

THE OPEN HEARTH ASSOCIATION, INC.

**Report on Audit of
Financial Statements**

December 31, 2011

THE OPEN HEARTH ASSOCIATION, INC.

CONTENTS

Independent Auditors' Report	1-2
Statements of Financial Position – December 31, 2011 and 2010	3
Statements of Activities for the Years Ended December 31, 2011 and 2010	4
Statements of Cash Flows for the Years Ended December 31, 2011 and 2010	5
Notes to Financial Statements	6-16

Bennett & Company, PC

Certified Public Accountants

34 Jerome Avenue, Suite 300

Bloomfield, CT 06002

(860) 243-3333

Fax: 726-1111

Independent Auditors' Report

July 2, 2012

To the Board of Trustees
The Open Hearth Association, Inc.

We have audited the accompanying statements of financial position of The Open Hearth Association, Inc. (the Association) as of December 31, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 8 to the financial statements, the Association has not accounted for its defined benefit pension plan in accordance with accounting principles generally accepted in the United States of America, which require the cost of the plan to be recognized over the employees' respective service periods and a liability to be recognized when the projected benefit obligation exceeds the fair value of plan assets. The effects of this departure on the financial statements are not reasonably determinable.

In our opinion, except for the effects of the departure from accounting principles generally accepted in the United States of America described above concerning the accounting and reporting for its defined benefit pension plan, the financial statements referred to above present fairly, in all material respects, the financial position of the Association as of December 31, 2011, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 2, 2012 on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

Certified Public Accountants

THE OPEN HEARTH ASSOCIATION, INC.

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2011 AND 2010

ASSETS

	<u>2011</u>	<u>2010</u>
Current Assets:		
Cash and cash equivalents	\$ 249,202	\$ 156,314
Custodial cash	25,379	30,860
Grants receivable	27,287	227,306
Accounts receivable	2,813	12,512
Inventory	85,366	146,349
Prepaid expenses	<u>30,913</u>	<u>49,075</u>
Total current assets	<u>420,960</u>	<u>622,416</u>
Property and Equipment:		
Property held for sale	253,475	265,539
Property and equipment, net	<u>2,604,897</u>	<u>2,676,647</u>
Total property and equipment	<u>2,858,372</u>	<u>2,942,186</u>
Other Assets:		
Investments, endowment	2,136,334	2,260,665
Investments, other	<u>628</u>	<u>628</u>
Total other assets	<u>2,136,962</u>	<u>2,261,293</u>
Total Assets	<u>\$ 5,416,294</u>	<u>\$ 5,825,895</u>

LIABILITIES AND NET ASSETS

Current Liabilities:		
Accounts payable	\$ 91,410	\$ 65,439
Accrued expenses	134,196	106,605
Deferred support	6,121	-
Custodial liability	25,379	30,860
Line of credit	<u>-</u>	<u>135,000</u>
Total current liabilities	<u>257,106</u>	<u>337,904</u>
Net Assets:		
Board designated endowment	1,973,542	2,103,116
Undesignated	<u>476,514</u>	<u>733,306</u>
Total unrestricted net assets	2,450,056	2,836,422
Temporarily restricted net assets	2,551,583	2,494,020
Permanently restricted net assets	<u>157,549</u>	<u>157,549</u>
Total net assets	<u>5,159,188</u>	<u>5,487,991</u>
Total Liabilities and Net Assets	<u>\$ 5,416,294</u>	<u>\$ 5,825,895</u>

The accompanying notes are an integral part of the financial statements.

THE OPEN HEARTH ASSOCIATION, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Changes in Unrestricted Net Assets		
Revenue and support:		
Governmental and other grants	\$ 1,380,001	\$ 1,374,406
Program fees	68,959	66,946
In-kind contributions	270,032	220,550
Contributions	92,441	198,125
Wood sales	399,345	377,973
Home Ownership Program income	30,663	37,009
Investment income	57,923	44,254
Other income	-	11,507
Net assets released from restrictions	<u>258,642</u>	<u>504,978</u>
Total unrestricted revenues and other support	<u>2,558,006</u>	<u>2,835,748</u>
Operating expenses:		
Shelter and transitional living	1,668,326	1,660,193
Wood yard	484,808	473,085
Sheldon Street	59,829	57,553
Development	61,196	63,964
Management and general	301,842	244,722
In-kind expenses	<u>270,032</u>	<u>220,550</u>
Total expenses	<u>2,846,033</u>	<u>2,720,067</u>
Change in unrestricted net assets – operating	<u>(288,027)</u>	<u>115,681</u>
Other changes in unrestricted net assets:		
Investment gains (losses)	<u>(98,339)</u>	<u>258,583</u>
Change in unrestricted net assets	<u>(386,366)</u>	<u>374,264</u>
Changes in Temporarily Restricted Net Assets		
Contributions	316,205	246,290
Investment income	4,159	3,178
Investment gains (losses)	<u>(4,159)</u>	18,572
Net assets released from restrictions	<u>(258,642)</u>	<u>(504,978)</u>
Change in temporarily restricted net assets	<u>57,563</u>	<u>(236,938)</u>
Change in Net Assets	<u>(328,803)</u>	137,326
Net Assets – Beginning of Year	<u>5,487,991</u>	<u>5,350,665</u>
Net Assets – End of Year	<u>\$ 5,159,188</u>	<u>\$ 5,487,991</u>

The accompanying notes are an integral part of the financial statements.

THE OPEN HEARTH ASSOCIATION, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ (328,803)	\$ 137,326
Adjustments to reconcile the change in net assets to net cash used in operating activities:		
Investment (gains) losses	127,549	(270,033)
Contributions to endowment fund	(5,243)	(5,591)
Depreciation	195,906	187,548
(Increase) decrease in operating assets:		
Custodial cash	5,481	17,552
Accounts receivable	9,699	(2,873)
Grants receivable	200,019	(81,823)
Prepaid expenses	18,162	(4,821)
Inventory	60,983	(52,256)
Increase (decrease) in operating liabilities:		
Accounts payable	25,971	(3,474)
Accrued expenses	27,591	15,759
Deferred support	6,121	-
Custodial liability	(5,481)	(22,752)
Net cash provided by (used in) operating activities	<u>337,955</u>	<u>(85,438)</u>
Cash Flows from Investing Activities:		
Proceeds from sale of investments	542,124	503,620
Purchase of investments	(540,099)	(481,625)
Purchase of property and equipment	(112,092)	(21,272)
Net cash provided by (used in) investing activities	<u>(110,067)</u>	<u>723</u>
Cash Flows from Financing Activities		
Line of credit proceeds and repayments, net	(135,000)	80,000
Net cash provided by (used in) financing activities	<u>(135,000)</u>	<u>80,000</u>
Net Increase (Decrease) in Cash and Cash Equivalents	92,888	(4,715)
Cash and Cash Equivalents - Beginning of Year	<u>156,314</u>	<u>161,029</u>
Cash and Cash Equivalents - End of Year	<u>\$ 249,202</u>	<u>\$ 156,314</u>
Cash Paid During the Year for Interest	\$ 1,961	\$ 5,023

The accompanying notes are an integral part of the financial statements.

THE OPEN HEARTH ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Organization – The Open Hearth Association, Inc. (the Association) is a nonprofit corporation organized to provide food and shelter to homeless and unemployed men and give them rehabilitation and vocational guidance to enable them to reestablish themselves in the workforce.

The Association maintains a wood yard in which residents assist in operations. The Association also maintains a kitchen run by residents for the welfare of all residents. Other programs are provided to enable the residents to transition into the mainstream workforce.

The Association receives its funding from a variety of sources, including contributions and bequests, grants, contracts, sales of wood products, investments and fees for program services.

Basis of Accounting Presentation - The financial statements of the Association have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), except as discussed in Note 8. Accordingly, the accounts of the Association are reported in the following net asset categories:

Unrestricted Net Assets - Unrestricted net assets represent available resources other than donor-restricted contributions. These resources may be expended at the discretion of the Board of Directors. The Board has designated a portion of unrestricted net assets to function as an endowment, as described in Note 6.

Temporarily Restricted Net Assets - Temporarily restricted net assets represent contributions which are restricted by the donor as to purpose or time of expenditure and also include accumulated investment income and gains on donor-restricted endowment assets that have not been appropriated for expenditure.

Permanently Restricted Net Assets – Permanently restricted net assets represent resources which have donor-imposed restrictions that require that the principal be maintained in perpetuity but permit the Association to expend the income earned thereon. There were no changes in permanently restricted net assets for the year ended December 31, 2011.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

THE OPEN HEARTH ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONT'D:

Cash Equivalents – Cash equivalents are defined as highly liquid investments with original maturities of 90 day or less, exclusive of money market funds held by brokers, which are considered to be investments, and custodial cash. The Association maintains deposits in financial institutions that may, at times, exceed federal depository insurance limits. Management believes that the Association's deposits are not subject to significant credit risk.

Custodial Cash – The Association has a policy requiring residents to save for future support once they leave the shelter programs. These residents' funds held by the Association are reported as custodial cash and a corresponding custodial liability on the statements of financial position.

Investments - Investments in equity securities with readily determinable fair values and investments in debt securities are reported at their fair values in the statements of financial position. Realized and unrealized gains and losses on these investments are reported in the statements of activities as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law.

Receivables – Accounts and grants receivable consist primarily of amounts due from vendors and governmental agencies related to exchange transactions with those parties. Management uses the direct write-off method for uncollectible receivables and has written off uncollectible balances at year end. As such, management believes that an allowance for doubtful accounts is not necessary with respect to the remaining balances.

Inventory – Inventory consists of firewood and is valued at the lower of average cost or market value.

Property Held for Sale – Property held for sale consists of residential condominium units purchased for sale to residents graduating from the Association's recovery programs. The condominiums are rented to residents while they work to qualify to purchase the properties.

Property and Equipment – Property and equipment acquisitions, and improvements thereon that exceed \$500, are capitalized at cost and depreciated on a straight-line basis over their estimated useful lives. Repairs and maintenance are charged to expense as incurred.

THE OPEN HEARTH ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONT'D:

Contributions - Unconditional contributions are recognized when pledged or received, as applicable, and are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions receivable expected to be collected in more than one year are discounted to their present value. The Association reports nongovernmental contributions and grants of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit their use. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Conditional promises to donate are recognized when the conditions on which they depend are substantially met.

The Association reports gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions on how the assets are to be used and gifts and grants of cash or other assets that must be used to acquire property and equipment are reported as temporarily restricted support. The Association reports expirations of donor restrictions ratably over the estimated life of the asset.

In-Kind Contributions – The Association recognizes contributed facilities and food donations in the accompanying financial statements at their estimated fair values. Contributed services are recognized in the financial statements if they create or enhance nonfinancial assets or require specialized skills and would typically be purchased if not provided by donation. General volunteer services do not meet these criteria for recognition in the financial statements. However, a substantial number of volunteers have donated significant amounts of their time to the Association's programs.

Functional Allocation of Expenses - The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

THE OPEN HEARTH ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONT'D:

Income Taxes – The Association is exempt from federal and state income taxes as a public charity under Section 501(c)(3) of the Internal Revenue Code.

As of December 31, 2011 and 2010, the Association had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. Additionally, the Association incurred no interest and penalties related to income taxes during 2011 and 2010.

With few exceptions, the Association is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years before 2008.

Reclassifications – Certain amounts in the prior year financial statements have been reclassified to conform to their current year presentations.

NOTE 2 - INVESTMENTS:

The fair values of all investments are determined using quoted prices in active markets for identical assets (Level 1, defined in Financial Accounting Standards Board ASC 820, *Fair Value Measurements and Disclosures*).

Investments consist of the following as of December 31,

	<u>2011</u>	<u>2010</u>
Money market funds	\$ 72,196	\$ 98,886
U.S. Government and agency obligations	384,652	377,670
Marketable equity securities	<u>1,679,486</u>	<u>1,784,109</u>
Subtotal	2,136,334	2,260,665
Other investments - limited partnership	<u>628</u>	<u>628</u>
	<u>\$ 2,136,962</u>	<u>\$2,261,293</u>

Investment income was \$62,811 and \$48,432 in 2011 and 2010, respectively, and was reported net of investment fees of \$729 and \$1,000, respectively. Realized gains on investments were \$25,051 and \$7,046 in 2011 and 2010, respectively.

The change in unrealized gains (losses) relating to investments that are still held at year end was (\$127,549) and \$270,033 for 2011 and 2010, respectively.

THE OPEN HEARTH ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 3 – PROPERTY AND EQUIPMENT:

Net property and equipment consisted of the following at December 31,

	<u>2011</u>	<u>2010</u>
Building and building improvements	\$ 4,796,752	\$ 4,845,619
Machinery and other equipment	144,647	438,894
Furniture and fixtures	22,232	110,345
Automotive equipment	195,936	219,744
Wood yard	<u>135,373</u>	<u>158,403</u>
	5,294,940	5,773,005
Less accumulated depreciated	<u>2,690,043</u>	<u>3,096,359</u>
Net property and equipment	<u>\$ 2,604,897</u>	<u>\$ 2,676,646</u>

Depreciation expense for 2011 and 2010 was \$195,906 and \$187,548, respectively.

NOTE 4 – LINE OF CREDIT:

In June 2008, the Association entered into a \$250,000 working capital revolving line of credit agreement with Bank of America bearing interest at the Wall Street Journal Prime Rate plus 1.5%, payable monthly. Borrowings under this agreement are collateralized by substantially all of the Association's assets. The line of credit expired June 24, 2012 and was renewed through June 24, 2013 bearing interest at the Bank's Prime Rate plus .75%.

Interest expense incurred on the line of credit during 2011 and 2010 was \$1,894 and \$3,035, respectively.

THE OPEN HEARTH ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 5 - TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets released from restrictions during 2011 and 2010, by incurring expenses satisfying the following purpose or time restrictions were as follows:

	<u>2011</u>	<u>2010</u>
Passage of time:		
Life of equipment and building improvements purchased with grants	\$ 113,085	\$ 113,085
Purpose restrictions:		
Resident training and programs	33,468	309,982
Food for residents	7,089	60,162
Equipment purchase	5,000	-
Building – roof	100,000	-
Expenditures of accumulated investment gains and income on donor restricted endowment	<u>-</u>	<u>21,749</u>
	<u>\$ 258,642</u>	<u>\$ 504,978</u>

Temporarily restricted net assets are available for the following purpose or time restrictions at December 31,

	<u>2011</u>	<u>2010</u>
Passage of time:		
Life of equipment and building improvements purchased with grants	\$ 2,312,800	\$ 2,425,885
Purpose restrictions:		
Resident training and programs	91,387	33,135
Building – roof	-	35,000
Food	96,057	-
Equipment purchase	<u>51,339</u>	<u>-</u>
	<u>\$ 2,551,583</u>	<u>\$ 2,494,020</u>

NOTE 6 - ENDOWMENT:

The Association's endowment consists of funds endowed for the purpose of funding the Association's programs. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as an endowment. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

THE OPEN HEARTH ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 6 - ENDOWMENT CONT'D:

Interpretation of Relevant Law – The Board of Directors of the Association has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), adopted by the State of Connecticut, as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Association classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Association considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the organization
- The investment policies of the organization

THE OPEN HEARTH ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 6 - ENDOWMENT CONT'D:

Endowment Net Asset Composition by Type of Fund as of December 31, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 5,243	\$ 157,549	\$ 162,792
Board-designated endowment funds	<u>1,973,542</u>	<u>-</u>	<u>-</u>	<u>1,973,542</u>
Total	<u>\$ 1,973,542</u>	<u>\$ 5,243</u>	<u>\$ 157,549</u>	<u>\$ 2,136,334</u>

Changes in Endowment Net Assets for the Year Ended December 31, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ <u>2,103,116</u>	\$ <u>-</u>	\$ <u>157,549</u>	\$ <u>2,260,665</u>
Investment return:				
Investment income	57,923	4,159	-	62,082
Investment gain (losses)	<u>(98,339)</u>	<u>(4,159)</u>	<u>-</u>	<u>(102,498)</u>
Total investment return	<u>(40,416)</u>	<u>-</u>	<u>-</u>	<u>(40,416)</u>
Contributions received in 2011	<u>-</u>	<u>5,243</u>	<u>-</u>	<u>5,243</u>
Expenditure of endowment assets	<u>(89,158)</u>	<u>-</u>	<u>-</u>	<u>(89,158)</u>
Endowment net assets, end of year	<u>\$ 1,973,542</u>	<u>\$ 5,243</u>	<u>\$ 157,549</u>	<u>\$ 2,136,334</u>

THE OPEN HEARTH ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 6 - ENDOWMENT CONT'D:

Endowment Net Asset Composition by Type of Fund as of December 31, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ -	\$ 157,549	\$ 157,549
Board-designated endowment funds	<u>2,103,116</u>	<u>-</u>	<u>-</u>	<u>2,103,116</u>
Total	<u>\$ 2,103,116</u>	<u>\$ -</u>	<u>\$ 157,549</u>	<u>\$ 2,260,665</u>

Changes in Endowment Net Assets for the Year Ended December 31, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ <u>1,849,380</u>	\$ <u>-</u>	\$ <u>157,549</u>	\$ <u>2,006,929</u>
Investment return:				
Investment income	44,254	3,178	-	47,432
Investment gains	<u>258,616</u>	<u>18,571</u>	<u>-</u>	<u>277,187</u>
Total investment return	<u>302,870</u>	<u>21,749</u>	<u>-</u>	<u>324,619</u>
Contributions received in 2010	<u>5,591</u>	<u>-</u>	<u>-</u>	<u>5,591</u>
Expenditure of endowment assets	<u>(54,725)</u>	<u>(21,749)</u>	<u>-</u>	<u>(76,474)</u>
Endowment net assets, end of year	<u>\$ 2,103,116</u>	<u>\$ -</u>	<u>\$ 157,549</u>	<u>\$ 2,260,665</u>

THE OPEN HEARTH ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 6 - ENDOWMENT CONT'D:

Description of Amounts Classified as Permanently Restricted Net Assets and Temporarily Restricted Net Assets (Endowment Only)

	<u>2011</u>	<u>2010</u>
Permanently restricted net assets:		
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA	\$ <u>157,549</u>	\$ <u>157,549</u>
Total Endowment Funds Classified as Permanently Restricted Net Assets	\$ <u>157,549</u>	\$ <u>157,549</u>

Return of Objectives and Risk Parameters – The Association’s primary objective is to maximize long-term returns through a focus on capital appreciation with current income being of secondary importance.

Strategies Employed for Achieving Objectives – The Association employs a diversified asset allocation including both equity and fixed income components. Equity investments consist of a diversified blend of common stocks representing companies with strong fundamental characteristics, sustainable earnings growth and attractive relative valuation. Fixed income investments consist of high quality bonds that are actively managed.

Spending Policy and How the Investment Objectives Related to Spending Policy – The Association has a general spending policy of 4% of the endowment’s fair value, although additional draws are necessary from time to time to meet operating needs. Given the Association’s return objectives, its goal is to maintain the purchasing power of its endowment assets.

NOTE 7 – IN-KIND CONTRIBUTIONS:

The Association is provided use of the wood yard site at no charge and receives food donations used in its shelter and transitional living programs. These have been recorded as contributions at their estimated fair values for the years ended December 31,

	<u>2011</u>	<u>2010</u>
Wood yard site usage	\$ 100,000	\$ 100,000
Food	<u>170,032</u>	<u>120,550</u>
	\$ <u>270,032</u>	\$ <u>220,550</u>

The Association has recognized corresponding rent and food expense in the accompanying statements of activities.

THE OPEN HEARTH ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 8 – EMPLOYEE BENEFIT PLANS:

Defined Contribution Plan – The Association has a qualified noncontributory defined contribution plan to provide retirement benefits for all eligible employees. The minimum eligibility requirements for the plan are 21 years of age and one year of service. Vesting is graduated over five years or attainment of early retirement age (55). The Association's contribution was eliminated on October 1, 2009, as part of the organization's cost cutting measures. As such, there were no contributions to the defined contribution plan during 2011 or 2010, respectively.

Defined Benefit Plan – The Association has a frozen qualified benefit plan covering certain vested employees. Benefits paid under the plan are based primarily on years of service. There were no contributions to the plan during 2011 or 2010.

The Association has not accounted for its defined benefit pension plan in accordance with accounting principles generally accepted in the United States of America (GAAP), which require the cost of the plan to be recognized over the employees' respective service periods and a liability to be recognized when the projected benefit obligation exceeds the fair value of plan assets. GAAP also requires significant disclosures regarding the plan including plan assets, the present value of accrued plan benefits and the plan's funding status.

It is reasonably possible that significant unfunded liabilities under the plan may exist. The plan's actuaries have determined the plan's unfunded liability is approximately \$16,000.

Tax-Deferred Annuity Plan – The Association maintains a Section 403(b) tax-deferred annuity plan. All employees are eligible to participate in the plan by making contributions through voluntary salary reductions. The plan permits only employee salary reduction contributions and, as such, the Association made no contributions to the plan during 2011 or 2010.

NOTE 9 – CONTINGENCY:

The Association participates in a number of federal and state assisted grant programs. The use of grants in programs is subject to future review by and available funding of the grantors. Such reviews may result in disallowed costs requiring repayment to grantors. The Association has recognized all known liabilities to grantors. Also, the Association's operations and financial conditions could be materially impacted if grants from these programs were significantly reduced.

NOTE 10 – EVALUATION OF SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through July 19, 2012, the date which the financial statements were available to be issued.