

**Caritas Communities, Inc.
and Subsidiaries**

**Consolidated Financial Statements
(With Supplementary Information)
and Independent Auditor's Report**

**December 31, 2012
(With Comparative Totals for 2011)**

Caritas Communities, Inc. and Subsidiaries

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Caritas Communities, Inc. and Subsidiaries which comprise the consolidated statement of financial position as of December 31, 2012 and the related consolidated statements of activities, changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the 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, 2012, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The consolidated financial statements of Caritas Communities Inc., and Subsidiaries as of and for the year ended December 31, 2011, were audited by Reznick Group, P.C. (Reznick) whose report dated May 11, 2012, expressed an unmodified opinion on those statements. CohnReznick LLP is the current auditor as a result of a business combination between Reznick, who is referred to herein as other auditors, and J.H. Cohn LLP. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011 is consistent in all material respects with the audited financial statements from which it has been derived.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying 2012 supplemental information on pages 42 through 46 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly presented in all material respects in relation to the consolidated financial statements as a whole. The 2011 supplementary information on pages 42 through 46 was subjected to the auditing procedures applied in the 2011 audit of the basic consolidated financial statements by other auditors, whose report on such information stated that it was fairly stated in all material respects in relation to the 2011 consolidated financial statements as a whole.



Boston, Massachusetts
May 23, 2013

Caritas Communities, Inc. and Subsidiaries
Consolidated Statements of Financial Position
December 31, 2012 (with comparative totals for 2011)

	<u>Assets</u>	
	2012	2011
Current assets		
Cash and cash equivalents	\$ 1,847,409	\$ 1,533,861
Short-term investments	1,190,135	1,167,952
Tenant security deposits	263,211	265,629
Accounts receivable - (net of allowance for bad debts of \$81,618 and \$71,200, respectively)	260,988	229,907
Accounts receivable - other	113,743	693,012
Prepaid expenses and escrows	413,335	406,194
Total current assets	4,088,821	4,296,555
Property and equipment		
Land and site improvements	4,522,087	4,517,169
Buildings and improvements	48,674,167	43,107,621
Construction in progress	664,699	2,539,942
Furnishings and equipment	1,405,454	1,128,125
	55,266,407	51,292,857
Less: Accumulated depreciation	(12,811,338)	(11,257,101)
Net property and equipment	42,455,069	40,035,756
Other assets		
Reserve for replacements	1,650,143	1,488,549
Operating and debt service reserves	2,874,341	642,206
Deferred fees	326,469	379,784
Development costs	128,930	147,605
Total other assets	4,979,883	2,658,144
Total assets	\$ 51,523,773	\$ 46,990,455

(continued)

Caritas Communities, Inc. and Subsidiaries

Consolidated Statements of Financial Position - Continued

December 31, 2012 (with comparative totals for 2011)

	<u>Liabilities and Net Assets</u>	
	<u>2012</u>	<u>2011</u>
Current liabilities		
Current maturities of long-term debt	\$ 2,499,379	\$ 281,445
Accounts payable and accrued expenses	338,599	413,529
Accounts payable - construction	336,822	1,285,197
Accrued interest payable - first mortgage	23,811	24,116
Accrued interest payable - other mortgages	5,264	-
Tenant security deposits	244,092	248,786
Prepaid rent	37,288	68,489
	<hr/>	<hr/>
Total current liabilities	3,485,255	2,321,562
Long-term debt		
Mortgages payable, less current maturities	36,130,026	34,603,954
Bonds payable, less current maturities	4,300,000	4,430,000
	<hr/>	<hr/>
Total long-term debt	40,430,026	39,033,954
Other liabilities		
Deferred interest	2,402,259	2,080,972
Deferred revenue	-	1,971
	<hr/>	<hr/>
Total other liabilities	2,402,259	2,082,943
Total liabilities	<hr/>	<hr/>
	46,317,540	43,438,459
Net assets:		
Unrestricted undesignated controlling	(149,331)	101,652
Unrestricted undesignated noncontrolling	5,065,564	3,388,344
	<hr/>	<hr/>
Total unrestricted net assets	4,916,233	3,489,996
Temporarily restricted	290,000	62,000
	<hr/>	<hr/>
Total net assets	5,206,233	3,551,996
Total liabilities and net assets	<hr/>	<hr/>
	\$ 51,523,773	\$ 46,990,455

See notes to consolidated financial statements

Caritas Communities, Inc. and Subsidiaries

Consolidated Statements of Activities

Year ended December 31, 2012 (with comparative totals for 2011)

	2012			2011
	Unrestricted	Temporarily restricted	Total	Total
Revenue, gains and other support				
Net rents	\$ 6,267,144	\$ -	\$ 6,267,144	\$ 5,411,652
Annual dinner	451,295	-	451,295	278,775
Contributions	1,240	-	1,240	4,690
Foundation grants	212,379	290,000	502,379	327,632
Investment income	39,430	-	39,430	25,944
Miscellaneous income (loss)	19,599	-	19,599	26,327
Net assets released from restrictions:				
Satisfaction of restrictions	62,000	(62,000)	-	-
Total revenue, gains and other support	7,053,087	228,000	7,281,087	6,075,020
Expenses				
Program services	7,624,642	-	7,624,642	6,358,184
Supporting services:				
Management and general	831,054	-	831,054	745,424
Fundraising	345,681	-	345,681	250,545
Total expenses	8,801,377	-	8,801,377	7,354,153
Excess of expenses over revenue before other revenue	(1,748,290)	228,000	(1,520,290)	(1,279,133)
Other revenue				
Sale of state historic tax credits	946,898	-	946,898	-
Gain on acquisition	-	-	-	530,898
Total other revenue	946,898	-	946,898	530,898
Excess of (expenses over revenue) revenue over expense	(801,392)	228,000	(573,392)	(748,235)
Excess of revenue over expenses (expenses over revenue) attributable to noncontrolling interests	(550,409)	-	(550,409)	21,465
Excess of revenue over expenses (expenses over revenue) attributable to the organization	\$ (250,983)	\$ 228,000	\$ (22,983)	\$ (769,700)

See notes to consolidated financial statements

Caritas Communities, Inc. and Subsidiaries

Consolidated Statements of Functional Expenses

Year ended December 31, 2012 (with comparative totals for 2011)

	2012			2011	
	Program services	Management and general	Fundraising	Total	Total
Compensation	\$ 1,341,663	\$ 449,724	\$ 85,590	\$ 1,876,977	\$ 1,668,081
Payroll taxes	106,252	35,616	6,778	148,646	138,523
Employee benefits	188,436	63,163	12,021	263,620	207,484
Management fee expense	3,943	1,322	252	5,517	25,457
Insurance	168,187	53,726	11,680	233,593	169,300
Automobile	30,803	9,840	2,139	42,782	45,750
Rent	122,846	39,242	8,531	170,619	168,321
Office and telephone	117,659	37,586	8,171	163,416	132,583
Legal	154,291	49,288	10,715	214,294	177,448
Accounting	62,842	20,075	4,364	87,281	151,398
Meetings	-	4,006	-	4,006	5,023
Dinner costs	-	-	180,773	180,773	102,819
Other costs	211,198	67,466	14,667	293,331	249,659
Social services	144,251	-	-	144,251	157,972
Undeveloped properties	82,630	-	-	82,630	-
Utilities	854,825	-	-	854,825	812,838
Real estate tax	328,819	-	-	328,819	239,747
Depreciation and amortization	1,742,409	-	-	1,742,409	1,409,688
Repairs and maintenance	948,761	-	-	948,761	787,844
Interest	1,014,827	-	-	1,014,827	704,218
	\$ 7,624,642	\$ 831,054	\$ 345,681	\$ 8,801,377	\$ 7,354,153

See notes to consolidated financial statements

Caritas Communities, Inc. and Subsidiaries

Consolidated Statements of Changes of Net Assets

Year ended December 31, 2012 (with comparative totals for 2011)

	Unrestricted net assets			Temporarily restricted net assets	Net assets
	Controlling	Noncontrolling	Total	Controlling	Total
Beginning balance, January 1, 2011	\$ 870,852	\$ 3,077,926	\$ 3,948,778	\$ 62,500	\$ 4,011,278
Capital contributions from noncontrolling interests	-	288,953	288,953	-	288,953
Excess of revenue over expenses attributable to noncontrolling interests	-	21,465	21,465	-	21,465
Excess of expenses over revenue attributable to the Organization	(769,200)	-	(769,200)	(500)	(769,700)
Ending balance, December 31, 2011	101,652	3,388,344	3,489,996	62,000	3,551,996
Capital contributions from noncontrolling interests	-	2,311,626	2,311,626	-	2,311,626
Syndication costs from noncontrolling interest	-	(83,997)	(83,997)	-	(83,997)
Excess of expenses over revenue attributable to noncontrolling interests	-	(550,409)	(550,409)	-	(550,409)
Excess of expenses over revenue attributable to the Organization	(250,983)	-	(250,983)	228,000	(22,983)
Ending balance, December 31, 2012	<u>\$ (149,331)</u>	<u>\$ 5,065,564</u>	<u>\$ 4,916,233</u>	<u>\$ 290,000</u>	<u>\$ 5,206,233</u>

See notes to consolidated financial statements

Caritas Communities, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

Year ended December 31, 2012 (with comparative totals for 2011)

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities		
Excess of (expenses over revenue) revenue over expenses	\$ (573,392)	\$ (748,235)
Adjustments to reconcile excess of (expenses over revenue) revenue over expenses to cash provided by operating activities		
Depreciation and amortization	1,742,409	1,409,688
Gain on acquisition of property	-	(530,898)
Interest on short-term investments	(22,183)	(3,538)
Interest on first mortgage payable	(305)	23,211
Interest on other mortgages payable	5,264	-
Deferred interest on mortgages	321,287	124,280
Write-off of undeveloped properties costs	82,630	-
Increase (decrease) in allowance for bad debt	10,418	29,480
Changes in:		
Accounts receivable - tenant	(41,499)	(100,279)
Accounts receivable - other	579,269	79,082
Prepaid expenses and escrows	(7,141)	(159,900)
Deferred revenue	(1,971)	(4,731)
Tenant security deposits, net	(2,276)	(3,587)
Accounts payable, accrued expenses and prepaid rent	<u>(106,131)</u>	<u>213,817</u>
Net cash provided by operating activities	<u>1,986,379</u>	<u>328,390</u>
Cash flows from investing activities		
Funding of reserve for replacements and interest thereon, net of withdrawals	(161,594)	(122,754)
Funding of operating and debt reserves and interest thereon, net of withdrawals	(2,232,135)	48,784
Purchase of short-term investments	-	(90,335)
Accounts receivable - other	-	(619,053)
Sale of short-term and long-term investment	-	403,974
Cash paid for development costs	(63,955)	-
Purchase of property and equipment	<u>(4,920,429)</u>	<u>(2,721,534)</u>
Net cash used in investing activities	<u>(7,378,113)</u>	<u>(3,100,918)</u>
Cash flows from financing activities		
Capital contributions received	2,311,626	288,953
Syndication costs paid	(83,997)	-
Payments on mortgages and construction loans	(4,292,446)	(141,816)
Repayment of bond principal	(125,000)	(120,000)
Mortgage and notes proceeds	7,906,105	3,371,652
Financing costs paid	<u>(11,006)</u>	<u>(180,947)</u>
Net cash provided by financing activities	<u>5,705,282</u>	<u>3,217,842</u>
Net increase in cash and cash equivalents	<u>313,548</u>	<u>445,314</u>
Cash and cash equivalents, beginning of year	<u>1,533,861</u>	<u>1,088,547</u>
Cash and cash equivalents, end of year	<u>\$ 1,847,409</u>	<u>\$ 1,533,861</u>
Supplemental disclosure of cash flow information		
Cash paid for interest, net of amount capitalized	<u>\$ 693,845</u>	<u>\$ 574,639</u>

Significant noncash investing and financing activities:

As of December 31, 2012, purchase of property and equipment included construction costs payable of \$336,822.

As of December 31, 2011, purchase of property and equipment included construction costs payable of \$45,610, development fees payable of \$79,794, and construction contract payable of \$1,159,793.

The organization acquired 820 SRO LLC during 2011 in which the fair value of debt assumed totaled \$448,000. A development costs decrease of \$159,117 during 2011 is included in the purchase of property and equipment.

See notes to consolidated financial statements

Caritas Communities, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2012

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 12% of Caritas' support for the year ended December 31, 2012 came from its annual dinner, fundraising events, contributions and grants.

Parkview Housing LLC: 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. Effective December 31, 2009, Parkview Limited Partnership was dissolved, and Parkview Housing, Inc. became the sole owner of the property.

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, 2012

820 SRO MM LLC: On September 7, 2011, Caritas acquired a 50% interest in 820 SRO MM LLC, a real estate development company. 820 SRO MM LLC is the managing member in 820 SRO LLC which provides affordable single room housing in Cambridge, Massachusetts.

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, 820 SRO MM LLC, a 50% owned subsidiary, where Caritas is the controlling member, 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, One Lenox Limited Partnership, and 820 SRO LLC in which affiliates serve as the general partner or managing member. The effect of all significant inter-company transactions have been eliminated in consolidation.

ASC 810-20

Caritas accounts for subsidiary partnerships in accordance with 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 or partially 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 is the sole voting member of two nonprofit entities, Bedford Veterans Quarters, Inc. (Bedford) and Sean Brook House, Inc. (Sean Brook), 501(c)(3)

Caritas Communities, Inc. and Subsidiaries

Notes to Consolidated Financial Statements - Continued

December 31, 2012

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, 2011 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 2012.

Caritas Communities, Inc. and Subsidiaries

Notes to Consolidated Financial Statements - Continued

December 31, 2012

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.

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

Caritas Communities, Inc. and Subsidiaries

Notes to Consolidated Financial Statements - Continued

December 31, 2012

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 relating to finance fees for the year ended December 31, 2012 was \$60,112. Accumulated amortization as of December 31, 2012 was \$321,105.

Estimated annual amortization expense for each of the ensuing years through December 31, 2017 is as follows:

December 31, 2013	\$	46,698
2014		22,944
2015		21,350
2016		21,350
2017		28,576

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, 2012 was \$2,713. Accumulated amortization as of December 31, 2012 was \$14,737. Estimated amortization expense for each of the ensuing years through December 31, 2017 is \$2,713 per year for the years 2013 through 2015, \$2,430 for the year 2016, and \$2,033 for the year 2017.

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.

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.

Caritas Communities, Inc. and Subsidiaries

Notes to Consolidated Financial Statements - Continued

December 31, 2012

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, 2012 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 \$81,618 and \$71,200 at December 31, 2012 and 2011, respectively.

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.

Caritas Communities, Inc. and Subsidiaries

Notes to Consolidated Financial Statements - Continued

December 31, 2012

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 2012 and 2011, 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 2012 and 2011, no impairment loss was recognized.

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 was claimed each year for ten years, was \$255,000 annually. The final annual tax credit allocation was claimed in 2011.

Caritas Communities, Inc. and Subsidiaries

Notes to Consolidated Financial Statements - Continued

December 31, 2012

One Lenox Limited Partnership has received an allocation of low-income housing tax credits from 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.

820 SRO LLC has qualified for low-income housing tax credits from DHCD. This credit, which commenced in 2012 was calculated at 3.26% of qualified acquisition and rehabilitation costs. The annual allocation, which may be claimed each year for ten years, is subject to adjustment by DHCD and is estimated to be \$225,815 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.

Note 3 - Rental Property

On September 7, 2011, 820 SRO LLC acquired a property for a purchase price of \$2,554,634 less acquired escrows of \$91,064. 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, based on their respective fair values as noted below. A summary of the purchase price allocated to rental property is as follows:

Land	\$ 298,805
Building	<u>2,164,765</u>
	<u>\$ 2,463,570</u>

For additional detail, see Note 13 - Fair Value.

Caritas Communities, Inc. and Subsidiaries

Notes to Consolidated Financial Statements - Continued

December 31, 2012

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, 2012. 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. While no income tax returns are currently being examined by the Internal Revenue Service, tax years since 2009 remain open.

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 and limited liability companies are not required to take any tax positions in order to qualify as pass-through entities. The partnerships and 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 and limited liability companies have no other tax positions which must be considered for disclosure. Income tax returns filed by the Partnership are subject to examination by the Internal Revenue Service for a period of three years. While no income tax returns are currently being examined by the Internal Revenue Service, tax years since 2009 remain open.

The Organization's subsidiaries, 17 Rooms Corporation and One Lenox Street Corporation (the wholly owned subsidiaries) and 820 SRO MM LLC (50% owned subsidiary) 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, 2012

Note 5 - Long-Term Debt

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

	2012	2011
Caritas Communities, Inc.		
Massachusetts Housing Partnership Fund Massachusetts Tax-Exempt Revenue Bonds Interest rate - 1.6% to 5.043% (current rate 3.9%) Current monthly payments - \$29,324 for principal and interest Final payments - July 15, 2022 Secured by mortgages on various properties with primary rights	\$ 4,430,000	\$ 4,555,000
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, 2029 to May 13, 2030 Secured by mortgages on five properties with subordinate rights	357,500	357,500
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
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

Caritas Communities, Inc. and Subsidiaries

Notes to Consolidated Financial Statements - Continued

December 31, 2012

	<u>2012</u>	<u>2011</u>
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 - 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
DHCD - Housing Stabilization Fund Interest rate - None Monthly payments - None Final payment - March 7, 2032 Secured by real estate in Wakefield with subordinate rights	750,000	750,000
Affordable Housing Trust Fund Interest rate - None Monthly payments - None Final payment - March 1, 2032 Secured by real estate in Wakefield with subordinate rights	210,000	210,000
A Massachusetts Savings Bank Interest rate - 5.75% Monthly payment - \$2,779 Final payments - March 7, 2027 Secured by real estate in Wakefield with primary rights	322,311	335,478
Town of Brookline 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	1,100,000	1,100,000

Caritas Communities, Inc. and Subsidiaries

Notes to Consolidated Financial Statements - Continued

December 31, 2012

	<u>2012</u>	<u>2011</u>
Massachusetts Housing Partnership - SSRP Loan Interest rate - None Monthly payments - None Final payment - July 1, 2024 Secured by real estate in Brookline with subordinate rights	500,000	500,000
Affordable Housing Trust Fund Interest rate - None Monthly payments - None Final payment - March 18, 2033 Secured by real estate in Brookline with subordinate rights	316,000	316,000
Massachusetts Housing Partnership - 1st Mortgage Interest rate - 7.09% Monthly payments - \$2,350 Paid in full 5/7/12 Secured by real estate in Brookline with subordinate rights	-	318,409
Mansfield Bank - 1st Mortgage Interest rate - 5% Monthly payments - \$1,829 Final payments - June 2, 2022 Secured by real estate in Brookline with subordinate rights	335,205	-
DHCD - Housing Stabilization Fund Interest rate - 5% compounded annually Monthly payments - None Final payments - December 22, 2027 Secured by real estate in Salem with subordinate rights	465,000	465,000
People's United Bank (formerly Danvers) Interest rate - 6.25% Monthly payment - \$5,319 Final payments - November 23, 2014 Secured by real estate in Salem with primary rights	663,045	684,018

Caritas Communities, Inc. and Subsidiaries

Notes to Consolidated Financial Statements - Continued

December 31, 2012

	<u>2012</u>	<u>2011</u>
DHCD - Housing Stabilization Fund Interest rate - None Monthly payments - None Final payment - October 20, 2054 Secured by real estate in Quincy with primary rights	750,000	750,000
CEDAC - Housing Innovation Fund Interest rate - None Monthly payments - Subject to cash flow Final payments - October 20, 2034 Secured by real estate in Quincy with subordinate rights	640,000	640,000
City of Quincy Interest rate - None Monthly payments - None Final payment - November 1, 2034 Secured by real estate in Quincy with subordinate rights	100,000	100,000
Citizens Bank Interest rate - 4.75% Monthly payment - \$2,728 Final payments - October 20, 2029 Secured by real estate in Quincy with primary rights	404,457	417,319
Bank of Canton 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	581,395	598,504
CEDAC - Housing Innovation Fund Interest rate - None Monthly payments - Subject to cash flow Final payment - January 14, 2039 Secured by real estate in Melrose with subordinate rights	728,000	728,000

Caritas Communities, Inc. and Subsidiaries

Notes to Consolidated Financial Statements - Continued

December 31, 2012

	<u>2012</u>	<u>2011</u>
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	775,000
Interest rate - None		
Monthly payments - Subject to cash flow		
Final payment - September 2039		
Secured by real estate in Melrose with subordinate rights.		
Stoneham Bank	47,280	48,260
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	911,635	911,635
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	750,000
Interest rate - None		
Monthly payments - None		
Final payment - January 29, 2040		
Secured by real estate in Boston with subordinate rights		

Caritas Communities, Inc. and Subsidiaries

Notes to Consolidated Financial Statements - Continued

December 31, 2012

	<u>2012</u>	<u>2011</u>
DHCD - Housing Stabilization Fund Loan	822,150	822,150
Interest rate - None		
Monthly payments - None		
Final payment - January 29, 2060		
Secured by real estate in Boston with subordinate rights		
 The Property and Casualty Initiative, LLC	 264,643	 269,846
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, 2012

	<u>2012</u>	<u>2011</u>
Dudley Inn Limited Partnership		
Massachusetts Property and Casualty Insurance Co. Interest rate - 5% Monthly payments - \$2,649 Final payments - August, 2022 Secured by real estate in Boston with primary rights	328,583	341,281
City of Boston - Home Program 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	480,000	480,000
CEDAC - Housing Innovation Fund Interest rate - None Monthly payments - Subject to cash flow Final payment - December, 2030 Secured by real estate in Boston with subordinate rights	500,000	500,000
Massachusetts Housing Partnership Fund Board - HSF Loan Interest rate - None Monthly payments - None Final payment - December, 2030 (with 10-year extension option) Secured by real estate in Boston with subordinate rights	600,000	600,000
One Lenox Limited Partnership		
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

Caritas Communities, Inc. and Subsidiaries

Notes to Consolidated Financial Statements - Continued

December 31, 2012

	<u>2012</u>	<u>2011</u>
DHCD - Home Loan	550,000	550,000
Interest rate - 4.33% compounded annually		
Monthly payments - None		
Final payments - August 3, 2035		
Secured by real estate in Boston with subordinate rights		
 DHCD - HSF Loan	 745,520	 745,520
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		
 820 SRO LLC		
 Boston Private Bank & Trust Company (Series 2011 B Bonds)	 883,722	 896,028
Interest rate - 5.35% compounded		
Monthly Payment - \$5,062		
Final Payment - September 1, 2028		
Secured by real estate in Cambridge with primary rights		
 Boston Private Bank & Trust Company (Series 2011 A Bonds) Construction Loan	 1,731,735	 759,061
Interest Rate - 3.53% at 12/31/2012		
Final Payment - September 1, 2013		
Secured by real estate in Cambridge with primary rights		
 DHCD Home Loan	 94,184	 -
Interest rate - None		
Monthly payments - None		
Final payment - May 31, 2042		
Secured by real estate in Cambridge with subordinate rights		

Caritas Communities, Inc. and Subsidiaries

Notes to Consolidated Financial Statements - Continued

December 31, 2012

	<u>2012</u>	<u>2011</u>
City of Cambridge AHT program	1,600,000	1,073,299
Interest rate - 2%		
Monthly payment - None		
Final payment - September 1, 2061		
Secured by real estate in Cambridge with subordinate rights		
City of Cambridge Loan - recorded at fair value	250,577	245,644
Interest Rate - 4.0%		
Monthly payment - None		
Final payment - September 1, 2061		
Secured by real estate in Cambridge with subordinate rights		
At the time of acquisition and as of December 31, 2012 the face value of the assumed note was \$485,704 and the fair value was \$244,000. 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. During 2012 and 2011, \$4,933 and \$1,644, respectively, of amortization was included in amortization expense.		
YMCA Assumed Loan - recorded at fair value	216,853	207,213
Interest rate - 5.52%		
Monthly payment - None		
Final payment - August 31, 2041		
Secured by real estate in Cambridge with subordinate rights		
At the time of acquisition and as of December 31, 2012, the face value of the assumed note was \$493,194 and the fair value was \$204,000. 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. During 2012 and 2011, \$9,640 and \$3,213, respectively, of amortization was included in amortization expense.		

Caritas Communities, Inc. and Subsidiaries

Notes to Consolidated Financial Statements - Continued

December 31, 2012

	<u>2012</u>	<u>2011</u>
Cambridge Young Members Christian Association Interest rate - 0.01% Monthly payment - None Final payment - August 31, 2051 Secured by real estate in Cambridge with subordinate rights	363,267	363,267
DHCD HSF Loan Interest rate - None Monthly payments - None Final payment - May 31, 2062 Secured by real estate in Cambridge with subordinate rights	351,312	-
DHCD AHTF Loan Interest rate - None Monthly payments - None Final payment - May 31, 2062 Secured by real estate in Cambridge with subordinate rights	1,000,000	-
Bedford Veterans Quarters, Inc.		
Massachusetts Affordable Housing Trust Fund Interest rate - None Monthly payments - None Final payment - October 19, 2056 Secured by leasehold in Bedford with subordinate rights	1,000,000	1,000,000
CEDAC - Housing Innovation Loan Interest rate - None Monthly payments - Subject to cash flow Final payment - October 19, 2036 Secured by leasehold in Bedford with subordinate rights	900,000	900,000
DHCD - HSF Loan Interest rate - None Monthly payments - None Final payment - October 19, 2056 Secured by leasehold in Bedford with subordinate rights	900,000	900,000

Caritas Communities, Inc. and Subsidiaries

Notes to Consolidated Financial Statements - Continued

December 31, 2012

	<u>2012</u>	<u>2011</u>
Brookline Bank	317,773	369,138
Interest rate - 5.78%		
Monthly payments - \$5,941		
Final payments - February 7, 2018		
Secured by leasehold in Bedford with primary rights		
 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	 271,369	 276,580
Interest rate - One month LIBOR Advantage plus 3.5% not to exceed 7%, current rate: 3.96%		
Monthly payment - \$1,442		
Final payments - December 26, 2025		
Secured by real estate in New Bedford with subordinate rights		
 RBS Citizens / FHLB Subsidy Note	 280,000	 280,000
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	 1,348,391	 1,348,391
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, 2012

	<u>2012</u>	<u>2011</u>
CEDAC Housing Innovation Fund	1,312,980	1,312,980
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	844,605	844,605
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	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	174,515	138,349
Interest rate - None		
Monthly payments - None		
Final payment - April 1, 2031		
Secured by real estate in Boston with subordinate rights		
At the time of acquisition and as of December 31, 2012, 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. During 2012 and 2011, \$36,166 and \$0, respectively, of amortization was included in amortization expense.		

Caritas Communities, Inc. and Subsidiaries

Notes to Consolidated Financial Statements - Continued

December 31, 2012

	<u>2012</u>	<u>2011</u>
City of Boston DND Home Loan Interest rate - None Maturity Payments - Subject to cash flow Final payment - November 1, 2041 Secured by real estate in Boston with subordinate rights	300,118	110,570
MassDevelopment - recorded at fair value 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, 2012, 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. During 2012 and 2011, \$64,962 and \$0, respectively, of amortization was included in amortization expense.	465,444	400,482
City of Boston - NHT Loan - recorded at fair value 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, 2012, 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. During 2012 and 2011, \$9,645 and \$0, respectively, of amortization was included in amortization expense.	147,182	137,537
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	245,000

Caritas Communities, Inc. and Subsidiaries

Notes to Consolidated Financial Statements - Continued

December 31, 2012

	<u>2012</u>	<u>2011</u>
DHCD HSF Loan	450,000	-
Interest rate - 1%		
Annual payments - Subject to cash flow		
Final payment November 17, 2062		
Secured by real estate in Boston with subordinate rights		
City of Boston DND Home Loan	62,174	-
Interest rate - 1%		
Annual payments - Subject to cash flow		
Final payment November 17, 2042		
Secured by real estate in Boston with subordinate rights		
City of Boston DND NHT Loan	62,174	-
Interest rate - None		
Monthly payments - None		
Final Payment April 18, 2027		
Secured by real estate in Boston with subordinate rights		
DHCD Home Loan	39,970	-
Interest rate - 1%		
Annual payments - Subject to cash flow		
Final Payment December 17, 2042		
Secured by real estate in Boston with subordinate rights		
CEDAC - Housing Innovation Fund II Loan	200,000	200,000
Interest rate - None		
Monthly payments - Subject to cash flow		
Final payment - June 30, 2025		
Secured by real estate in Boston with subordinate rights		
	<u>42,929,405</u>	<u>39,315,399</u>
Less: Current maturities included in current liabilities	<u>(2,499,379)</u>	<u>(281,445)</u>
	<u>\$ 40,430,026</u>	<u>39,033,954</u>

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

Caritas Communities, Inc. and Subsidiaries

Notes to Consolidated Financial Statements - Continued

December 31, 2012

Interest expense charged to the consolidated statements of activities for the years ended December 31, 2012 and 2011 was \$1,014,827 and \$704,218, respectively, of which \$321,287 and \$124,280 was deferred. During the years ended December 31, 2012 and 2011, interest capitalized totaled \$0 and \$6,082, 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, 2013	\$ 130,000	\$ 2,369,379	\$ 2,499,379
2014	140,000	798,015	938,015
2015	145,000	167,331	312,331
2016	155,000	177,149	332,149
2017	165,000	219,397	384,397
Thereafter	<u>3,695,000</u>	<u>34,768,134</u>	<u>38,463,134</u>
	<u>\$ 4,430,000</u>	<u>\$ 38,499,405</u>	<u>\$ 42,929,405</u>

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, 2013	\$ 130,000	\$ 2,382,912	\$ 2,512,912
2014	140,000	798,015	938,015
2015	145,000	167,331	312,331
2016	155,000	177,149	332,149
2017	165,000	219,397	384,397
Thereafter	<u>3,695,000</u>	<u>36,072,404</u>	<u>39,767,404</u>
	<u>\$ 4,430,000</u>	<u>\$ 39,817,208</u>	<u>\$ 44,247,208</u>

Caritas Communities, Inc. and Subsidiaries

Notes to Consolidated Financial Statements - Continued

December 31, 2012

Note 6 - Investments

Cost and market value of short-term investments at December 31, 2012 and 2011 are as follows:

	<u>Cost</u>	<u>Gross unrealized</u>	<u>Market value</u>
December 31, 2012			
Certificates of deposit	<u>\$ 1,190,135</u>	<u>\$ -</u>	<u>\$ 1,190,135</u>
December 31, 2011			
Certificates of deposit	<u>\$ 1,167,952</u>	<u>\$ -</u>	<u>\$ 1,167,952</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, 2012 and 2011.

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 \$30,948 and \$27,730 in retirement plan contribution costs for the years ended December 31, 2012 and 2011, respectively.

Note 9 - Operating Lease

In November 2009, the Organization leased office space 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, 2012 and 2011 were \$82,274 and \$78,319, respectively.

The Organization has a non-cancellable lease in Boston for a 12 unit rental property that expired February 28, 2011. Minimum monthly payments of \$606 were required.

Caritas Communities, Inc. and Subsidiaries

Notes to Consolidated Financial Statements - Continued

December 31, 2012

The Organization had the option to purchase this property at the end of the lease; however, the Organization has not elected to do so.

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

2013	\$	82,072
2014		71,367
2015		-
2016		-
2017		-
		<hr/>
	\$	<u>153,439</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 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 years ended December 31, 2012 and 2011 totaled \$79,828 and \$88,483, respectively.

Note 10 - Commitments

Caritas has guaranteed the tax credits on Dudley Inn Limited Partnership, One Lenox Limited Partnership, and 820 SRO LLC.

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.

Operating Deficit Guaranty

820 SRO MM LLC, the managing member of 820 SRO LLC, is required to make additional capital contributions to 820 SRO LLC to fund operating deficits in excess of the funds in the operating reserve. The managing member will not be required to make additional operating deficit capital contributions to pay the principal on the loan

Caritas Communities, Inc. and Subsidiaries

Notes to Consolidated Financial Statements - Continued

December 31, 2012

or interest in excess of 20% of the total interest accruing and payable under the loan. As of December 31, 2012, no advances were made.

Development Deficit Guaranty

820 SRO MM LLC guarantees to 820 SRO LLC and its investor members the completion of the rehabilitation of the project on schedule; payment of all costs of the development of the project in excess of those set forth in the financial forecasts; the compliance of the project with all placed-in-service requirements of the Code necessary to qualify for the credits including satisfaction of the fifty percent test; the satisfaction of all conditions to the closing and funding of the Series 2011 B Component of the bonds; and if as of December 31, 2022 there is any unpaid Development Fee, the managing member guarantees to 820 SRO LLC and its investor members that the managing member shall make a capital contribution sufficient to permit the Company to pay all unpaid Development Fee and accrued interest in full.

Note 11 - Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	<u>2012</u>	<u>2011</u>
Building improvements	<u>\$ 290,000</u>	<u>\$ 62,000</u>
	<u>\$ 290,000</u>	<u>\$ 62,000</u>

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

	<u>2012</u>	<u>2011</u>
Purpose restrictions accomplished		
Building improvements	<u>\$ 62,000</u>	<u>\$ 62,500</u>
	<u>\$ 62,000</u>	<u>\$ 62,500</u>

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, placed in service and improved

Caritas Communities, Inc. and Subsidiaries

Notes to Consolidated Financial Statements - Continued

December 31, 2012

in the restoration process and insurance proceeds of \$289,450 were received. During 2011, additional insurance proceeds of \$43,310 were received. On March 21, 2012, the company received the final insurance proceeds payment of \$54,585.

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;
- 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 820 SRO LLC is classified within level 3 of the fair value hierarchy. The land, building, and mortgage payable are measured at fair value as of September 7, 2011.

Caritas Communities, Inc. and Subsidiaries

Notes to Consolidated Financial Statements - Continued

December 31, 2012

The following table presents the acquisition that the Company measured at fair value during the period September 7, 2011 (date of acquisition) through December 31, 2011:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Land	\$ -	\$ -	\$ 298,805	\$ 298,805
Building	-	-	2,164,765	2,164,765
Notes payable	-	448,000	-	448,000

To comply with the accounting guidance as it relates to fair value measurements, a third party appraisal was obtained for the land and building to determine the fair value. Quoted market prices in active markets were utilized in the fair value measurement for the notes payable.

Note 14 – Sale of State Historic Tax Credits

Caritas, the non-profit sponsor of 820 SRO LLC, and Brookline Bank, an investor member of 820 SRO LLC, entered into a Tax Credit Purchase and Transfer Agreement, under which Caritas agreed to sell to Brookline Bank Massachusetts Historic Tax Credits (State Credits). The purchase price of the state credits, totaling \$946,898, has been recognized by Caritas as income and is included in other revenue on the accompanying consolidated statements of activities. These proceeds were then loaned to 820 SRO LLC, which has been eliminated in consolidation.

Note 15 - 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 May 23, 2013 (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 other than those listed below.

On January 24, 2013 the Massachusetts Housing Partnership assigned the \$635,592 Housing Stabilization Fund Loan to the Commonwealth of Massachusetts by and acting through the Department of Housing and Community Development.

Caritas Communities, Inc. and Subsidiaries

Notes to Consolidated Financial Statements - Continued

December 31, 2012

On February 20, 2013 820 SRO LLC made a payment of \$47,756 on the DHCD HOME loan.

On February 21, 2013 820 SRO LLC paid the Developer Fee in full.

On April 4, 2013 Caritas Communities, Inc. renegotiated the terms of the loan from the People's United Bank. The interest rate has been lowered to 4.25%, and monthly payments have been lowered to \$4,789.

On March 1, 2013 Caritas Communities, Inc. renegotiated the terms of the loan from the Bank of Canton. The interest rate has been lowered to 3.25%, and monthly payments have been lowered to \$3,225.

On January 17, 2013 820 SRO LLC repaid the Boston Private Bank & Trust Company construction loan in full.

Supplementary Information

Caritas Communities, Inc. and Subsidiaries

Supplementary Information

Consolidating Schedule of Financial Position

December 31, 2012

	2012						Totals	Eliminating entries	Consolidation total	2011
	Caritas Communities Inc.	Dudley Inn, LP	One Lenox, LP	820 SRO LLC	Bedford Veterans Quarters, Inc.	Sean Brook House Inc.				Consolidation total
Assets:										
Current assets:										
Cash and cash equivalents	\$ 1,121,954	\$ 83,222	\$ 47,165	\$ 210,474	\$ 291,516	\$ 93,078	\$ 1,847,409	\$ -	\$ 1,847,409	\$ 1,533,861
Short-term investments	1,065,083	-	-	-	125,052	-	1,190,135	-	1,190,135	1,167,952
Cash - tenant security deposits	205,324	25,330	17,349	3,294	5,187	6,727	263,211	-	263,211	265,629
Account receivables, net of allowance for bad debts	190,862	16,960	11,266	4,935	29,467	7,498	260,988	-	260,988	229,907
Account receivables - other	112,526	-	-	-	1,225	-	113,751	(8)	113,743	693,012
Prepaid expenses and escrows	265,442	21,072	9,211	99,706	10,392	7,512	413,335	-	413,335	406,194
Total current assets	2,961,191	146,584	84,991	318,409	462,839	114,815	4,088,829	(8)	4,088,821	4,296,555
Property and equipment, net	23,246,860	2,642,347	3,307,131	8,332,846	2,703,620	4,411,623	44,644,427	(2,189,358)	42,455,069	40,035,756
Other assets										
Note receivables	991,233	-	-	-	-	-	991,233	(991,233)	-	-
Reserve for replacements	1,325,257	91,218	91,212	52,356	83,048	7,052	1,650,143	-	1,650,143	1,488,549
Operating, debt service and other reserves	194,530	345,973	100,702	2,213,050	-	20,086	2,874,341	-	2,874,341	642,206
Unamortized finance costs	119,128	8,954	38,252	157,720	2,415	-	326,469	-	326,469	379,784
Due from affiliates	548,850	-	521	-	-	127,801	677,172	(677,172)	-	-
Development costs	128,930	-	-	-	-	-	128,930	-	128,930	147,605
Total other assets	3,307,928	446,145	230,687	2,423,126	85,463	154,939	6,648,288	(1,668,405)	4,979,883	2,658,144
	\$ 29,515,979	\$ 3,235,076	\$ 3,622,809	\$ 11,074,381	\$ 3,251,922	\$ 4,681,377	\$ 55,381,544	\$ (3,857,771)	\$ 51,523,773	\$ 46,990,455

Caritas Communities, Inc. and Subsidiaries

Supplementary Information - Continued

Consolidating Schedule of Financial Position - Continued

December 31, 2012

	2012								2011	
	Caritas Communities Inc.	Dudley Inn, LP	One Lenox, LP	820 SRO LLC	Bedford Veterans Quarters, Inc.	Sean Brook House Inc.	Totals	Eliminating Entries	Consolidation total	Consolidation total
Liabilities:										
Current liabilities										
Current maturities of long-term debt	\$ 677,204	\$ 15,491	\$ -	\$ 1,744,875	\$ 54,394	\$ 7,415	\$ 2,499,379	\$ -	\$ 2,499,379	\$ 281,445
Accounts payable and accrued expenses	182,658	27,944	16,334	62,162	45,551	4,039	338,688	(89)	338,599	413,529
Accounts payable - construction expenses	207,222	-	-	648,000	-	-	855,222	(518,400)	336,822	1,285,197
Accrued interest payable - first mortgage	18,324	1,415	-	4,072	-	-	23,811	-	23,811	24,116
Accrued interest payable - other mortgages	-	-	-	5,264	-	-	5,264	-	5,264	-
Tenant security deposits	191,453	24,264	14,913	1,985	4,769	6,708	244,092	-	244,092	248,786
Prepaid rent	29,584	3,248	1,143	823	1,013	1,477	37,288	-	37,288	68,489
Total current liabilities	<u>1,306,445</u>	<u>72,362</u>	<u>32,390</u>	<u>2,467,181</u>	<u>105,727</u>	<u>19,639</u>	<u>4,003,744</u>	<u>(518,489)</u>	<u>3,485,255</u>	<u>2,321,562</u>
Long-term debt:										
Mortgages payable, less current maturities	20,001,814	1,893,092	1,899,371	5,693,673	3,083,379	4,549,930	37,121,259	(991,233)	36,130,026	34,603,954
Bond payable, less current maturities	4,300,000	-	-	-	-	-	4,300,000	-	4,300,000	4,430,000
Total long-term debt	<u>24,301,814</u>	<u>1,893,092</u>	<u>1,899,371</u>	<u>5,693,673</u>	<u>3,083,379</u>	<u>4,549,930</u>	<u>41,421,259</u>	<u>(991,233)</u>	<u>40,430,026</u>	<u>39,033,954</u>
Other liabilities:										
Deferred interest	1,384,441	574,759	341,852	71,215	-	30,000	2,402,267	(8)	2,402,259	2,080,972
Deferred revenue	-	-	-	-	-	-	-	-	-	1,971
Due to affiliates	128,322	-	-	30,450	-	-	158,772	(158,772)	-	-
Total other liabilities	<u>1,512,763</u>	<u>574,759</u>	<u>341,852</u>	<u>101,665</u>	<u>-</u>	<u>30,000</u>	<u>2,561,039</u>	<u>(158,780)</u>	<u>2,402,259</u>	<u>2,082,943</u>
Total liabilities	<u>27,121,022</u>	<u>2,540,213</u>	<u>2,273,613</u>	<u>8,262,519</u>	<u>3,189,106</u>	<u>4,599,569</u>	<u>47,986,042</u>	<u>(1,668,502)</u>	<u>46,317,540</u>	<u>43,438,459</u>
Net assets:										
Unrestricted undesignated controlling	2,104,957	(269)	(147)	30	62,816	81,808	2,249,195	(2,398,526)	(149,331)	101,652
Unrestricted undesignated noncontrolling	-	695,132	1,349,343	2,811,832	-	-	4,856,307	209,257	5,065,564	3,388,344
Total unrestricted net assets	<u>2,104,957</u>	<u>694,863</u>	<u>1,349,196</u>	<u>2,811,862</u>	<u>62,816</u>	<u>81,808</u>	<u>7,105,502</u>	<u>(2,189,269)</u>	<u>4,916,233</u>	<u>3,489,996</u>
Temporarily restricted net assets	<u>290,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>290,000</u>	<u>-</u>	<u>290,000</u>	<u>62,000</u>
Total net assets	<u>2,394,957</u>	<u>694,863</u>	<u>1,349,196</u>	<u>2,811,862</u>	<u>62,816</u>	<u>81,808</u>	<u>7,395,502</u>	<u>(2,189,269)</u>	<u>5,206,233</u>	<u>3,551,996</u>
	<u>\$ 29,515,979</u>	<u>\$ 3,235,076</u>	<u>\$ 3,622,809</u>	<u>\$ 11,074,381</u>	<u>\$ 3,251,922</u>	<u>\$ 4,681,377</u>	<u>\$ 55,381,544</u>	<u>\$ (3,857,771)</u>	<u>\$ 51,523,773</u>	<u>\$ 46,990,455</u>

Caritas Communities, Inc. and Subsidiaries

Supplementary Information - Continued

Consolidating Schedule of Activities

Year ended December 31, 2012

	2012						Totals	Eliminating Entries	Consolidation Total	2011 Consolidation Total
	Caritas Communities Inc.	Dudley Inn, LP	One Lenox, LP	820 SRO LLC	Bedford Veterans Quarters, Inc.	Sean Brook House Inc				
Support and revenue:										
Net rents	\$ 4,010,309	\$ 417,105	\$ 185,848	\$ 1,040,930	\$ 453,223	\$ 159,729	\$ 6,267,144	\$ -	\$ 6,267,144	\$ 5,411,652
Annual dinner	451,295	-	-	-	-	-	451,295	-	451,295	278,775
Contributions	1,240	-	-	-	-	-	1,240	-	1,240	4,690
Foundation grants	402,690	-	-	-	76,189	23,500	502,379	-	502,379	327,632
Management and other fees	330,314	-	-	-	-	-	330,314	(330,314)	-	-
Investment income	27,896	3,708	4,174	218	3,380	54	39,430	-	39,430	25,944
Development fees	671,548	-	-	-	-	-	671,548	(671,548)	-	-
Other income (loss)	258,742	50	-	13,615	5,599	-	278,006	(258,407)	19,599	26,327
Total support and revenues	6,154,034	420,863	190,022	1,054,763	538,391	183,283	8,541,356	(1,260,269)	7,281,087	6,075,020
Expenses:										
Compensation	1,752,085	116,838	22,597	188,860	50,000	20,720	2,151,100	(274,123)	1,876,977	1,668,081
Payroll taxes	147,760	-	-	886	-	-	148,646	-	148,646	138,523
Employee benefits	259,804	-	-	3,816	-	-	263,620	-	263,620	207,484
Management fee expense	-	39,362	16,726	60,036	50,419	14,413	180,956	(175,439)	5,517	25,457
Insurance	156,933	11,716	9,213	37,880	10,266	7,585	233,593	-	233,593	169,300
Automobile	42,782	-	-	-	-	-	42,782	-	42,782	45,750
Rent	90,791	-	-	-	79,828	-	170,619	-	170,619	168,321
Office and telephone	110,813	3,496	5,747	29,124	76,805	3,631	229,616	(66,200)	163,416	132,583
Legal	162,840	14,993	2,350	25,585	3,530	4,996	214,294	-	214,294	177,448
Accounting	32,201	15,575	13,300	19,785	2,300	4,120	87,281	-	87,281	151,398
Meetings	4,006	-	-	-	-	-	4,006	-	4,006	5,023
Dinner costs	180,773	-	-	-	-	-	180,773	-	180,773	102,819
Other costs	247,878	13,498	3,361	24,066	38,222	40,904	367,929	(74,598)	293,331	249,659
Social services	28,450	3,250	1,243	-	87,000	24,308	144,251	-	144,251	157,972
Undeveloped properties	82,630	-	-	-	-	-	82,630	-	82,630	-
Utilities	633,286	68,802	29,463	109,142	-	14,132	854,825	-	854,825	812,838
Real estate tax	246,969	27,670	19,530	34,650	-	-	328,819	-	328,819	239,747
Depreciation and amortization	966,839	151,661	168,372	229,889	151,116	157,244	1,825,121	(82,712)	1,742,409	1,409,688
Repairs and maintenance	487,804	53,433	33,030	244,173	118,368	11,953	948,761	-	948,761	787,844
Interest	606,457	79,641	71,348	212,021	19,924	25,444	1,014,835	(8)	1,014,827	704,218
Total expenses	6,241,101	599,935	396,280	1,219,913	687,778	329,450	9,474,457	(673,080)	8,801,377	7,354,153
Excess of revenue over expenses (expenses over revenue) before other revenue (expense)	(87,067)	(179,072)	(206,258)	(165,150)	(149,387)	(146,167)	(933,101)	(587,189)	(1,520,290)	(1,279,133)

Caritas Communities, Inc. and Subsidiaries
Supplementary Information - Continued
Consolidating Schedule of Activities - Continued
Year ended December 31, 2012

	2012								2011	
	Caritas Communities Inc.	Dudley Inn, LP	One Lenox, LP	820 SRO LLC	Bedford Veterans Quarters, Inc.	Sean Brook House Inc	Totals	Eliminating Entries	Consolidation Total	Consolidation Total
Other revenue (expense):										
Sale of state historic tax credits	946,898	-	-	-	-	-	946,898	-	946,898	-
Gain on acquisition	-	-	-	-	-	-	-	-	-	530,898
Total other revenue (expense)	<u>946,898</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>946,898</u>	<u>-</u>	<u>946,898</u>	<u>530,898</u>
Excess of (expenses over revenue) revenue over expenses	<u>859,831</u>	<u>(179,072)</u>	<u>(206,258)</u>	<u>(165,150)</u>	<u>(149,387)</u>	<u>(146,167)</u>	<u>13,797</u>	<u>(587,189)</u>	<u>(573,392)</u>	<u>(748,235)</u>
Excess of (expenses over revenue) revenue over expenses attributable to noncontrolling interests	<u>-</u>	<u>(179,036)</u>	<u>(206,239)</u>	<u>(165,134)</u>	<u>-</u>	<u>-</u>	<u>(550,409)</u>	<u>-</u>	<u>(550,409)</u>	<u>21,465</u>
Excess of (expenses over revenue) revenue over expenses attributable to the organization	<u>\$ 859,831</u>	<u>\$ (36)</u>	<u>\$ (19)</u>	<u>\$ (16)</u>	<u>\$ (149,387)</u>	<u>\$ (146,167)</u>	<u>\$ 564,206</u>	<u>\$ (587,189)</u>	<u>\$ (22,983)</u>	<u>\$ (769,700)</u>

Caritas Communities, Inc. and Subsidiaries
Supplementary Information - Continued
Consolidating Schedule of Changes in Net Assets
Year ended December 31, 2012

	Unrestricted Net Assets Controlling							Unrestricted Net Assets Noncontrolling	Total	Temporarily restricted net assets Controlling	Net assets Total	
	Caritas Communities Inc.	Dudley Inn, LP	One Lenox, LP	820 SRO LLC	Bedford Veterans Quarters, Inc.	Sean Brook House Inc.	Eliminating Entries					Subtotal
Beginning balance, January 1, 2011	\$ 2,050,498	\$ (197)	\$ (105)	\$ -	\$ 253,304	\$ 326,739	\$ (1,759,387)	\$ 870,852	\$ 3,077,926	\$ 3,948,778	\$ 62,500	\$ 4,011,278
Capital contributions from noncontrolling interest	-	-	-	-	-	-	-	-	288,953	288,953	-	288,953
Release of restricted net assets	(7,000)	-	-	-	-	7,500	-	500	-	500	(500)	-
Excess of revenue over expenses attributable to noncontrolling interests	-	-	-	-	-	-	-	-	21,465	21,465	-	21,465
Excess of expenses over revenues attributable to the Organization	<u>(570,372)</u>	<u>(36)</u>	<u>(23)</u>	<u>46</u>	<u>(41,101)</u>	<u>(106,264)</u>	<u>(51,950)</u>	<u>(769,700)</u>	<u>-</u>	<u>(769,700)</u>	<u>-</u>	<u>(769,700)</u>
Ending balance, December 31, 2011	<u>\$ 1,473,126</u>	<u>\$ (233)</u>	<u>\$ (128)</u>	<u>\$ 46</u>	<u>\$ 212,203</u>	<u>\$ 227,975</u>	<u>\$ (1,811,337)</u>	<u>\$ 101,652</u>	<u>\$ 3,388,344</u>	<u>\$ 3,489,996</u>	<u>\$ 62,000</u>	<u>\$ 3,551,996</u>
Beginning balance, January 1, 2012	\$ 1,473,126	\$ (233)	\$ (128)	\$ 46	\$ 212,203	\$ 227,975	\$ (1,811,337)	\$ 101,652	\$ 3,388,344	\$ 3,489,996	\$ 62,000	\$ 3,551,996
Capital contributions from noncontrolling interest	-	-	-	-	-	-	-	-	2,311,626	2,311,626	-	2,311,626
Syndication costs from noncontrolling interest	-	-	-	-	-	-	-	-	(83,997)	(83,997)	-	(83,997)
Excess of expenses over revenues attributable to noncontrolling interests	-	-	-	-	-	-	-	-	(550,409)	(550,409)	-	(550,409)
Excess of expenses over revenues attributable to the Organization	<u>631,831</u>	<u>(36)</u>	<u>(19)</u>	<u>(16)</u>	<u>(149,387)</u>	<u>(146,167)</u>	<u>(587,189)</u>	<u>(250,983)</u>	<u>-</u>	<u>(250,983)</u>	<u>228,000</u>	<u>(22,983)</u>
Ending balance, December 31, 2012	<u>\$ 2,104,957</u>	<u>\$ (269)</u>	<u>\$ (147)</u>	<u>\$ 30</u>	<u>\$ 62,816</u>	<u>\$ 81,808</u>	<u>\$ (2,398,526)</u>	<u>\$ (149,331)</u>	<u>\$ 5,065,564</u>	<u>\$ 4,916,233</u>	<u>\$ 290,000</u>	<u>\$ 5,206,233</u>