HEARTH, INC. AND AFFILIATES

CONSOLIDATING FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

HEARTH, INC. AND AFFILIATES

Contents
December 31, 2017 and 2016

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Independent Auditor's Report

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

Report on the Consolidating Financial Statements

We have audited the accompanying consolidating financial statements of Hearth, Inc. (a Massachusetts corporation, not for profit) and Affiliates (collectively, the Agency), which comprise the consolidating statements of financial position as of December 31, 2017 and 2016, and the related consolidating statements of activities, changes in entities' equity, cash flows and functional expenses for the years then ended, and the related notes to the consolidating financial statements.

Management's Responsibility for the Consolidating Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidating financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidating financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidating financial statements referred to above present fairly, in all material respects, the consolidating financial position of Hearth, Inc. and Affiliates as of December 31, 2017 and 2016, and the changes in their entities' equity and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidating financial statements as a whole. The accompanying supplementary information shown on pages 32 through 35 is presented for purposes of additional analysis and is not a required part of the consolidating financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidating financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidating financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidating financial statements or to the consolidating financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidating financial statements as a whole.

Alexander, Aronson, Finning & Co., P.C.

Westborough, Massachusetts
April 25, 2018

HEARTH, INC. AND AFFILIATES

Consolidating Statement of Financial Position
December 31, 2017
(With Summarized Comparative as of December 31, 2016)

	2017					2016
	Hearth, Inc.					
Assets	**Operating**	**Real Estate Development**	**Rental Properties (Exhibit A)**	**Eliminations**	**Total**	**Total**
Current Assets:						
Cash and cash equivalents	$ 927,667	$ -	$ 586,229	$ -	$ 1,513,896	$ 2,025,711
Funds held in trust	70,307	-	45,573	-	115,880	117,326
Accounts and pledges receivable, net	538,425	-	30,289	-	568,714	670,251
Prepaid expenses and deposits	50,203	-	84,363	-	134,566	170,659
Current portion of due (to) from affiliates, net	31,641	-	(31,641)	-	-	-
Current portion of reserves and deposits	-	-	88,637	-	88,637	346,705
Total current assets	1,618,243	-	803,450	-	2,421,693	3,330,652
Property and Equipment:						
Land	-	-	1,727,406	-	1,727,406	1,727,406
Buildings and improvements	190,756	-	28,578,476	(2,761,795)	26,007,437	25,825,628
Furniture and equipment	687,513	-	909,310	-	1,596,823	1,444,674
Project under development	-	306,160	-	-	306,160	264,914
	878,269	306,160	31,215,192	(2,761,795)	29,637,826	29,262,622
Less - accumulated depreciation	754,574	-	9,755,166	(871,937)	9,637,803	8,858,386
Net property and equipment	123,695	306,160	21,460,026	(1,889,858)	20,000,023	20,404,236
Other Assets:						
Reserves and deposits, net of current portion	-	-	2,361,635	-	2,361,635	3,530,258
Investments	4,191,837	-	-	-	4,191,837	2,037,500
Due (to) from affiliates, net of current portion	6,269	(304)	(1,735,656)	1,729,691	-	-
Investments in affiliates	-	51,942	-	(51,942)	-	-
Capitalized costs, net	-	-	20,280	-	20,280	24,960
Total other assets	4,198,106	51,638	646,259	1,677,749	6,573,752	5,592,718
Total assets	$ 5,940,044	$ 357,798	$ 22,909,735	$ (212,109)	$ 28,995,468	$ 29,327,606
Liabilities and Entities' Equity (Deficit)						
Current Liabilities:						
Current portion of long-term debt	$ -	$ -	$ 132,410	$ -	$ 132,410	$ 121,145
Current portion of contingent debt	-	-	210,134	-	210,134	111,844
Accrued interest	-	-	12,563	-	12,563	-
Accounts payable and accrued expenses	472,387	65,380	176,630	-	714,397	644,701
Funds held in trust	70,307	-	45,573	-	115,880	117,326
Total current liabilities	542,694	65,380	577,310	-	1,185,384	995,016
Other Liabilities:						
Long-term debt and unamortized debt issuance costs, net of current portion	-	-	5,098,793	-	5,098,793	5,215,993
Contingent debt and unamortized debt issuance costs, net of current portion	-	-	12,263,609	-	12,263,609	12,198,149
Notes payable and deferred interest - affiliates	-	-	2,135,150	(2,135,150)	-	-
Developer and overhead fees payable and deferred interest	-	-	490,599	(490,599)	-	-
Total other liabilities	-	-	19,988,151	(2,625,749)	17,362,402	17,414,142
Total liabilities	542,694	65,380	20,565,461	(2,625,749)	18,547,786	18,409,158
Entities' Equity (Deficit):						
Unrestricted:						
Operating	3,140,407	(380)	(437,968)	727,379	3,429,438	4,645,528
Board designated	2,107,351	-	-	-	2,107,351	2,107,351
Property and equipment	123,695	-	2,782,242	(3,633,915)	(727,978)	(138,400)
Real estate development	-	257,421	-	(16,261)	241,160	212,414
Total unrestricted	5,371,453	257,041	2,344,274	(2,922,797)	5,049,971	6,826,893
Temporarily restricted	25,897	35,377	-	-	61,274	250,339
Total Hearth entities' equity (deficit)	5,397,350	292,418	2,344,274	(2,922,797)	5,111,245	7,077,232
Non-controlling interest	-	-	-	5,336,437	5,336,437	3,841,216
Total entities' equity (deficit)	5,397,350	292,418	2,344,274	2,413,640	10,447,682	10,918,448
Total liabilities and entities' equity (deficit)	$ 5,940,044	$ 357,798	$ 22,909,735	$ (212,109)	$ 28,995,468	$ 29,327,606

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

HEARTH, INC. AND AFFILIATES

Consolidating Statement of Financial Position
December 31, 2016

	Hearth, Inc.				
Assets	**Operating**	**Real Estate Development**	**Rental Properties (Exhibit B)**	**Eliminations**	**Total**
Current Assets:					
Cash and cash equivalents	$ 578,889	$ -	$ 1,446,822	$ -	$ 2,025,711
Funds held in trust	73,718	-	43,608	-	117,326
Current portion of accounts and pledges receivable, net	651,218	-	19,033	-	670,251
Prepaid expenses and deposits	89,435	-	81,224	-	170,659
Current portion of due (to) from affiliates, net	26,821	-	(26,821)	-	-
Current portion of reserves and deposits	-	-	346,705	-	346,705
Total current assets	1,420,081	-	1,910,571	-	3,330,652
Property and Equipment:					
Land	-	-	1,727,406	-	1,727,406
Buildings and improvements	190,756	-	28,396,667	(2,761,795)	25,825,628
Furniture and equipment	658,057	-	786,617	-	1,444,674
Project under development	-	264,914	-		264,914
	848,813	264,914	30,910,690	(2,761,795)	29,262,622
Less - accumulated depreciation	728,371	-	8,925,617	(795,602)	8,858,386
Net property and equipment	120,442	264,914	21,985,073	(1,966,193)	20,404,236
Other Assets:					
Accounts and pledges receivable, net of current portion	-	-	-	-	-
Reserves and deposits, net of current portion	1,688,720	-	1,841,538	-	3,530,258
Investments	2,037,500	-	-	-	2,037,500
Due (to) from affiliates, net of current portion	298,383	46,555	(1,108,963)	764,025	-
Investments in affiliates	-	291,942	-	(291,942)	-
Capitalized costs, net	-	-	24,960	-	24,960
Total other assets	4,024,603	338,497	757,535	472,083	5,592,718
Total assets	$ 5,565,126	$ 603,411	$ 24,653,179	$ (1,494,110)	$ 29,327,606
Liabilities and Entities' Equity (Deficit)					
Current Liabilities:					
Current portion of long-term debt	$ -	$ -	$ 121,145	$ -	$ 121,145
Current portion of contingent debt	-	-	111,844	-	111,844
Accounts payable and accrued expenses	444,717	57,347	142,637	-	644,701
Funds held in trust	73,718	-	43,608	-	117,326
Total current liabilities	518,435	57,347	419,234	-	995,016
Other Liabilities:					
Long-term debt, net of current portion	-	-	5,215,993	-	5,215,993
Contingent debt and unamortized debt issuance costs, net of current portion	-	-	12,198,149	-	12,198,149
Notes payable and deferred interest - affiliates	-	-	2,135,150	(2,135,150)	-
Developer and overhead fees payable and deferred interest	-	-	462,829	(462,829)	-
Total other liabilities	-	-	20,012,121	(2,597,979)	17,414,142
Total liabilities	518,435	57,347	20,431,355	(2,597,979)	18,409,158
Entities' Equity (Deficit):					
Unrestricted:					
Operating	2,603,936	(4,847)	1,046,645	999,794	4,645,528
Board designated	2,107,351	-	-	-	2,107,351
Property and equipment	120,442	-	3,175,179	(3,434,021)	(138,400)
Real estate development	-	515,534	-	(303,120)	212,414
Total unrestricted	4,831,729	510,687	4,221,824	(2,737,347)	6,826,893
Temporarily restricted	214,962	35,377	-	-	250,339
Total Hearth entities' equity (deficit)	5,046,691	546,064	4,221,824	(2,737,347)	7,077,232
Non-controlling interest	-	-	-	3,841,216	3,841,216
Total entities' equity (deficit)	5,046,691	546,064	4,221,824	1,103,869	10,918,448
Total liabilities and entities' equity (deficit)	$ 5,565,126	$ 603,411	$ 24,653,179	$ (1,494,110)	$ 29,327,606

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

HEARTH, INC. AND AFFILIATES

Consolidating Statement of Activities
For the Year Ended December 31, 2017
(With Summarized Comparative Totals for the Year Ended December 31, 2016)

	2017					2016
	Hearth, Inc.					
	Operating	Real Estate Development	Rental Properties (Exhibit C)	Eliminations	Total	Total
Changes in Unrestricted Net Assets:						
Operating revenues:						
Fee income and other revenue:						
Rental fees, net	$ -	$ -	$ 2,898,981	$ (45,000)	$ 2,853,981	$ 2,371,182
Program revenues	1,425,537	-	-	-	1,425,537	1,538,414
Government and other contracts	1,330,675	-	-	-	1,330,675	1,045,002
Investment income	-	-	14,082	-	14,082	15,428
Other	37,879	-	-	(31,229)	6,650	20,331
Management and service fees	168,380	-	-	(168,380)	-	32,929
Incentive management and tax credit compliance fees	46,174	-	-	(46,174)	-	-
Total fee income and other revenue	3,008,645	-	2,913,063	(290,783)	5,630,925	5,023,286
Support:						
Private grants, contributions and special events	519,958	-	-	-	519,958	528,632
Net assets released from time restrictions	158,334	-	-	-	158,334	133,333
Donated goods and services	29,760	-	-	-	29,760	6,000
Net assets released from purpose restrictions	9,377	-	-	-	9,377	85,827
Total support	717,429	-	-	-	717,429	753,792
Total operating revenues	3,726,074	-	2,913,063	(290,783)	6,348,354	5,777,078
Operating expenses:						
Outreach	597,019	-	-	-	597,019	549,598
Housing and supportive services	2,229,451	12,223	2,551,155	(263,783)	4,529,046	4,031,011
Property management	-	-	-	-	-	3,833
General and administration	585,730	2,265	-	(20,250)	567,745	525,389
Institutional advancement	359,072	-	-	(6,750)	352,322	301,409
Total operating expenses before depreciation and amortization	3,771,272	14,488	2,551,155	(290,783)	6,046,132	5,411,240
Depreciation and amortization	26,203	-	834,229	(76,335)	784,097	687,922
Total operating expenses	3,797,475	14,488	3,385,384	(367,118)	6,830,229	6,099,162
Changes in unrestricted net assets from operations	(71,401)	(14,488)	(472,321)	76,335	(481,875)	(322,084)
Other revenues (expenses):						
Fees and project reimbursements	1,215,155	-	-	(1,215,155)	-	-
Investment income, net	322,065	-	-	-	322,065	40,776
Net assets released from capital restrictions	42,354	-	-	-	42,354	77,905
Forgiveness of debt	-	-	-	-	-	53,912
Reserve on related party advances	(965,666)	(240,000)	-	1,205,666	-	-
Purchase of common stock of NCS Ruggles, Inc.	-	-	-	-	-	(80,000)
General partner operating expenses	-	(1,941)	-	-	(1,941)	(2,597)
Deferred interest on contingent debt	-	-	(190,074)	27,770	(162,304)	(68,612)
Total other revenues (expenses)	613,908	(241,941)	(190,074)	18,281	200,174	21,384
Changes in unrestricted net assets	542,507	(256,429)	(662,395)	94,616	(281,701)	(300,700)
Changes in Temporarily Restricted Net Assets:						
Grants	21,000	-	-	-	21,000	50,956
Net assets released from restrictions	(210,065)	-	-	-	(210,065)	(297,065)
Changes in temporarily restricted net assets	(189,065)	-	-	-	(189,065)	(246,109)
Changes in net assets	353,442	(256,429)	(662,395)	94,616	(470,766)	(546,809)
Changes in Net Assets Attributable to Non-Controlling Interest	-	-	531,018	-	531,018	403,867
Changes in net assets attributable to Hearth	$ 353,442	$ (256,429)	$ (131,377)	$ 94,616	$ 60,252	$ (142,942)

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

HEARTH, INC. AND AFFILIATES

Consolidating Statement of Activities
For the Year Ended December 31, 2016

	Hearth, Inc.					
	Operating	Real Estate Development	Property Management	Rental Properties (Exhibit D)	Eliminations	Total
Changes in Unrestricted Net Assets:						
Operating revenues:						
Fee income and other revenue:						
Rental fees, net	$ -	$ -	$ -	$ 2,407,396	$ (36,214)	$ 2,371,182
Program revenues	1,538,414	-	-	-	-	1,538,414
Government and other contracts	1,045,002	-	-	-	-	1,045,002
Investment income	-	-	-	15,428	-	15,428
Other	31,963	-	-	-	(11,632)	20,331
Management and service fees	49,148	-	114,957	-	(131,176)	32,929
Incentive management and tax credit compliance fees	43,388	-	-	-	(43,388)	-
Total fee income and other revenue	2,707,915	-	114,957	2,422,824	(222,410)	5,023,286
Support:						
Private grants, contributions and special events, net	528,632	-	-	-	-	528,632
Net assets released from time restrictions	133,333	-	-	-	-	133,333
Donated goods and services	6,000	-	-	-	-	6,000
Net assets released from purpose restrictions	85,827	-	-	-	-	85,827
Total support	753,792	-	-	-	-	753,792
Total operating revenues	3,461,707	-	114,957	2,422,824	(222,410)	5,777,078
Operating expenses:						
Outreach	549,598	-	-	-	-	549,598
Housing and supportive services	2,146,037	42,309	-	2,042,203	(199,538)	4,031,011
Property management	-	-	3,833	-	-	3,833
General and administration	534,106	7,736	701	-	(17,154)	525,389
Institutional advancement	307,127	-	-	-	(5,718)	301,409
Total operating expenses before depreciation and amortization	3,536,868	50,045	4,534	2,042,203	(222,410)	5,411,240
Depreciation and amortization	31,967	-	-	751,152	(95,197)	687,922
Total operating expenses	3,568,835	50,045	4,534	2,793,355	(317,607)	6,099,162
Changes in unrestricted net assets from operations	(107,128)	(50,045)	110,423	(370,531)	95,197	(322,084)
Other revenues (expenses):						
Investment income, net	40,776	-	-	-	-	40,776
Net assets released from capital restrictions	77,905	-	-	-	-	77,905
Forgiveness of debt	557,439	-	-	123,831	(627,358)	53,912
Reserve on related party advances	(503,950)	-	(627,936)	-	1,131,886	-
Purchase of common stock of NCS Ruggles, Inc.	(80,000)	-	-	-	-	(80,000)
General partner operating expenses	-	(2,597)	-	-	-	(2,597)
Deferred interest on contingent debt	-	-	-	(273,705)	205,093	(68,612)
Recovery of notes payable and deferred interest - related party	2,921,042	-	-	-	(2,921,042)	-
Total other revenues (expenses)	3,013,212	(2,597)	(627,936)	(149,874)	(2,211,421)	21,384
Changes in unrestricted net assets	2,906,084	(52,642)	(517,513)	(520,405)	(2,116,224)	(300,700)
Changes in Temporarily Restricted Net Assets:						
Grants	50,956	-	-	-	-	50,956
Net assets released from restrictions	(297,065)	-	-	-	-	(297,065)
Changes in temporarily restricted net assets	(246,109)	-	-	-	-	(246,109)
Changes in net assets	2,659,975	(52,642)	(517,513)	(520,405)	(2,116,224)	(546,809)
Changes in Net Assets Attributable to Non-Controlling Interest	-	-	-	403,867	-	403,867
Changes in net assets attributable to Hearth	$ 2,659,975	$ (52,642)	$ (517,513)	$ (116,538)	$ (2,116,224)	$ (142,942)

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

Consolidating Statements of Changes in Entities' Equity
For the Years Ended December 31, 2017 and 2016

	Hearth, Inc.							
	Operating	Real Estate Development	Property Management	Rental Properties	Eliminations	Total	Non-Controlling Interest	Total
Entities' Equity, December 31, 2015	$ 2,395,609	$ 590,514	$ 516,812	$ 6,395,225	$ (3,673,750)	$ 6,224,410	$ 5,892,665	$ 12,117,075
Changes in net assets	2,659,975	(52,642)	(517,513)	(520,405)	(1,712,357)	(142,942)	(403,867)	(546,809)
Transfers	(8,893)	8,192	701	-	-	-	-	-
Consolidation of Ruggles	-	-	-	(1,652,996)	2,648,760	995,764	(1,647,582)	(651,818)
Entities' Equity, December 31, 2016	5,046,691	546,064	-	4,221,824	(2,737,347)	7,077,232	3,841,216	10,918,448
Capital Distribution	-	-	-	(1,215,155)	1,215,155	-	-	-
Changes in net assets	353,442	(256,429)	-	(662,395)	625,634	60,252	(531,018)	(470,766)
Transfers	(2,783)	2,783	-	-	(2,026,239)	(2,026,239)	2,026,239	-
Entities' Equity, December 31, 2017	$ 5,397,350	$ 292,418	$ -	$ 2,344,274	$ (2,922,797)	$ 5,111,245	$ 5,336,437	$ 10,447,682

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

HEARTH, INC. AND AFFILIATES

Consolidating Statement of Cash Flows
For the Year Ended December 31, 2017

	Hearth	Rental Properties	Eliminations	Total
Cash Flows from Operating Activities:				
Changes in net assets	$ 97,013	$ (662,395)	$ 94,616	$ (470,766)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:				
Depreciation and amortization	26,203	834,229	(76,335)	784,097
Deferred interest on contingent debt	-	190,074	(27,770)	162,304
Interest - amortization of debt issuance costs	-	16,359	-	16,359
Investment income, net	(322,065)	-	-	(322,065)
Reserve on related party advances and bad debt	1,212,801	5,961	(1,205,666)	13,096
Changes in operating assets and liabilities:				
Accounts and pledges receivable	105,658	(17,217)	-	88,441
Prepaid expenses and deposits	39,232	(3,139)	-	36,093
Due from affiliates, net	(631,513)	631,513	-	-
Reserves and deposits	-	252,311	-	252,311
Accrued interest	-	12,563	-	12,563
Accounts payable and accrued expenses	23,203	33,993	-	57,196
Net cash provided by (used in) operating activities	550,532	1,294,252	(1,215,155)	629,629
Cash Flows from Investing Activities:				
Withdrawals from (deposits to) and interest earned on reserves and deposits	1,688,720	(514,340)	-	1,174,380
Acquisition of property and equipment	(58,202)	(304,502)	-	(362,704)
Proceeds from sales of investments	418,477	-	-	418,477
Purchases of investments	(2,250,749)	-	-	(2,250,749)
Net cash used in investing activities	(201,754)	(818,842)	-	(1,020,596)
Cash Flows from Financing Activities:				
Principal payments of long-term debt	-	(120,848)	-	(120,848)
Capital Distribution	-	(1,215,155)	1,215,155	-
Net cash provided by (used in) financing activities	-	(1,336,003)	1,215,155	(120,848)
Net Change in Cash and Cash Equivalents	348,778	(860,593)	-	(511,815)
Cash and Cash Equivalents:				
Beginning of year	578,889	1,446,822	-	2,025,711
End of year	$ 927,667	$ 586,229	$ -	$ 1,513,896
Supplemental Disclosure of Non-Cash Transactions:				
Cash paid for interest	$ -	$ 190,580	$ -	$ 190,580
Project under development included in accounts payable and accrued expenses	$ 65,000	$ -	$ -	$ 65,000

HEARTH, INC. AND AFFILIATES

Consolidating Statement of Cash Flows
For the Year Ended December 31, 2016

	Hearth	Rental Properties	Eliminations	Total
Cash Flows from Operating Activities:				
Changes in net assets	$ 2,089,820	$ (520,405)	$ (2,116,224)	$ (546,809)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:				
Depreciation and amortization	31,967	751,152	(95,197)	687,922
Deferred interest on contingent debt	-	273,705	(205,093)	68,612
Interest - amortization of debt issuance costs	-	4,819	-	4,819
Forgiveness of debt	(557,439)	(123,831)	627,358	(53,912)
Investment income, net	(40,776)	-	-	(40,776)
Reserve on related party advances and bad debt	1,145,121	379	(1,131,886)	13,614
Changes in operating assets and liabilities:				
Accounts and pledges receivable	(69,916)	(3,938)	-	(73,854)
Prepaid expenses and deposits	(32,144)	(13,827)	-	(45,971)
Reserves and deposits	-	1,733	-	1,733
Due from affiliates, net	(70,782)	(2,850,260)	2,921,042	-
Accounts payable and accrued expenses	74,616	(28,551)	-	46,065
Net cash provided by operating activities	2,570,467	(2,509,024)	-	61,443
Cash Flows from Investing Activities:				
Deposits to and interest earned on reserves and deposits	(1,688,720)	(698,637)	-	(2,387,357)
Acquisition of property and equipment	(284,466)	(89,303)	-	(373,769)
Sales of investments	869,169	-	-	869,169
Purchases of investments	(2,076,684)	-	-	(2,076,684)
Net cash used in investing activities	(3,180,701)	(787,940)	-	(3,968,641)
Cash Flows from Financing Activities:				
Cash assumed from consolidation	-	40,169	-	40,169
Principal payments of long-term debt	-	(45,209)	-	(45,209)
Proceeds from long-term debt	-	4,968,300	-	4,968,300
Financing fees payment	-	(232,421)	-	(232,421)
Principal payments of contingent debt	-	(600,000)	-	(600,000)
Net cash provided by (used in) financing activities	-	4,130,839	-	4,130,839
Net Change in Cash and Cash Equivalents	(610,234)	833,875	-	223,641
Cash and Cash Equivalents:				
Beginning of year	1,189,123	612,947	-	1,802,070
End of year	$ 578,889	$ 1,446,822	$ -	$ 2,025,711
Supplemental Disclosure of Non-Cash Transactions:				
Cash paid for interest	$ 5,526	$ 35,310	$ -	$ 40,836
Property and equipment additions included in accounts payable and accrued expenses	$ 52,500	$ -	$ -	$ 52,500

Consolidating Statement of Functional Expenses
For the Year Ended December 31, 2017

	Program Services						Support Services				
		Housing and Supportive Services									
	Outreach	Hearth	Real Estate Development	Rental Properties	Total	Total Program Services	General and Adminis-tration	Institutional Advancement	Total Support Services	Eliminations	Total
Expenses:											
Personnel and related:											
Salaries	$ 345,551	$ 1,641,052	$ 4,139	$ 683,584	$ 2,328,775	$ 2,674,326	$ 349,285	$ 186,933	$ 536,218	$ -	$ 3,210,544
Fringe benefits	30,591	150,581	1,893	89,254	241,728	272,319	33,967	17,229	51,196	-	323,515
Payroll taxes	28,705	162,692	344	59,564	222,600	251,305	30,606	15,492	46,098	-	297,403
Consultants and contracted services	8,780	41,985	-	-	41,985	50,765	9,494	8,628	18,122	-	68,887
Total personnel and related	413,627	1,996,310	6,376	832,402	2,835,088	3,248,715	423,352	228,282	651,634	-	3,900,349
Occupancy:											
Repairs and maintenance	1,194	1,784	-	346,844	348,628	349,822	1,194	597	1,791	-	351,613
Utilities	-	-	-	349,437	349,437	349,437	60	-	60	-	349,497
Mortgage interest	-	-	-	190,580	190,580	190,580	-	-	-	-	190,580
Real estate taxes	-	-	-	121,062	121,062	121,062	-	-	-	-	121,062
Insurance	1,483	7,036	-	83,851	90,887	92,370	-	1,483	1,483	-	93,853
Rent	18,000	-	-	-	-	18,000	20,250	6,750	27,000	(45,000)	-
Total occupancy	20,677	8,820	-	1,091,774	1,100,594	1,121,271	21,504	8,830	30,334	(45,000)	1,106,605
Other:											
Professional fees	-	888	5,847	102,669	109,404	109,404	67,954	10,536	78,490	-	187,894
Management and administrative fees	44,629	-	-	329,170	329,170	373,799	-	-	-	(214,554)	159,245
Supplies and client expenses	102,448	15,982	-	-	15,982	118,430	-	2,228	2,228	-	120,658
Food and household supplies	156	105,742	-	-	105,742	105,898	-	219	219	-	106,117
Resident services	-	-	-	92,298	92,298	92,298	-	-	-	-	92,298
Meetings and events	-	261	-	-	261	261	1,078	76,782	77,860	-	78,121
Office	1,792	14,774	-	24,318	39,092	40,884	9,345	7,244	16,589	-	57,473
Telephone	4,339	31,907	-	8,344	40,251	44,590	7,698	1,269	8,967	-	53,557
Miscellaneous	839	11,078	-	16,439	27,517	28,356	15,298	1,010	16,308	-	44,664
Printing and copying	2,320	5,966	-	192	6,158	8,478	7,115	19,618	26,733	-	35,211
Insurance	-	14,791	-	-	14,791	14,791	11,597	-	11,597	-	26,388
Travel and training	5,357	2,775	-	-	2,775	8,132	11,328	459	11,787	-	19,919
Interest - amortization of debt issuance costs	-	-	-	16,359	16,359	16,359	-	-	-	-	16,359
Bad debt	-	7,135	-	5,961	13,096	13,096	-	-	-	-	13,096
Recruitment	34	7,142	-	-	7,142	7,176	5,065	-	5,065	-	12,241
Licenses and dues	-	5,786	-	-	5,786	5,786	5,231	-	5,231	-	11,017
Postage	801	94	-	-	94	895	1,430	2,247	3,677	-	4,572
Advertising	-	-	-	-	-	-	-	348	348	-	348
Interest	-	-	-	31,229	31,229	31,229	-	-	-	(31,229)	-
Total other	162,715	224,321	5,847	626,979	857,147	1,019,862	143,139	121,960	265,099	(245,783)	1,039,178
Total expenses before allocations	597,019	2,229,451	12,223	2,551,155	4,792,829	5,389,848	587,995	359,072	947,067	(290,783)	6,046,132
General and Administration Allocation	110,882	416,278	2,265	-	418,543	529,425	(595,966)	66,541	(529,425)	-	-
Total expenses before depreciation	707,901	2,645,729	14,488	2,551,155	5,211,372	5,919,273	(7,971)	425,613	417,642	(290,783)	6,046,132
Depreciation and Amortization	1,331	16,901	-	834,229	851,130	852,461	7,971	-	7,971	(76,335)	784,097
Total expenses	$ 709,232	$ 2,662,630	$ 14,488	$ 3,385,384	$ 6,062,502	$ 6,771,734	$ -	$ 425,613	$ 425,613	$ (367,118)	$ 6,830,229

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

Consolidating Statement of Functional Expenses
For the Year Ended December 31, 2016

	Program Services							Support Services				
		Housing and Supportive Services										
	Outreach	Hearth	Real Estate Development	Rental Properties	Total	Property Management	Total Program Services	General and Adminis-tration	Institutional Advancement	Total Support Services	Eliminations	Total
Expenses:												
Personnel and related:												
Salaries	$ 349,839	$ 1,604,012	$ 25,906	$ 533,282	$ 2,163,200	$ -	$ 2,513,039	$ 339,377	$ 187,798	$ 527,175	$ -	$ 3,040,214
Fringe benefits	33,114	146,442	3,294	68,984	218,720	-	251,834	26,979	18,587	45,566	-	297,400
Payroll taxes	25,267	140,758	1,171	44,212	186,141	-	211,408	26,909	13,323	40,232	-	251,640
Consultants and contracted services	8,910	42,028	-	-	42,028	-	50,938	10,728	6,665	17,393	-	68,331
Total personnel and related	417,130	1,933,240	30,371	646,478	2,610,089	-	3,027,219	403,993	226,373	630,366	-	3,657,585
Occupancy:												
Repairs and maintenance	91	570	-	339,195	339,765	-	339,856	1,255	52	1,307	-	341,163
Utilities	-	-	-	347,954	347,954	-	347,954	-	-	-	-	347,954
Mortgage interest	-	-	-	36,052	36,052	-	36,052	-	-	-	-	36,052
Real estate taxes	-	-	-	100,584	100,584	-	100,584	-	-	-	-	100,584
Insurance	1,501	7,115	-	70,358	77,473	1,666	80,640	-	1,501	1,501	-	82,141
Rent	13,342	-	-	-	-	-	13,342	17,154	5,718	22,872	(36,214)	-
Total occupancy	14,934	7,685	-	894,143	901,828	1,666	918,428	18,409	7,271	25,680	(36,214)	907,894
Other:												
Professional fees	-	4,379	11,797	70,297	86,473	821	87,294	69,382	8,025	77,407	-	164,701
Management and administrative fees	20,780	-	-	274,385	274,385	-	295,165	-	-	-	(174,564)	120,601
Supplies and client expenses	60,478	13,980	-	-	13,980	-	74,458	320	-	320	-	74,778
Food and household supplies	-	99,119	-	-	99,119	-	99,119	-	87	87	-	99,206
Resident services	-	-	-	89,610	89,610	-	89,610	-	-	-	-	89,610
Meetings and events	2,197	53	38	-	91	-	2,288	1,288	6,045	7,333	-	9,621
Office	2,732	13,671	103	33,324	47,098	302	50,132	6,890	7,359	14,249	-	64,381
Telephone	5,908	30,082	-	4,619	34,701	361	40,970	8,767	1,321	10,088	-	51,058
Miscellaneous	1,178	12,713	-	12,334	25,047	5	26,230	7,191	452	7,643	-	33,873
Printing and copying	2,322	6,406	-	183	6,589	301	9,212	4,973	20,365	25,338	-	34,550
Insurance	-	14,963	-	-	14,963	-	14,963	11,427	-	11,427	-	26,390
Travel and training	7,550	3,411	-	-	3,411	-	10,961	3,256	380	3,636	-	14,597
Interest - amortization of debt issuance costs	-	-	-	4,819	4,819	-	4,819	-	-	-	-	4,819
Bad debt	13,235	-	-	379	379	-	13,614	-	-	-	-	13,614
Recruitment	-	-	-	-	-	-	-	976	16,000	16,976	-	16,976
Licenses and dues	-	6,060	-	-	6,060	89	6,149	4,104	-	4,104	-	10,253
Postage	1,154	275	-	-	275	288	1,717	1,567	2,839	4,406	-	6,123
Advertising	-	-	-	-	-	-	-	-	10,610	10,610	-	10,610
Interest	-	-	-	11,632	11,632	-	11,632	-	-	-	(11,632)	-
Total other	117,534	205,112	11,938	501,582	718,632	2,167	838,333	120,141	73,483	193,624	(186,196)	845,761
Total expenses before allocations	549,598	2,146,037	42,309	2,042,203	4,230,549	3,833	4,783,980	542,543	307,127	849,670	(222,410)	5,411,240
General and Administration Allocation	100,730	394,766	7,736	-	402,502	701	503,933	(560,087)	56,154	(503,933)	-	-
Total expenses before depreciation	650,328	2,540,803	50,045	2,042,203	4,633,051	4,534	5,287,913	(17,544)	363,281	345,737	(222,410)	5,411,240
Depreciation and Amortization	1,331	13,092	-	751,152	764,244	-	765,575	17,544	-	17,544	(95,197)	687,922
Total expenses	$ 651,659	$ 2,553,895	$ 50,045	$ 2,793,355	$ 5,397,295	$ 4,534	$ 6,053,488	$ -	$ 363,281	$ 363,281	$ (317,607)	$ 6,099,162

1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES

OPERATIONS AND NONPROFIT STATUS

Hearth, Inc. is a nonprofit organization formed in 1991 to eliminate elder homelessness in Boston, Massachusetts. Hearth, Inc. works with other agencies and Boston's homeless shelters to provide outreach, housing, and supportive services to homeless elders or elders at risk of becoming homeless.

Hearth, Inc. is exempt from Federal income taxes as an organization (not a private foundation) formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code (IRC). Hearth, Inc. is also exempt from state income taxes. Contributions made to Hearth, Inc. are deductible within the requirements of the IRC.

SIGNIFICANT ACCOUNTING POLICIES

Hearth, Inc. prepares its consolidating financial statements in accordance with generally accepted accounting standards and principles (U.S. GAAP) established by the Financial Accounting Standards Board (FASB). References to U.S. GAAP in these notes are to the FASB Accounting Standards Codification (ASC).

In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities,* to improve financial reporting guidance for not-for-profit entities. The new financial reporting guidance aims to address the issues in four main areas: (1) net asset classification, (2) liquidity and availability of resources, (3) expense and investment return, and (4) presentation of operating cash flow. This standard will be effective for the calendar year ending December 31, 2018. Hearth, Inc. is currently in the process of evaluating the impact of adopting this ASU on the consolidating financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. The standard's core principle is that an entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This standard also includes expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. This standard will be effective for the calendar year ending December 31, 2019. Hearth, Inc. is currently in the process of evaluating the impact of adopting this ASU on the consolidating financial statements.

Principles of Consolidation

The consolidating financial statements include the accounts of Hearth, Inc., its wholly-owned and majority-owned subsidiaries: Hearth Management, Inc., 4 Bishop Street, Inc., Hearth Beacon, Inc., Hearth at Burroughs, LLC, Hearth Olmsted Limited Partnership, East Concord Street Limited Partnership, Ruggles Assisted Living Limited Partnership and the General Partners (see Note 2) (collectively, the Agency).

1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Principles of Consolidation (Continued)

Hearth, Inc. owns controlling interests in CEEH East Concord, Inc., Hearth Olmsted Manager, LLC and, effective August 1, 2016, NCS Ruggles, Inc. (collectively, the General Partners). Hearth, Inc. became the sole owner of the outstanding shares of the common stock of NCS Ruggles, Inc. by purchasing the shares from New Communities Services, Inc. As such, the activity of NCS Ruggles, Inc. for the period August 1, 2016 through December 31, 2016, has been reflected in the accompanying 2016 consolidating financial statements along with the activity of CEEH East Concord, Inc. and Hearth Olmsted Manager, LLC. The accompanying consolidating financial statements do not reflect the non-controlling interest in the General Partners, since the amount is not material to the accompanying consolidating financial statements. HOLP and Ruggles (see page 19) are consolidated with their general partners (see Note 2) and included in the accompanying consolidating financial statements of Hearth, Inc.

All significant balances between classes of net assets, intercompany balances and transactions have been eliminated in the accompanying consolidating financial statements.

Low-Income Housing Tax Credits

HOLP has been awarded low-income housing tax credits (LIHTCs) under IRC Section 42. As a condition of receiving these tax credits, HOLP must operate its property in the manner prescribed by this Code Section and by the Tax Regulatory Agreement for a minimum of fifteen years, expiring in June 2027.

Estimates

The preparation of consolidating financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidating financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accounts and Pledges Receivable

Accounts and pledges receivable are recorded at their net present value when unconditionally committed, when contracts are billed, or when rental fees and program revenues are recorded.

Reserve for Uncollectible Accounts and Pledges

The reserve for uncollectible accounts and pledges is recorded based on management's analysis of specific accounts and their estimate of amounts that may become uncollectible, if any. Accounts are written off against the allowance when they are determined to be uncollectible. As of December 31, 2017 and 2016, there was an allowance of $12,220 and $6,259 respectively.

1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment and Depreciation

Property and equipment are recorded at cost, if purchased, or at fair value at the time of the donation. Renewals and betterments are capitalized as additions to the related asset accounts, while repairs and maintenance costs are expensed as incurred. Costs of locating and analyzing potential development sites are expensed as incurred. If a site is located and eventually developed, recoverable costs are capitalized.

Depreciation is provided using the straight-line method over the following estimated useful lives:

Buildings and improvements	5 – 40 years
Furniture and equipment	3 – 10 years

Buildings and improvements in the accompanying consolidating statements of financial position include leasehold improvements of approximately $191,000 at December 31, 2017 and 2016. Depreciation expense, net of eliminations, during 2017 and 2016 was $779,417 and $683,242, respectively.

The Agency reviews its investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted cash flow expected to be generated by the rental property and any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the real estate exceeds the fair value of such property. There was no impairment loss recognized in 2017 and 2016.

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

Capitalized Costs and Amortization

Capitalized costs consist of low income housing tax credit application fees which have been capitalized and amortized on the straight-line basis. Capitalized costs have a cost of $46,800 as of December 31, 2017 and 2016. Accumulated amortization of capitalized costs was $26,520 and $21,840 as of December 31, 2017 and 2016, respectively. Amortization during 2017 and 2016 was $4,680.

Unamortized Debt Issuance Costs

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

1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contingent Debt

The Agency has contingent loans from various organizations to assist in the development of its housing and other projects. These loans generally are not required to be repaid unless the project fails to maintain its status as low-income housing or the Agency fails to comply with other conditions. It is the intention of the Board of Directors and management of the Agency to maintain these properties as low-income housing and to meet other conditions; therefore, these loans have been classified as contingent debt in the accompanying consolidating statements of financial position (see Note 7).

Revenue Recognition

Rental fees, program revenues, and management and service fees are recorded as services are provided and costs are incurred. Rental fees are recorded net of vacancies of $112,701 and $67,212 for 2017 and 2016, respectively. Government and other contracts are recorded over the period covered by the contract as services are provided and costs are incurred. Unrestricted grants and contributions are recorded when received or unconditionally committed. Special event revenue is recorded at the time of the event. Investment income is recognized when earned. Gains and losses are recognized as incurred upon sale or maturity of investments or based on market value changes during the period. Donor restricted grants and contributions designated for a specific time period or specific purpose are recognized as temporarily restricted revenue and net assets when received or unconditionally committed. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying consolidating statements of activities as net assets released from restrictions. Donor restricted grants received and satisfied in the same period are included in unrestricted net assets. All other revenue is recognized when earned.

Donated Goods and Services

The Agency receives goods and services from various donating organizations for use in its programs. The Agency received $22,760 of donated goods and $7,000 of donated legal services for 2017. The Agency received $6,000 of donated legal and management services for 2016. These goods and services are reflected in donated goods and services, supplies and client expenses and meetings and events in the accompanying consolidating financial statements at fair market value.

The Agency receives services of volunteers in various aspects of its programs. The value of these services is not reflected in the accompanying consolidating financial statements, since the value assigned to these services by the donating volunteers is not ascertainable and does not meet the criteria for recognition of U.S. GAAP.

Allocation Method

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

1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

As described on page 11, Hearth, Inc. and its not-for-profit affiliates, Hearth Management, Inc., 4 Bishop Street, Inc., and Hearth Beacon, Inc. (see Note 2), are exempt from income taxes under Section 501(c)(3) of the IRC. Hearth, Inc. has for-profit corporate affiliates, the General Partners (see Note 2). At December 31, 2017 and 2016 the General Partners have, for Federal income tax purposes, net operating loss carryforwards of approximately $876,000 and $848,000, respectively, available to offset future taxable income. Also, at December 31, 2017 and 2016 the General Partners have, for state income tax purposes, net operating loss carryforwards of approximately $591,000 and $567,000, respectively, to offset future taxable income. These carryforwards expire at various dates through 2037. The tax benefit of the net operating loss carryforwards has been fully reserved as of December 31, 2017 and 2016 due to the uncertainty of realization.

The Agency accounts for uncertainty in income taxes in accordance with ASC Topic, *Income Taxes*. This standard clarifies the accounting for uncertainty in tax positions and prescribes a recognition threshold and measurement attribute for the consolidating financial statements regarding a tax position taken or expected to be taken in a tax return. The Agency has determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the consolidating financial statements at December 31, 2017 and 2016. The Agency's information and income tax returns are subject to examination by the Federal and state jurisdictions.

Bequests

The Agency is and may be named principal beneficiary of various trusts and wills. The amounts to be received, if any, cannot be determined and, therefore, will be reflected in the Agency's consolidating financial statements when the amounts are received or become known. The Agency received one bequest totaling $55,211 during 2017 which is reflected in private grants, contributions and special events, net in the accompanying consolidating statement of activities. The Agency did not receive any bequests during 2016.

Fair Value Measurements

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

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

1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

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

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

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

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

An asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement.

Cash Equivalents

For the purpose of the statements of cash flows, management considers all short-term, highly liquid investments with an initial maturity of three months or less to be cash equivalents. Cash and cash equivalents held in the Agency’s investment portfolio (see Note 5) are excluded from cash and cash equivalents in the accompanying consolidating statement of cash flows. Cash equivalents are considered Level 1 in the fair value hierarchy.

Investments

Investments are recorded in the consolidating financial statements at fair value. If an investment is directly held by the Agency and an active market with quoted prices exists, the market price of an identical security is used to report fair value. Reported fair values of shares in common stocks, exchange traded funds, and fixed income mutual funds are based on share prices reported by the funds as of the last business day of the year. Investments are valued using Level 1 inputs as of December 31, 2017 and 2016 (see Note 5).

All Other Assets and Liabilities

The carrying value of all other qualifying assets and liabilities, including long-term debt and contingent debt, does not differ materially from its estimated fair value and are considered Level 1 in the fair value hierarchy.

Subsequent Events

Subsequent events have been evaluated through April 25, 2018, which is the date the consolidating financial statements were available to be issued. There were no events that met the criteria for recognition or disclosure in the financial statements.

Consolidating Statements of Activities

Transactions deemed by management to be ongoing, major, or central to the provision of program services are reported as operating revenue and support and operating expenses in the accompanying consolidating statements of activities. Other revenues (expenses) include capital and investment related activities.

1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Asset Classification

Unrestricted net assets are those net resources that bear no external restrictions and are generally available for use by the Agency. The Agency has grouped its unrestricted net assets into the following categories:

- **Operating** represents undesignated net assets relating to program services and other operating activities.

- **Board Designated:**

  The Agency's Board of Directors has designated unrestricted net assets for the following purposes:

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

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

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

  Board Designated net assets consist of the following as of December 31, 2017 and 2016:

Opportunity reserve	$ 1,000,000
Working capital reserve	1,000,000
Other	107,351
	$ 2,107,351

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

- **Property and equipment** represent that portion of net assets invested into property and equipment, net of related liabilities.

1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Asset Classification (Continued)

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

	2017	2016
Restricted for real estate development activities	$ 35,377	$ 35,377
Restricted for programs	21,697	11,074
Restricted for equipment and maintenance	4,200	45,554
Time restricted	-	158,334
Total temporarily restricted net assets	$ 61,274	$ 250,339

Non-controlling interest represents the interest of the investor limited partners in HOLP and Ruggles.

2. AFFILIATES AND RELATED PARTY TRANSACTIONS

AFFILIATES

The Agency's consolidating financial statements include the following entities:

General Partners

CEEH East Concord, Inc. (CEC) is a Massachusetts corporation and has a 1% interest in the capital, income, losses, and cash flow of East Concord Street Limited Partnership, as its general partner. Hearth, Inc. owns 79% of the outstanding shares of the common stock of CEC.

Hearth Olmsted Manager, LLC (HOM) is a Massachusetts limited liability company and has a 0.01% interest in the capital, income, losses, and cash flow of HOLP, as its general partner. Hearth, Inc. is the sole member of HOM.

NCS Ruggles, Inc. (NCS) is a Massachusetts corporation and has a 0.1% interest in the capital, income, losses, and cash flow of Ruggles (see page 19), as its general partner. Effective August 1, 2016, Hearth, Inc. became the sole owner of the outstanding shares of the common stock of NCS by purchasing the remaining shares from New Communities Services, Inc. for $80,000. Hearth, Inc. paid $40,000 as of December 31, 2016, and the remaining balance of $40,000 is included in accounts payable and accrued expenses in the accompanying consolidating statements of financial position as of December 31, 2017 and 2016.

2. AFFILIATES AND RELATED PARTY TRANSACTIONS (Continued)

AFFILIATES (Continued)

Property Management

Hearth Management, Inc. (Hearth Mgmt.) is a Massachusetts not-for-profit corporation. Hearth, Inc. appoints all of Hearth Mgmt.'s Board of Directors. Hearth Mgmt. provided property management services to the Rental Properties, excluding HOLP (see below).

During 2016, Hearth Mgmt. wrote off all amounts due from related parties of $627,936, which is included as reserve on related party advances in the accompanying 2016 consolidating statement of activities. Correspondingly, Hearth, Inc. and the Rental Properties recorded forgiveness of debt of $557,439 and $123,831, respectively. During 2017, Hearth, Inc. wound down the operations of Hearth Mgmt.

Rental Properties

Non-profit

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

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

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

For-profit

East Concord Street Limited Partnership (ECLP) is a Massachusetts limited partnership formed in September 1995. ECLP operates forty-one low-income housing units located in the South End neighborhood of Boston, Massachusetts. Hearth, Inc. holds a 99% interest in the capital, income, losses, and cash flow of ECLP.

Hearth Olmsted Limited Partnership (HOLP) is a Massachusetts limited partnership formed in March 2011. HOLP operates fifty-nine low-income housing units located in Mattapan, Massachusetts.

Ruggles Assisted Living Limited Partnership (Ruggles) is a Massachusetts limited partnership formed in June 2000. Ruggles operates forty-three assisted living and low-income housing units located in Roxbury, Massachusetts. Effective December 31, 2017, the investor limited partners in Ruggles transferred their interest in Ruggles to Hearth, Inc.

2. AFFILIATES AND RELATED PARTY TRANSACTIONS (Continued)

RELATED PARTY TRANSACTIONS

Developer Fees

Hearth, Inc. has a $166,700 developer fee note receivable from Beacon for services provided during the development of the project. The note accrues interest at 6%, compounded annually. Principal and interest payments are due annually if a certain cash flow level, as defined in the agreement, is achieved. Deferred interest expense on the developer fee payable was $27,770 and $26,198 for 2017 and 2016, respectively. Beacon has not made any payments on the note since the cash flow level has not been achieved. In addition, Beacon does not expect to generate the level of cash flow to make future payments on this note and, accordingly, Hearth, Inc. has reserved the entire balance of principal and accrued interest.

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

	2017	2016
Beacon - developer fee	$ 166,700	$ 166,700
Deferred interest	323,899	296,129
	490,599	462,829
Less - reserve	490,599	462,829
	$ -	$ -

Notes

During the development of ECLP's property, Hearth, Inc. provided loans to ECLP to fund development costs and also sold the building to ECLP in exchange for notes receivable. These notes were secured by shared third mortgages on the land and building. Payment of these notes were to be applied to accrued interest and then to principal from available cash flow. Interest on these notes compounded annually, and on one note semi-annually, at rates ranging from 6.26% to 7%. During 2016, ECLP repaid Hearth, Inc. all principal and accrued interest through October 2016 from ECLP as part of ECLP's property refinance (see Notes 6 and 7) which Hearth, Inc. recorded as recovery of notes payable and deferred interest – related party during 2016. The remaining accrued interest of $24,822 was repaid during 2017.

During 2016, Hearth, Inc. became the sole owner of NCS (see page 18) and, upon buyout, the existing $250,000 Ruggles note payable to New Communities Services, Inc. was assigned to Hearth, Inc. All unpaid principal and deferred interest are due in full on June 29, 2031. This note accrued interest at 6%, compounded annually, through December 31, 2007. This agreement was amended on January 1, 2008, and the interest rate was reduced to zero. This note is secured by a shared second mortgage on Ruggles' property, which has been assigned to the Federal Home Loan Bank of Boston. All unpaid principal and accrued interest due to Hearth, Inc. has been fully reserved.

Sponsor Notes

Hearth, Inc. provided two non-interest bearing sponsor notes to HOLP. The first sponsor note has an outstanding balance of $1,380,136 and matures in March 2042. The second sponsor note has an outstanding balance of $400,000 and matures in March 2027. These notes are secured by shared third mortgages on HOLP's property located in Mattapan, Massachusetts. Hearth, Inc. does not expect to receive any payments under these agreements. Accordingly, these notes are fully reserved.

2. AFFILIATES AND RELATED PARTY TRANSACTIONS (Continued)

RELATED PARTY TRANSACTIONS (Continued)

Sponsor Notes (Continued)

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

	2017		2016	
	Principal	Accrued Interest	Principal	Accrued Interest
HOLP - Sponsor notes	$ 1,780,136	$ -	$ 1,780,136	$ -
Ruggles - NCS loan	250,000	105,014	250,000	105,014
ECLP - Linkage	-	-	-	11,760
ECLP - Acquisition	-	-	-	9,387
ECLP - Foundations	-	-	-	3,675
	2,030,136	105,014	2,030,136	129,836
Less - reserve	2,030,136	105,014	2,030,136	105,014
Total	$ -	$ -	$ -	$ 24,822

Rental Fees

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

Personnel, Management and Service Fees

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

Hearth, Inc. has an agreement with Ruggles to provide supportive services to the tenants of Ruggles. Hearth, Inc. is entitled to a service provider fee for its services at Ruggles, subject to an annual cash flow review. This agreement expired on June 30, 2017, and has been retroactively renewed effective July 1, 2017 with the option to be renewed on an annual basis.

Ruggles has incurred recurring deficits from operations and owed Hearth, Inc. $1,086,985 and $764,025 as of December 31, 2017 and 2016, respectively, for operating support and funding of reserves and deposits. During 2017 and 2016 Hearth, Inc. fully reserved the amounts due from Ruggles of $565,420 and $503,950, respectively, which is included in reserve on related party advances in the accompanying consolidating statements of activities.

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

2. AFFILIATES AND RELATED PARTY TRANSACTIONS (Continued)

RELATED PARTY TRANSACTIONS (Continued)

Guaranties and Obligations

HOM is obligated to lend HOLP approximately twelve months of operating expenses, not to exceed $728,692, to fund any operating deficits upon commencement of operations and achievement of three consecutive months of minimum debt service coverage, as defined in the partnership agreement. Repayment of the loan will be calculated based on net operating income. No amounts have been advanced as of December 31, 2017 and 2016.

Purchase Option

HOLP has granted Hearth, Inc. an option to purchase the limited partner's interest in HOLP at the end of the LIHTC compliance period (June 2027). The purchase price will be the greater of the fair market value, based on an appraisal, negotiation or a formula defined in HOLP's partnership agreement.

Investments in Affiliates

Investments in affiliates are recorded at cost and consist of CEC's investment in ECLP and HOM's investment in HOLP. During 2017, CEC fully reserved its investment in ECLP of $240,000, which is included in reserve on related party advances in the accompanying 2017 consolidating statement of activities.

Donated Services

A former member of the Board of Directors was also a Director of a law firm who provided donated legal services to Hearth, Inc. totaling approximately $1,000 in 2016 (see page 14).

A former member of the Board of Directors also provided donated management services to Hearth, Inc. totaling approximately $5,000 in 2016 (see page 14).

3. RESERVES AND DEPOSITS

During 2016, Hearth, Inc. was required to establish and maintain a replacement reserve account to fund future operations and related reserves. Withdrawals could be made from the account with the approval of Community Economic Development Assistance Corporation (CEDAC) and the City of Boston Department of Neighborhood Development. During October 2017, upon proper approval from CEDAC, this reserve was closed and the remaining balance was transferred to the Rental Properties reserve accounts and Hearth, Inc.'s investments.

Operating and investor service reserves and other reserve consist of funds to be escrowed under the terms of certain mortgage, partnership and operating agreements. These funds are restricted for operating cash flow deficiencies and to fund non-critical repairs. Approval is required of the mortgagor or investor partner to withdraw funds from the above accounts. During 2017, the mortgagor approved the release of the other reserve.

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

3. RESERVES AND DEPOSITS (Continued)

Restricted deposits consist of the following at December 31:

	2017
Replacement reserves	$ 1,639,082
Operating and investor services reserves	728,715
Insurance and real estate tax escrow	82,475
	2,450,272
Less - current portion	88,637
	$ 2,361,635

	2016		
	Hearth, Inc.	Rental Properties	Total
Replacement reserves	$ 1,688,720	$ 983,798	$ 2,672,518
Operating and investor services reserves	-	1,002,410	1,002,410
Other reserve	-	140,894	140,894
Insurance and real estate tax escrow	-	61,141	61,141
	1,688,720	2,188,243	3,876,963
Less - current portion	-	346,705	346,705
	$ 1,688,720	$ 1,841,538	$ 3,530,258

4. ACCOUNTS AND PLEDGES RECEIVABLE

Included in accounts and pledges receivable are $48,189 and $158,339 of pledges receivable at December 31, 2017 and 2016, all of which are current.

5. INVESTMENTS

Investments consist of the following at December 31:

	2017	2016
Stocks – domestic equity	$ 2,018,106	$ 973,980
Exchange traded funds:		
International equity	540,063	162,813
Other	476,686	234,094
Cash and cash equivalents	111,366	353,082
Fixed income mutual funds:		
Corporate bonds	641,309	165,377
Treasury bills	404,307	148,154
	$ 4,191,837	$ 2,037,500

5. INVESTMENTS (Continued)

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

	2017	2016
Realized and unrealized gains on investments	$ 274,771	$ 23,021
Dividend and interest income	72,555	19,145
Investment management fees	(25,261)	(1,390)
	$ 322,065	$ 40,776

Investments are reported in the accompanying consolidating statements of financial position as long-term assets based on management's intent with respect to the use of investments. Investments, excluding the insured cash and cash equivalents account, are not insured and are subject to ongoing market fluctuations (see Note 1).

6. LONG-TERM DEBT

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

Non-Profit Rental Properties	2017	2016
Bishop		
1% note payable to the City of Boston, which had a balloon payment due in June 2007. In lieu of the balloon payment, the lender proposed and the borrower is considering a modification to extend the term of the note and to modify the interest rate and repayment terms in exchange for an extension on the affordability restriction on the property. During the negotiation period, payments on the note were suspended. The note is secured by a mortgage on land and a building.	$ 72,731	$ 72,731
For-Profit Rental Properties		
ECLP		
3.08% first mortgage note payable to Red Mortgage Capital, LLC, due in monthly installments of principal and interest of $19,343 payable on the first day of each month, beginning on February 1, 2017, through January 1, 2052. Pursuant to the terms of the note agreement, the note may be prepaid after February 1, 2017, in whole or in part on the last business day of any month, with the payment of a prepayment premium as outlined in the note agreement. Subsequent to February 1, 2027, the note may be prepaid without premium or penalty.	4,894,861	4,968,300

6. LONG-TERM DEBT (Continued)

For-Profit Rental Properties (Continued)	**2017**	**2016**
HOLP		
4.5% note payable to Eastern Bank, due in monthly principal and interest installments of $6,311, through September 2027. This note is secured by a first mortgage on the property, a security interest in all furnishings and equipment, and an assignment of leases and rents.	595,515	642,924
	5,490,376	5,611,224
Less - unamortized debt issuance costs	331,904	346,817
Total For-Profit Rental Properties	5,158,472	5,264,407
Total long-term debt, net of unamortized debt issuance costs	5,231,203	5,337,138
Less - total current portion	132,410	121,145
Total long term debt	$ 5,098,793	$ 5,215,993

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

	Principal Payments	**Amortization of Debt Issuance Costs**
2018	$ 132,410	$ 15,764
2019	$ 137,280	$ 15,551
2020	$ 142,336	$ 15,330
2021	$ 147,585	$ 15,103
2022	$ 153,034	$ 14,869

7. CONTINGENT DEBT

Contingent debt consists of the following at December 31:

Non-Profit Rental Properties	**2017**	**2016**
Beacon		
Non-interest bearing note payable to CEDAC. All unpaid principal is due in June 2029. This note is secured by a second mortgage on land and a building. Payments are due annually from surplus cash as defined in the agreement. There were no payments due from surplus cash as of December 31, 2017 and 2016. CEDAC may extend the maturity date of this note for one or more additional periods up to ten years provided that the property continues to be used for low-income housing.	$ 426,000	$ 426,000
Non-interest bearing note payable to the Town of Brookline. This note is due in June 2039, and is secured by a first mortgage on land and a building.	349,000	349,000
Subtotal Beacon	775,000	775,000
Burroughs		
Non-interest bearing note payable to CEDAC. All unpaid principal is due in August 2038. This note is secured by a shared second mortgage on land and a building. Payments are due annually from surplus cash as defined in the agreement. There were no payments due from surplus cash as of December 31, 2017 and 2016. CEDAC may extend the maturity date of this note for one or more additional periods up to ten years provided that the property continues to be used for low-income housing.	750,000	750,000
Non-interest bearing note payable to the City of Boston. This note is due in February 2038. This note is secured by a shared second mortgage on land and a building, an assignment in leases and rents, and interest in all assets related to the land and building.	625,000	625,000
Less - unamortized debt issuance costs	42,939	44,385
Subtotal Burroughs	1,332,061	1,330,615
Total Non-Profit Rental Properties	2,107,061	2,105,615

7. CONTINGENT DEBT (Continued)

For-Profit Rental Properties	**2017**	**2016**
HOLP		
Non-interest bearing note payable to CEDAC, with unpaid principal due in March 2042. Payments are due annually from surplus cash as defined in the agreement. CEDAC may extend the maturity date of this note until March 2061, provided that the property continues to be used for low-income housing. This note is secured by a shared second mortgage on the property. As of December 31, 2017 and 2016, prior years' surplus cash payments are due to CEDAC in 2018 and 2017, respectively, based on prior years' cash flows. These amounts are included in current portion of long-term and contingent debt in the accompanying consolidating statements of financial position as of December 31, 2017 and 2016.	1,992,793	1,992,793
Non-interest bearing note payable to the Commonwealth of Massachusetts through the Department of Housing and Community Development's (DHCD) Affordable Housing Trust (AHT) program, due upon maturity in March 2042. DHCD may extend the maturity date of this note until March 2061, provided that the property continues to be used for low-income housing. This note is secured by a shared second mortgage on the property.	1,000,000	1,000,000
Non-interest bearing note payable to the City of Boston (the City) through the Department of Neighborhood Development's (DND) HOME program. This note is due in March 2042. DND may extend the maturity date of this note until March 2061, provided that the property continues to be used for low-income housing. This note is secured by a shared second mortgage on the property.	976,293	976,293
Non-interest bearing note payable to the Commonwealth of Massachusetts through DHCD's HOME program. This note is due in March 2042. DHCD may extend the maturity date of this note until March 2061, provided that the property continues to be used for low-income housing. This note is secured by a shared second mortgage on the property.	958,989	958,989
Non-interest bearing note payable to the City through its Neighborhood Housing Trust program (NHT), with principal due in full on the maturity date of March 2042. This note is secured by a shared second mortgage on the property.	750,000	750,000

7. CONTINGENT DEBT (Continued)

For-Profit Rental Properties (Continued)	**2017**	**2016**
HOLP (Continued)		
Non-interest bearing note payable to CEDAC, with unpaid principal due in March 2042. Payments are due annually from surplus cash as defined in the agreement. CEDAC may extend the maturity date of this note until March 2061, provided that the property continues to be used for low-income housing. This note is secured by a shared second mortgage on the property. As of December 31, 2017 and 2016, prior years' surplus cash payments are due to CEDAC in 2018 and 2017, respectively, based on prior years' cash flows. These amounts are included in current portion of long-term and contingent debt in the accompanying consolidating statements of financial position as of December 31, 2017 and 2016.	500,000	500,000
Non-interest bearing note payable to the City through DND's Leading the Way (LTW) program. Unpaid principal is due upon maturity in March 2042. DND may extend the maturity date of this note until March 2061, provided that the property continues to be used for low-income housing. This note is secured by a shared second mortgage on the property.	244,073	244,073
Subtotal HOLP	6,422,148	6,422,148
Less - current portion	210,134	111,844
Total contingent debt - HOLP, net of current portion	6,212,014	6,310,304
Ruggles		
6.49% note payable to the City, interest compounded annually. Principal and interest are due annually if certain cash flow, as defined in the agreement, is achieved. There were no payments due as of December 31, 2017. All unpaid principal and deferred interest are due in full on December 31, 2030. As of December 31, 2017 and 2016, deferred interest totaled $1,316,734 and $1,193,370, respectively. This note is secured by a shared first mortgage on the Project.	707,458	707,458

7. CONTINGENT DEBT (Continued)

For-Profit Rental Properties (Continued)	**2017**	**2016**
Ruggles (Continued)		
6.49% note payable to the Commonwealth of Massachusetts, DHCD. DHCD is providing mortgage financing through the HOME investment program. No payments for principal and interest are due until June 2032 (maturity date), as long as the property remains affordable to low-income tenants. During the year prior to the maturity date, Ruggles may request an extension of the maturity date for a period up to the original term of the loan, in order to maintain the affordability of the housing. As of December 31, 2017 and 2016, deferred interest totaled $647,298 and $608,358, respectively. This note is secured by a shared first mortgage on the Project.	600,000	600,000
Note payable to CEDAC. This note bore interest at 5% simple interest through December 31, 2007. This agreement was amended on January 1, 2008, and the interest rate was reduced to zero. Principal and deferred interest are due annually if certain cash flow, as defined in the agreement, is achieved. There were no payments due for 2017. All unpaid principal and deferred interest are due in full on November 30, 2030. As of December 31, 2017 and 2016, deferred interest totaled $173,044. This note is secured by a shared second mortgage on the Project.	500,000	500,000
Plus - deferred interest	2,137,076	1,974,772
Total contingent debt and deferred interest - Ruggles	3,944,534	3,782,230
Total For-Profit Rental Properties	10,156,548	10,092,534
Less - current portion	210,134	111,844
Total contingent debt, net of current portion	$ 12,263,609	$ 12,198,149

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

	2017	**2016**
CEDAC - 2017 cash flow payment - HOLP	$ 98,290	$ -
CEDAC - 2015 cash flow payment - HOLP	71,458	71,458
CEDAC - 2016 cash flow payment - HOLP	40,386	40,386
	$ 210,134	$ 111,844

7. CONTINGENT DEBT (Continued)

The current portion of the amounts due on the CEDAC notes payable (see pages 27 and 28) as of December 31, 2017 and 2016, have not been paid. Based on a capital needs assessment prepared in January 2015, there is a projected shortfall in the replacement reserve in the future. As such, HOM requested to suspend making the cash flow payments on the CEDAC debt and deposit these funds into the replacement reserve. HOM will request approval from CEDAC and the Special Limited Partner, WNC Housing, L.P., to deposit the prior years' cash flow payments in the replacement reserve.

Debt issuance costs related to the various long-term and contingent debt totaling $420,441 as of December 31, 2017 and 2016, are shown net of accumulated imputed interest of $45,598 and $29,239 as of December 31, 2017 and 2016, respectively. Net debt issuance costs are reported in the accompanying consolidating statements of financial position as a direct reduction of the face amount of the related long-term and contingent debt.

The Agency's debt agreements contain covenants that require certain financial ratios be maintained and the consolidating financial statements be issued within a certain time period after year-end. The Agency was in compliance with these covenants as of December 31, 2017 and 2016.

8. NOTE PAYABLE TO A BANK

Hearth, Inc. has a $500,000 line of credit agreement with a bank, which is renewable annually in October. Borrowings under the agreement are due on demand, and interest is payable monthly at the bank's prime rate (4.5% and 3.75% at December 31, 2017 and 2016, respectively). The line of credit is secured by substantially all assets of Hearth, Inc. There was no balance outstanding as of December 31, 2017 and 2016.

9. CONTINGENCIES

During 1995, Hearth, Inc. received $335,213 in Linkage funds from the City. Hearth, Inc. loaned the Linkage funds to ECLP (see page 19). Hearth, Inc. has not recorded a liability to the City in the accompanying consolidating financial statements and is working with the City regarding resolution of the Linkage funds.

In the ordinary course of the Agency's business, the Agency is, from time-to-time, involved in disputes concerning individuals' employment and other matters with the Agency. The Agency denies any wrongdoing in these cases and takes the appropriate legal steps in defense of any disputes. It is management's opinion that any potential settlement would not be material to the accompanying consolidating financial statements as of December 31, 2017 and 2016.

10. CONCENTRATIONS

Funding

The following table reflects the largest funding sources related to total operating revenues and accounts and pledges receivable for Hearth, Inc. as of and for the years ended December 31:

	2017		2016	
Funding Source	Operating Revenues	Accounts and Pledges Receivable	Operating Revenues	Accounts and Pledges Receivable
A	31%	14%	37%	15%
B	19%	24%	21%	10%
C	3%	0%	3%	15%

These reimbursements are subject to audit by government agencies. In the opinion of management, the results of such audits, if any, will not have a material effect on the consolidating financial position of the Agency as of December 31, 2017 and 2016, or on the changes in entities' equity for the years then ended.

Cash and Cash Equivalents

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

11. FUNDS HELD IN TRUST

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

12. PENSION PLAN

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

13. MANAGEMENT AND OTHER FEES

Management Fee

The Rental Properties have an agreement with Peabody Properties, Inc. (the Company) to carry out the day-to-day operations of the Rental Properties through December 31, 2018. The agreement may be renewed and extended annually until either the Rental Properties or the Company terminates the agreement. In addition, the Company also provides bookkeeping, accounting and rental management services. The Rental Properties pay the Company 2.5%, with the exception of HOLP, which pays 5%, of gross collected revenues for these services and the agreement can be terminated by either party with thirty days written notice.

13. MANAGEMENT AND OTHER FEES (Continued)

Management Fee (Continued)

In addition, the Company was entitled to accounting fees for the Rental Properties of $3 per unit, per month, with the exception of HOLP, which pays $6 per unit per month. The agreement is in effect until cancelled by either party with thirty days written notice. The Company billed the Properties $103,361 and $88,893 for these services during 2017 and 2016, respectively, which is included in management and service fees in the accompanying consolidating statements of activities.

Asset Management Fee

HOLP has entered into an asset management services agreement with its limited partner. The fee is $10,000 per year, increasing by 3% each year commencing in 2013. The fee is cumulative and is payable in accordance with the agreement set forth. HOLP incurred $11,255 and $10,927 during 2017 and 2016, respectively.

14. PROJECT UNDER DEVELOPMENT

During 2016, the Agency began predevelopment on a project (the Project) in Dorchester, Massachusetts. The Agency incurred $41,246 and $264,914 of predevelopment costs during 2017 and 2016. Once the Project is complete, it will be placed in service and will become a rental property of the Agency, at which time capitalized costs will begin depreciating.

The total project is anticipated to cost approximately $18,000,000, of which approximately $7,800,000 has been committed by several potential lenders. The remaining $10,200,000 of funding is anticipated to come from a combination of debt, tax credit equity and contributions.

15. RECLASSIFICATION

Certain amounts in the 2016 consolidating financial statements have been reclassified to conform to the 2017 presentation.

EXHIBIT A

HEARTH, INC. AND AFFILIATES

Supplementary Consolidating Statement of Financial Position - Rental Properties
December 31, 2017
(With Summarized Comparative Totals as of December 31, 2016)

	2017									2016
	Non-Profits				For-Profits				Total	Total
				Total				Total	Rental	Rental
Assets	**Bishop**	**Beacon**	**Burroughs**	**Non-Profits**	**HOLP**	**ECLP**	**Ruggles**	**For-Profits**	**Properties**	**Properties**
Current Assets:										
Cash and cash equivalents	$ 4,766	$ 11,110	$ 3,316	$ 19,192	$ 241,290	$ 316,968	$ 8,779	$ 567,037	$ 586,229	$ 1,446,822
Funds held in trust	2,287	2,136	3,415	7,838	13,813	13,971	9,951	37,735	45,573	43,608
Current portion of accounts and pledges receivable, net	2,538	1,410	2,875	6,823	8,938	3,739	10,789	23,466	30,289	19,033
Prepaid expenses and deposits	2,843	2,831	4,388	10,062	32,324	22,983	18,994	74,301	84,363	81,224
Current portion of due (to) from affiliates	-	-	-	-	13,038	(23,052)	(21,627)	(31,641)	(31,641)	(26,821)
Current portion of reserves and deposits	-	-	-	-	59,670	28,967	-	88,637	88,637	346,705
Total current assets	12,434	17,487	13,994	43,915	369,073	363,576	26,886	759,535	803,450	1,910,571
Property and Equipment:										
Land	25,600	67,500	297,500	390,600	1,140,806	152,000	44,000	1,336,806	1,727,406	1,727,406
Buildings and improvements	726,173	1,378,750	1,299,942	3,404,865	13,896,188	6,195,048	5,082,375	25,173,611	28,578,476	28,396,667
Furniture and equipment	67,682	39,769	68,061	175,512	256,844	234,395	242,559	733,798	909,310	786,617
	819,455	1,486,019	1,665,503	3,970,977	15,293,838	6,581,443	5,368,934	27,244,215	31,215,192	30,910,690
Less - accumulated depreciation	575,881	642,059	508,805	1,726,745	2,406,878	3,298,283	2,323,260	8,028,421	9,755,166	8,925,617
Net property and equipment	243,574	843,960	1,156,698	2,244,232	12,886,960	3,283,160	3,045,674	19,215,794	21,460,026	21,985,073
Other Assets:										
Reserves and deposits, net of current portion	108,969	144,816	222,333	476,118	895,217	638,716	351,584	1,885,517	2,361,635	1,841,538
Due to affiliates, net of current portion	(146,465)	(143,926)	(358,280)	(648,671)	-	-	(1,086,985)	(1,086,985)	(1,735,656)	(1,108,963)
Capitalized costs, net	-	-	-	-	20,280	-	-	20,280	20,280	24,960
Total other assets	(37,496)	890	(135,947)	(172,553)	915,497	638,716	(735,401)	818,812	646,259	757,535
Total assets	$ 218,512	$ 862,337	$ 1,034,745	$ 2,115,594	$ 14,171,530	$ 4,285,452	$ 2,337,159	$ 20,794,141	$ 22,909,735	$ 24,653,179
Liabilities and Entities' Equity (Deficit)										
Current Liabilities:										
Current portion of long-term debt	$ -	$ -	$ -	$ -	$ 49,897	$ 82,513	$ -	$ 132,410	$ 132,410	$ 121,145
Current portion of contingent debt	-	-	-	-	210,134	-	-	210,134	210,134	111,844
Accured interest	-	-	-	-	-	12,563	-	12,563	12,563	-
Accounts payable and accrued expenses	14,973	5,669	3,713	24,355	53,755	38,827	59,693	152,275	176,630	142,637
Current portion of due to affiliate	-	-	-	-	-	-	-	-	-	-
Funds held in trust	2,287	2,136	3,415	7,838	13,813	13,971	9,951	37,735	45,573	43,608
Total current liabilities	17,260	7,805	7,128	32,193	327,599	147,874	69,644	545,117	577,310	419,234
Other Liabilities:										
Long-term debt and unamortized debt issuance costs, net of current portion	72,731	-	-	72,731	463,593	4,562,469	-	5,026,062	5,098,793	5,215,993
Contingent debt and unamortized debt issuance costs, net of current portion	-	775,000	1,332,061	2,107,061	6,212,014	-	3,944,534	10,156,548	12,263,609	12,198,149
Notes payable and deferred interest - affiliates	-	-	-	-	1,780,136	-	355,014	2,135,150	2,135,150	2,135,150
Developer and overhead fees payable and deferred interest	-	490,599	-	490,599	-	-	-	-	490,599	462,829
Total other liabilities	72,731	1,265,599	1,332,061	2,670,391	8,455,743	4,562,469	4,299,548	17,317,760	19,988,151	20,012,121
Total liabilities	89,991	1,273,404	1,339,189	2,702,584	8,783,342	4,710,343	4,369,192	17,862,877	20,565,461	20,431,355
Entities' Equity (Deficit):										
Operating	(151,291)	(134,244)	(351,414)	(636,949)	1,024,108	304,616	(1,129,743)	198,981	(437,968)	1,046,645
Property and equipment	279,812	(276,823)	46,970	49,959	4,364,080	(729,507)	(902,290)	2,732,283	2,782,242	3,175,179
Total entities' equity (deficit)	128,521	(411,067)	(304,444)	(586,990)	5,388,188	(424,891)	(2,032,033)	2,931,264	2,344,274	4,221,824
Total liabilities and entities' equity (deficit)	$ 218,512	$ 862,337	$ 1,034,745	$ 2,115,594	$ 14,171,530	$ 4,285,452	$ 2,337,159	$ 20,794,141	$ 22,909,735	$ 24,653,179

HEARTH, INC. AND AFFILIATES

Supplementary Consolidating Statement of Financial Position - Rental Properties
December 31, 2016

	Non-Profits				For-Profits				Total
Assets	**Bishop**	**Beacon**	**Burroughs**	**Total Non-Profits**	**HOLP**	**ECLP**	**Ruggles**	**Total For-Profits**	**Total Rental Properties**
Current Assets:									
Cash and cash equivalents	$ 10,214	$ 9,404	$ 7,621	$ 27,239	$ 143,306	$ 1,270,330	$ 5,947	$ 1,419,583	$ 1,446,822
Funds held in trust	2,126	1,857	3,042	7,025	13,618	13,842	9,123	36,583	43,608
Current portion of accounts and pledges receivable, net	1,526	-	1,552	3,078	7,489	3,721	4,745	15,955	19,033
Prepaid expenses and deposits	2,460	2,863	3,655	8,978	27,155	27,919	17,172	72,246	81,224
Current portion of due from affiliates	-	-	-	-	16,591	(20,330)	(23,082)	(26,821)	(26,821)
Current portion of reserves and deposits	-	-	-	-	49,168	297,537	-	346,705	346,705
Total current assets	16,326	14,124	15,870	46,320	257,327	1,593,019	13,905	1,864,251	1,910,571
Property and Equipment:									
Land	25,600	67,500	297,500	390,600	1,140,806	152,000	44,000	1,336,806	1,727,406
Buildings and improvements	709,523	1,376,070	1,299,942	3,385,535	13,896,188	6,035,219	5,079,725	25,011,132	28,396,667
Furniture and equipment	67,682	39,769	68,061	175,512	251,994	143,927	215,184	611,105	786,617
	802,805	1,483,339	1,665,503	3,951,647	15,288,988	6,331,146	5,338,909	26,959,043	30,910,690
Less - accumulated depreciation	551,990	606,357	462,357	1,620,704	1,987,101	3,136,018	2,181,794	7,304,913	8,925,617
Net property and equipment	250,815	876,982	1,203,146	2,330,943	13,301,887	3,195,128	3,157,115	19,654,130	21,985,073
Other Assets:									
Reserves and deposits	18,998	67,131	78,954	165,083	865,441	765,894	45,120	1,676,455	1,841,538
Due to affiliates, net of current portion	(55,343)	(75,500)	(214,095)	(344,938)	-	-	(764,025)	(764,025)	(1,108,963)
Capitalized costs, net	-	-	-	-	24,960	-	-	24,960	24,960
Total other assets	(36,345)	(8,369)	(135,141)	(179,855)	890,401	765,894	(718,905)	937,390	757,535
Total assets	$ 230,796	$ 882,737	$ 1,083,875	$ 2,197,408	$ 14,449,615	$ 5,554,041	$ 2,452,115	$ 22,455,771	$ 24,653,179
Liabilities and Entities' Equity (Deficit)									
Current Liabilities:									
Current portion of long-term debt	$ -	$ -	$ -	$ -	$ 47,706	$ 73,439	$ -	$ 121,145	$ 121,145
Current portion contingent debt	-	-	-	-	111,844	-	-	111,844	111,844
Accounts payable and accrued expenses	4,105	6,444	3,898	14,447	45,313	33,743	49,134	128,190	142,637
Current portion of due to affiliate	-	-	-	-	-	-	-	-	-
Funds held in trust	2,126	1,857	3,042	7,025	13,618	13,842	9,123	36,583	43,608
Total current liabilities	6,231	8,301	6,940	21,472	218,481	121,024	58,257	397,762	419,234
Other Liabilities:									
Long-term debt and unamortized debt issuance costs, net of current portion	72,731	-	-	72,731	509,822	4,633,440	-	5,143,262	5,215,993
Contingent debt and unamortized debt issuance costs, net of current portion	-	775,000	1,330,615	2,105,615	6,310,304	-	3,782,230	10,092,534	12,198,149
Notes payable and deferred interest - affiliates	-	-	-	-	1,780,136	-	355,014	2,135,150	2,135,150
Developer and overhead fees payable and deferred interest	-	462,829	-	462,829	-	-	-	-	462,829
Total other liabilities	72,731	1,237,829	1,330,615	2,641,175	8,600,262	4,633,440	4,137,244	17,370,946	20,012,121
Total liabilities	78,962	1,246,130	1,337,555	2,662,647	8,818,743	4,754,464	4,195,501	17,768,708	20,431,355
Entities' Equity (Deficit):									
Operating	(45,248)	(69,677)	(205,165)	(320,090)	915,242	1,259,870	(808,377)	1,366,735	1,046,645
Property and equipment	197,082	(293,716)	(48,515)	(145,149)	4,715,630	(460,293)	(935,009)	3,320,328	3,175,179
Total entities' equity (deficit)	151,834	(363,393)	(253,680)	(465,239)	5,630,872	799,577	(1,743,386)	4,687,063	4,221,824
Total liabilities and entities' equity (deficit)	$ 230,796	$ 882,737	$ 1,083,875	$ 2,197,408	$ 14,449,615	$ 5,554,041	$ 2,452,115	$ 22,455,771	$ 24,653,179

HEARTH, INC. AND AFFILIATES

Supplementary Consolidating Statement of Activities - Rental Properties
For the Year Ended December 31, 2017
(With Summarized Comparative Totals for the Year Ended December 31, 2016)

	2017									2016
	Non-Profits				For-Profits				Total Rental Properties	Total Rental Properties
	Bishop	Beacon	Burroughs	Total Non-Profits	HOLP	ECLP	Ruggles	Total For-Profits		
Changes in Unrestricted Net Assets:										
Operating revenues:										
Fee income and other revenue:										
Rental fees, net	$ 94,014	$ 118,541	$ 136,073	$ 348,628	$ 994,405	$ 959,310	$ 596,638	$ 2,550,353	$ 2,898,981	$ 2,407,396
Investment income	129	497	791	1,417	6,614	4,712	1,339	12,665	14,082	15,428
Total operating revenues	94,143	119,038	136,864	350,045	1,001,019	964,022	597,977	2,563,018	2,913,063	2,422,824
Operating expenses:										
Housing and supportive services	93,565	103,240	141,180	337,985	819,246	811,070	582,854	2,213,170	2,551,155	2,042,203
Depreciation and amortization	23,891	35,702	46,448	106,041	424,457	162,265	141,466	728,188	834,229	751,152
Total operating expenses	117,456	138,942	187,628	444,026	1,243,703	973,335	724,320	2,941,358	3,385,384	2,793,355
Changes in unrestricted net assets from operations	(23,313)	(19,904)	(50,764)	(93,981)	(242,684)	(9,313)	(126,343)	(378,340)	(472,321)	(370,531)
Other revenues (expenses):										
Forgiveness of debt	-	-	-	-	-	-	-	-	-	123,831
Deferred interest on contingent debt	-	(27,770)	-	(27,770)	-	-	(162,304)	(162,304)	(190,074)	(273,705)
Total other revenues (expenses)	-	(27,770)	-	(27,770)	-	-	(162,304)	(162,304)	(190,074)	(149,874)
Changes in unrestricted net assets	(23,313)	(47,674)	(50,764)	(121,751)	(242,684)	(9,313)	(288,647)	(540,644)	(662,395)	(520,405)
Changes in Net Assets Attributable to Non-Controlling Interest	-	-	-	-	242,660	-	288,358	531,018	531,018	$ 403,867
Changes in net assets attributable to Hearth	$ (23,313)	$ (47,674)	$ (50,764)	$ (121,751)	$ (24)	$ (9,313)	$ (289)	$ (9,626)	$ (131,377)	$ (116,538)

HEARTH, INC. AND AFFILIATES

Supplementary Consolidating Statement of Activities - Rental Properties
For the Year Ended December 31, 2016

	Non-Profits				For-Profits				Total
	Bishop	Beacon	Burroughs	Total Non-Profits	HOLP	ECLP	Ruggles	Total For-Profits	Total Rental Properties
Changes in Unrestricted Net Assets:									
Operating revenues:									
Fee income and other revenue:									
Rental fees, net	$ 92,174	$ 113,286	$ 137,820	$ 343,280	$ 940,123	$ 879,856	$ 244,137	$ 2,064,116	$ 2,407,396
Investment income	4	299	544	847	6,299	8,049	233	14,581	15,428
Total operating revenues	92,178	113,585	138,364	344,127	946,422	887,905	244,370	2,078,697	2,422,824
Operating expenses:									
Housing and supportive services	79,119	90,933	132,557	302,609	828,488	649,711	261,395	1,739,594	2,042,203
Depreciation and amortization	24,491	35,481	46,085	106,057	431,533	154,897	58,665	645,095	751,152
Total operating expenses	103,610	126,414	178,642	408,666	1,260,021	804,608	320,060	2,384,689	2,793,355
Changes in unrestricted net assets from operations	(11,432)	(12,829)	(40,278)	(64,539)	(313,599)	83,297	(75,690)	(305,992)	(370,531)
Other revenues (expenses):									
Forgiveness of debt	1,686	65,686	2,547	69,919	-	-	53,912	53,912	123,831
Deferred interest on contingent debt	-	(26,198)	-	(26,198)	-	(178,895)	(68,612)	(247,507)	(273,705)
Total other revenues (expenses)	1,686	39,488	2,547	43,721	-	(178,895)	(14,700)	(193,595)	(149,874)
Changes in unrestricted net assets	(9,746)	26,659	(37,731)	(20,818)	(313,599)	(95,598)	(90,390)	(499,587)	(520,405)
Changes in Net Assets Attributable to Non-Controlling Interest	-	-	-	-	313,567	-	90,300	403,867	403,867
Changes in net assets attributable to Hearth	$ (9,746)	$ 26,659	$ (37,731)	$ (20,818)	$ (32)	$ (95,598)	$ (90)	$ (95,720)	$ (116,538)