</b>	<b>(1,550,130)</b>	<b>4,011,278</b>	<b>3,611,996</b>
	<u>\$ 28,067,937</u>	<u>\$ 3,502,918</u>	<u>\$ 4,009,029</u>	<u>\$ 3,552,229</u>	<u>\$ 4,777,246</u>	<u>\$ 43,909,359</u>	<u>\$ (1,684,706)</u>	<u>\$ 42,224,653</u>	<u>\$ 37,673,397</u>

Caritas Communities, Inc. and Subsidiaries

SUPPLEMENTAL INFORMATION - CONTINUED

CONSOLIDATING SCHEDULE OF ACTIVITIES

Year Ended December 31, 2010

	2010						2009		
	Caritas Communities Inc.	Dudley Inn, LP	One Lenox, LP	Bedford Veterans Quarters, Inc.	Sean Brook House Inc	Totals	Eliminating Entries	Consolidation Total	Consolidation Total
<b>SUPPORT AND REVENUE</b>									
Net rents	\$ 3,535,240	\$ 390,633	\$ 177,267	\$ 408,711	\$ 57,336	\$ 4,569,187	\$ -	\$ 4,569,187	\$ 4,265,552
Annual dinner	289,298	-	-	-	-	289,298	-	289,298	214,825
Contributions	27,430	-	-	-	-	27,430	-	27,430	24,745
Foundation grants	673,045	-	-	94,630	402,797	1,170,472	-	1,170,472	628,727
Management and other fees	250,180	-	-	-	-	250,180	(250,180)	-	-
Investment income	13,796	6,826	4,186	3,764	4	28,576	-	28,576	38,142
Development fees	388,762	-	-	-	-	388,762	(388,762)	-	-
Other income (loss)	7,644	-	-	-	925	8,569	-	8,569	14,769
<b>Total support and revenues</b>	<b>5,185,395</b>	<b>397,459</b>	<b>181,453</b>	<b>507,105</b>	<b>461,062</b>	<b>6,732,474</b>	<b>(638,942)</b>	<b>6,093,532</b>	<b>5,186,760</b>
<b>EXPENSES:</b>									
Compensation	1,139,941	134,252	20,537	50,000	3,528	1,348,258	(224,021)	1,124,237	1,034,198
Payroll taxes	128,616	-	-	-	-	128,616	-	128,616	128,168
Employee benefits	187,406	-	-	-	-	187,406	-	187,406	187,454
Management fee expense	1,296	37,759	15,925	39,891	5,415	100,286	(98,990)	1,296	-
Insurance	107,991	12,096	9,128	11,762	178	141,155	-	141,155	142,010
Automobile	43,864	-	-	-	-	43,864	-	43,864	45,000
Rent	79,015	-	-	84,199	-	163,214	-	163,214	132,215
Office and telephone	81,662	4,224	5,198	6,819	1,088	98,991	-	98,991	73,264
Legal and accounting	146,251	25,431	14,315	9,001	70	195,068	-	195,068	160,782
Meetings	4,388	-	-	-	-	4,388	-	4,388	3,068
Dinner costs	112,304	-	-	-	-	112,304	-	112,304	81,643
Other costs	255,954	18,690	6,285	-	1,897	282,826	-	282,826	249,963
Social services	30,260	3,446	1,318	104,550	-	139,574	-	139,574	109,622
Undeveloped properties	141,352	-	-	-	-	141,352	-	141,352	-
Utilities	581,485	82,605	30,966	-	4,873	699,929	-	699,929	643,758
Real estate tax	166,933	27,371	18,537	-	-	212,841	-	212,841	169,528
Depreciation and amortization	745,010	152,973	176,927	150,929	57,016	1,282,855	(53,443)	1,229,412	1,095,424
Repairs and maintenance	430,936	57,482	21,462	80,547	1,370	591,797	-	591,797	552,661
Manager's compensation	335,377	-	-	-	-	335,377	-	335,377	318,331
Interest	560,130	76,080	63,019	25,595	3,388	728,212	-	728,212	728,751
Impairment loss	-	-	-	-	-	-	-	-	150,000
<b>Total expenses</b>	<b>5,280,171</b>	<b>632,409</b>	<b>383,617</b>	<b>563,293</b>	<b>78,823</b>	<b>6,938,313</b>	<b>(376,454)</b>	<b>6,561,859</b>	<b>6,005,840</b>
<b>EXCESS OF REVENUE OVER EXPENSES (EXPENSES OVER REVENUE) BEFORE OTHER REVENUE (EXPENSE)</b>	<b>(94,776)</b>	<b>(234,950)</b>	<b>(202,164)</b>	<b>(56,188)</b>	<b>382,239</b>	<b>(205,839)</b>	<b>(262,488)</b>	<b>(468,327)</b>	<b>(819,080)</b>

Caritas Communities, Inc. and Subsidiaries

SUPPLEMENTAL INFORMATION - CONTINUED

CONSOLIDATING SCHEDULE OF ACTIVITIES - CONTINUED

Year ended December 31, 2010

	2010					Totals	Eliminating Entries	Consolidation Total	2009
	Caritas Communities Inc.	Dudley Inn, LP	One Lenox, LP	Bedford Veterans Quarters, Inc.	Sean Brook House Inc				Consolidation Total
OTHER REVENUE (EXPENSE):									
Gain on acquisition	917,609	-	-	-	-	917,609	-	917,609	-
Total other revenue (expense)	917,609	-	-	-	-	917,609	-	917,609	-
EXCESS OF REVENUE OVER EXPENSES	822,833	(234,950)	(202,164)	(56,188)	382,239	711,770	(262,488)	449,282	(819,080)
EXCESS OF EXPENSES OVER REVENUE ATTRIBUTABLE TO NONCONTROLLING INTERESTS	-	(234,903)	(202,144)	-	-	(437,047)	-	(437,047)	(377,760)
EXCESS OF REVENUE OVER EXPENSES ATTRIBUTABLE TO THE ORGANIZATION	\$ 822,833	\$ (47)	\$ (20)	\$ (56,188)	\$ 382,239	\$ 1,148,817	\$ (262,488)	\$ 886,329	\$ (441,320)

Caritas Communities, Inc. and Subsidiaries

SUPPLEMENTAL INFORMATION - CONTINUED

CONSOLIDATING SCHEDULE OF CHANGES IN NET ASSETS

Year ended December 31, 2010

	Caritas Communities Inc.	Dudley Inn, LP	One Lenox, LP	Bedford Veterans Quarters, Inc.	Sean Brook House Inc.	Eliminating Entries	Subtotal	Noncontrolling	Total	Temporarily restricted net assets Controlling	Net assets Total
Beginning balance, January 1, 2009	\$ 1,332,890	\$ (121)	\$ (64)	\$ 283,509	\$ -	\$ (1,338,497)	\$ 277,717	\$ 3,892,733	\$ 4,170,450	\$ 260,626	\$ 4,431,076
Excess of expenses over revenues attributable to noncontrolling interests	-	-	-	-	-	-	-	(377,760)	(377,760)	-	(377,760)
Excess of expenses over revenues attributable to the Organization	(203,837)	(29)	(21)	16,566	(124,075)	(158,402)	(469,798)	-	(469,798)	28,478	(441,320)
Ending balance, December 31, 2009	<u>\$ 1,129,053</u>	<u>\$ (150)</u>	<u>\$ (85)</u>	<u>\$ 300,075</u>	<u>\$ (124,075)</u>	<u>\$ (1,496,899)</u>	<u>\$ (192,081)</u>	<u>\$ 3,514,973</u>	<u>\$ 3,322,892</u>	<u>\$ 289,104</u>	<u>\$ 3,611,996</u>
Beginning balance, January 1, 2010	1,129,053	(150)	(85)	300,075	(124,075)	(1,496,899)	(192,081)	3,514,973	3,322,892	289,104	3,611,996
Release of restricted net assets	98,612	-	-	9,417	68,575	-	176,604	-	176,604	(226,604)	(50,000)
Excess of expenses over revenues attributable to noncontrolling interests	-	-	-	-	-	-	-	(437,047)	(437,047)	-	(437,047)
Excess of expenses over revenues attributable to the Organization	822,833	(47)	(20)	(56,188)	382,239	(262,488)	886,329	-	886,329	-	886,329
Ending balance, December 31, 2010	<u>\$ 2,050,498</u>	<u>\$ (197)</u>	<u>\$ (105)</u>	<u>\$ 253,304</u>	<u>\$ 326,739</u>	<u>\$ (1,759,387)</u>	<u>\$ 870,852</u>	<u>\$ 3,077,926</u>	<u>\$ 3,948,778</u>	<u>\$ 62,500</u>	<u>\$ 4,011,278</u>