

The Open Hearth Association, Inc.

**Financial Statements
and Independent Auditor's Report**

December 31, 2014 and 2013

The Open Hearth Association, Inc.

Index

	<u>Page</u>
Independent Auditor's Report	2-3
Statements of Financial Position	4
Statements of Activities	5
Statements of Cash Flows	6
Notes to Financial Statements	7 - 20

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of The Open Hearth Association, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2014 and 2013, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of The Open Hearth Association, Inc. as of December 31, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2015, on our consideration of The Open Hearth Association, Inc.'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 of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Open Hearth Association, Inc.'s internal control over financial reporting and compliance.

CohnReznick LLP

Hartford, Connecticut
June 22, 2015

The Open Hearth Association, Inc.

Statements of Financial Position
December 31, 2014 and 2013

<u>Assets</u>	<u>2014</u>	<u>2013</u>
Current assets:		
Cash	\$ 267,665	\$ 266,958
Custodial cash	51,622	43,345
Accounts receivable	3,500	3,845
Grants receivable	32,500	55,964
Inventory	9,200	3,057
Prepaid expenses	39,205	36,329
Total current assets	<u>403,692</u>	<u>409,498</u>
Property and equipment, net	<u>2,248,090</u>	<u>2,387,180</u>
Other assets:		
Property available for sale	63,402	75,222
Investments, endowment	2,687,230	2,883,667
Total other assets	<u>2,750,632</u>	<u>2,958,889</u>
Total assets	<u><u>\$ 5,402,414</u></u>	<u><u>\$ 5,755,567</u></u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	\$ 40,980	\$ 54,138
Accrued expenses	117,749	171,343
Deferred revenue	12,161	12,212
Custodial liability	51,622	43,345
Current portion of long-term debt	4,954	-
Current portion of capital lease	4,218	16,872
Total current liabilities	<u>231,684</u>	<u>297,910</u>
Long-term liability:		
Long-term debt, net of current portion	20,044	-
Capital lease, net of current portion	-	4,218
Total liabilities	<u>251,728</u>	<u>302,128</u>
Net assets:		
Board designated endowment	2,497,507	2,697,269
Undesignated	60,431	15,546
Total unrestricted	<u>2,557,938</u>	<u>2,712,815</u>
Temporarily restricted	2,435,199	2,583,075
Permanently restricted	157,549	157,549
Total net assets	<u>5,150,686</u>	<u>5,453,439</u>
Total liabilities and net assets	<u><u>\$ 5,402,414</u></u>	<u><u>\$ 5,755,567</u></u>

See Notes to Financial Statements.

The Open Hearth Association, Inc.

**Statements of Activities
Years Ended December 31, 2014 and 2013**

	2014	2013
Changes in unrestricted net assets:		
Revenue and support:		
Governmental and other grants	\$ 1,350,309	\$ 1,341,807
Program fees	104,130	83,029
In-kind contributions	250,853	308,210
Contributions	109,382	146,164
Wood sales	330,567	267,713
Home Ownership Program income	14,954	21,166
Investment income	59,600	41,906
Other income	293	-
Net assets released from restrictions	507,169	442,379
Total unrestricted revenues and other support	2,727,257	2,652,374
Operating expenses:		
Shelter and transitional living	1,683,826	1,537,495
Wood yard	472,691	390,924
Home Ownership Program	11,534	25,344
Development	83,900	112,712
Management and general	283,305	287,803
In-kind expenses	250,853	308,210
Depreciation	197,143	190,344
Total expenses	2,983,252	2,852,832
Change in unrestricted net assets before other changes	(255,995)	(200,458)
Other changes in unrestricted net assets:		
Realized gain on sale of assets	13,855	-
Unrealized/realized gains on investments	87,263	455,789
Total	101,118	455,789
Change in unrestricted net assets	(154,877)	255,331
Changes in temporarily restricted net assets:		
Contributions	349,197	514,444
Investment income	3,830	3,009
Unrealized/realized gains on investments	6,266	32,716
Net assets released from restrictions	(507,169)	(442,379)
Change in temporarily restricted net assets	(147,876)	107,790
Change in net assets	(302,753)	363,121
Net assets, beginning of year	5,453,439	5,090,318
Net assets, end of year	\$ 5,150,686	\$ 5,453,439

See Notes to Financial Statements.

The Open Hearth Association, Inc.
Statements of Cash Flows
Years Ended December 31, 2014 and 2013

	2014	2013
Operating activities:		
Change in net assets	\$ (302,753)	\$ 363,121
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Unrealized loss (gain) on investments	30,699	(432,202)
Realized gain on investments	(124,228)	(56,303)
Depreciation and amortization	197,143	190,344
(Gain) loss from sale of property held for sale	(12,427)	3,884
Gain on sale of property and equipment	(1,428)	-
Bad debt expense	584	35
Changes in operating assets and liabilities:		
Custodial cash	(8,277)	(18,332)
Accounts receivable	(239)	10,236
Grants receivable	23,464	31,596
Inventory	(6,143)	26,500
Prepaid expenses	(2,876)	2,717
Other assets	-	628
Accounts payable	(13,158)	15,413
Accrued expenses	(53,594)	13,009
Deferred revenue	(51)	12,212
Custodial liability	8,277	18,332
Net cash (used in) provided by operating activities	(265,007)	181,190
Investing activities:		
Proceeds from sale of investments	368,595	906,349
Proceeds from sale of property	24,470	22,564
Purchase of investments	(78,629)	(887,333)
Purchase of property and equipment	(30,287)	(19,090)
Net cash provided by investing activities	284,149	22,490
Financing activities:		
Capital lease repayments	(16,872)	(16,871)
Long-term debt repayments	(1,563)	-
Line of credit borrowings	850,000	150,000
Line of credit repayments	(850,000)	(345,000)
Net cash used in financing activities	(18,435)	(211,871)
Net increase (decrease) in cash	707	(8,191)
Cash, beginning of year	266,958	275,149
Cash, end of year	\$ 267,665	\$ 266,958
Cash paid during the year for interest	\$ 3,143	\$ 340
Supplemental disclosure of noncash investing and financing transactions:		
Total additions of property and equipment	\$ 56,848	\$ 19,090
Less amounts financed through long-term debt	(26,561)	-
Total cash used for purchase of property and equipment	\$ 30,287	\$ 19,090

See Notes to Financial Statements.

The Open Hearth Association, Inc.

Notes to Financial Statements December 31, 2014 and 2013

Note 1 - Organization and summary of significant accounting policies

Nature of activities

The Open Hearth Association, Inc. (the "Association") is a nonprofit corporation organized to provide food and shelter to homeless and unemployed men and provide them rehabilitation and vocational guidance to enable them to re-establish 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 presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The Association reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. They are described as follows:

Unrestricted - Net assets that are not subject to explicit donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors.

Temporarily Restricted - Net assets whose use by the Association is subject to either explicit donor-imposed stipulations or by operation of law that can be fulfilled by actions of the Association or that expire by the passage of time.

Permanently Restricted - Net assets subject to explicit donor-imposed stipulations that they be maintained permanently by the Association and stipulate the use of income and/or appreciation as either unrestricted or temporarily restricted based on donor-imposed stipulations or by operation of law.

Tax exempt status

The Association is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code and therefore, has made no provision for Federal or state income taxes in the accompanying financial statements.

The Association has no unrecognized tax benefits at December 31, 2014 and 2013. The Association's Federal information returns prior to calendar year 2011 are closed and management continually evaluates existing statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

The Open Hearth Association, Inc.

Notes to Financial Statements December 31, 2014 and 2013

If the Association were to have unrelated business income taxes, the Association would recognize interest and penalties associated with uncertain tax positions as part of income tax expense and include accrued interest and penalties with the related tax liability in the statements of financial position.

Cash and cash equivalents

The Association considers all highly liquid investments with a maturity of three months or less when acquired to be cash equivalents. There were no cash equivalents as of December 31, 2014 and 2013.

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

The Association reports investments at their current fair value and reflects any gain or loss within the accompanying statements of activities. Gains and losses are considered unrestricted unless restricted by donor stipulation or law.

Receivables

Management considers the collectability of receivables based on past history, current economic conditions and overall viability of the third party. Receivables are written off only when management believes amounts will not be collected. The Association had bad debts in the amount of \$584 and \$35 for the years ended December 31, 2014 and 2013, respectively.

Receivables arising from regular operations are stated net of an allowance for doubtful accounts. Allowances are set based on assessments by management as to the collectability of individual accounts. There was no allowance for doubtful accounts at December 31, 2014 and 2013.

Inventory

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

Property and equipment

The Association capitalizes all expenditures for equipment in excess of \$500 and a useful life greater than three years. Property and equipment is recorded at cost. Depreciation of property and equipment is reflected on the straight-line method for financial reporting purposes over the estimated useful lives of the assets.

The Open Hearth Association, Inc.

Notes to Financial Statements December 31, 2014 and 2013

Estimated useful lives for financial reporting purposes are as follows:

<u>Asset</u>	<u>Term</u>
Building and building improvements	3 - 40 years
Machinery and other equipment	3 - 15 years
Furniture and fixtures	3 - 15 years
Automotive equipment	5 years
Wood yard	5 - 10 years

Expenditures for repairs and maintenance are charged to expense as incurred. For assets sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in the changes in net assets for the period.

Property available for sale

Property available 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.

Impairment of long-lived assets

The Association evaluates long-lived assets for impairment annually or whenever events or changes indicate the carrying value may not be recoverable. If the sum of the estimated future undiscounted cash flows is less than the carrying value of the related assets, a loss is recognized for the difference between the present value of the estimated net cash flows or comparable market values and the carrying value of the asset or group of assets. Long-lived assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. There were no impairment losses for 2014 and 2013.

Gifts of long-lived assets

When applicable, 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 that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support.

Revenue recognition

Grants and contracts

The Association recognizes grants to the extent that eligible grant costs are incurred. Receivables are recognized to the extent that costs have been incurred, but not reimbursed. Deferred grant revenue represents grant advances which exceed eligible costs incurred.

The Open Hearth Association, Inc.

Notes to Financial Statements December 31, 2014 and 2013

Grants require the fulfillment of certain conditions as set forth in the instrument of the grant. Failure to fulfill the conditions could result in the return of funds to grantors. As of December 31, 2014 and 2013, the Association has not been informed by any agencies (including the Departments of Housing and Correction) of any funds which are required to be returned.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a 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 statements of activities as net assets released from restrictions.

In-kind contributions

The Association recognizes contributed facilities, food donations and services 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 time to the Association's programs.

Endowment fund

The Association's permanently restricted net assets include donor-restricted funds and funds designated by the Board of Directors to function as an endowment. Net assets associated with these funds are classified and reported based on the existence of donor-imposed restrictions.

Investment and spending policy

The Association's investment policy over endowment assets attempts to maximize long-term returns through a focus on capital appreciation with current income being of secondary importance. Under this policy, investments are intended to assume a conservative level of investment risk. 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.

The Open Hearth Association, Inc.

**Notes to Financial Statements
December 31, 2014 and 2013**

Functional allocation of expenses

The costs of providing various programs and 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.

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. Accordingly, actual results could differ from those estimates.

Reclassification

Certain prior year financial information has been reclassified to conform with the current year presentation.

Subsequent events

The Association has evaluated events and transactions for potential recognition or disclosure through June 22, 2015, which is the date the financial statements were available to be issued.

Note 2 - Concentrations

Concentrations of credit risk

Financial instruments that potentially subject the Association to concentrations of credit risk consist principally of temporary cash investments and receivables. Concentrations of credit risk with respect to grants receivable are limited to contractual agreements with various state agencies. Concentrations of credit risk with respect to accounts receivable are limited to amounts due from various businesses and individuals in the Hartford area. 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.

Funding source concentrations

The following grantor agencies provided over 10% of the Association's total support and revenue for the year ended December 31, 2014:

Granting Agency	% of Revenue	% of Receivable
Department of Housing	15.4%	-%
Department of Correction	33.9%	-%

The Open Hearth Association, Inc.

Notes to Financial Statements December 31, 2014 and 2013

The following grantor agencies provided over 10% of the Association's total support and revenue for the year ended December 31, 2013:

Granting Agency	% of Revenue	% of Receivable
Department of Correction	28.2%	-%

Note 3 - Investments and fair value measurement

The Association values its financial assets and liabilities based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurement, a fair value hierarchy that prioritizes observable and unobservable inputs is used to measure fair value into three broad levels, which are described below:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to level 1 inputs.

Level 2: Observable inputs other than level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in inactive markets or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.

Level 3: Unobservable inputs that are used when little or no market data is available. The fair value hierarchy gives the lowest priority to level 3 inputs.

In determining fair value, the Association utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as considers the counterparty credit risk in its assessment of fair value.

Financial assets carried at fair value at December 31, 2014 are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3	Total
Money market funds	\$ 133,759	\$ -	\$ -	\$ 133,759
Equity mutual funds:				
U.S. Large Cap	1,099,006	-	-	1,099,006
U.S. Mid Cap	235,530	-	-	235,530
U.S. Small Cap	156,454	-	-	156,454
International	313,266	-	-	313,266
Emerging markets	131,563	-	-	131,563
Fixed income:				
Investment grade	272,542	-	-	272,542
International	165,759	-	-	165,759
Real estate	107,882	-	-	107,882
Commodities	71,469	-	-	71,469
Total	\$ 2,687,230	\$ -	\$ -	\$ 2,687,230

The Open Hearth Association, Inc.

**Notes to Financial Statements
December 31, 2014 and 2013**

Financial assets carried at fair value at December 31, 2013 are classified in the table below in one of the three categories described above:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 113,579	\$ -	\$ -	\$ 113,579
Equity mutual funds:				
U.S. Large Cap	1,243,214	-	-	1,243,214
U.S. Mid Cap	241,117	-	-	241,117
U.S. Small Cap	198,628	-	-	198,628
International	297,974	-	-	297,974
Emerging markets	134,768	-	-	134,768
Fixed income:				
Investment grade	321,940	-	-	321,940
International	170,882	-	-	170,882
Real estate	87,112	-	-	87,112
Commodities	74,453	-	-	74,453
Total	<u>\$ 2,883,667</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,883,667</u>

The following is a description of the valuation methodologies used for assets at fair value. There have been no changes in the methodology used at December 31, 2014.

Investments in money market funds, mutual funds, fixed income, real estate and commodities are valued at the daily closing price as reported by the fund (level 1). Mutual funds are open-ended funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value ("NAV") and to transact at that price. The funds held by the Organization are deemed to be actively traded.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair value. Furthermore, although the Association believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Investment return is summarized as follows:

	<u>2014</u>	<u>2013</u>
Interest income	\$ 63,430	\$ 44,915
Unrealized (loss) gain on investments	(30,699)	432,202
Realized gain on investments	124,228	56,303
Totals	<u>\$ 156,959</u>	<u>\$ 533,420</u>

The Open Hearth Association, Inc.

**Notes to Financial Statements
December 31, 2014 and 2013**

Note 4 - Property and equipment

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

	2014	2013
Building and building improvements	\$ 4,787,126	\$ 4,787,126
Machinery and other equipment	121,091	114,704
Furniture and fixtures	47,756	25,005
Automotive equipment	40,620	12,909
Wood yard	400,557	432,730
	5,397,150	5,372,474
Less accumulated depreciated	(3,149,060)	(2,985,294)
Net property and equipment	\$ 2,248,090	\$ 2,387,180

Note 5 - Line of credit

The Association has a \$500,000 working capital revolving line of credit agreement with Bank of America bearing interest at the LIBOR Daily Floating Rate plus 3.0%, payable monthly. Borrowings under this agreement are collateralized by substantially all of the Association's assets. The line of credit is available through June 30, 2015. Interest expense incurred on the line of credit was \$2,775 and \$340 for the years ended December 31, 2014 and 2013, respectively.

Note 6 - Capital lease

The Association has a lease agreement for equipment. This obligation is treated as a capital lease and has been recorded in the accompanying financial statements at the present value of future minimum lease payments. The assets are amortized over the shorter of their related lease terms or their estimated productive lives. Amortization of assets held under capital leases is included in depreciation expense.

Accordingly, the assets were capitalized as follows:

	2014	2013
Equipment	\$ 50,615	\$ 50,615
Less accumulated amortization	(46,397)	(29,525)
Totals	\$ 4,218	\$ 21,090

The Open Hearth Association, Inc.

**Notes to Financial Statements
December 31, 2014 and 2013**

Future minimum lease payments due under the noncancelable capital lease subsequent to December 31, 2014 are as follows:

Year Ending <u>December 31,</u> 2015	\$ 4,218
Less amount representing interest	<u>-</u>
Current portion	<u>\$ 4,218</u>

Note 7 - Long-term debt

4.20% note payable, due in monthly principal and interest payments of \$492 through August, 2019, secured by equipment	\$ 24,998
Less current portion	<u>(4,954)</u>
Total	<u>\$ 20,044</u>

The following is a schedule of future minimum payments for each of the years subsequent to December 31, 2014:

Year Ending December 31,	
2015	\$ 4,954
2016	5,166
2017	5,387
2018	5,618
2019	<u>3,873</u>
	<u>\$ 24,998</u>

Note 8 - Temporarily restricted net assets

Temporarily restricted net assets are available for the following purpose or time restrictions at December 31, 2014 and 2013:

	2014	2013
Passage of time:		
Life of equipment and building improvements purchased with grants	\$ 1,973,545	\$ 2,086,630
Other time restricted	-	1,500
Purpose restrictions:		
Resident training and programs	309,869	294,457
Food	69,000	121,528
Building - repairs	50,000	50,000
Endowment	<u>32,785</u>	<u>28,960</u>
	<u>\$ 2,435,199</u>	<u>\$ 2,583,075</u>

The Open Hearth Association, Inc.

Notes to Financial Statements December 31, 2014 and 2013

Temporarily restricted net assets released from restrictions during 2014 and 2013 by incurring expenses satisfying the following purpose or time restrictions were as follows:

	<u>2014</u>	<u>2013</u>
Passage of time:		
Life of equipment and building improvements purchased with grants	\$ 113,085	\$ 113,085
Other time restricted	1,500	-
Purpose restrictions:		
Resident training and programs	280,006	245,126
Food	106,307	77,403
Endowment	6,271	6,765
	<u>\$ 507,169</u>	<u>\$ 442,379</u>

Note 9 - Endowment

As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The Board of Directors has interpreted the Connecticut Uniform Prudent Management of Institutional Funds Act ("CTUPMIFA") 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 classified 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 Association in a manner consistent with the standard of prudence prescribed by CTUPMIFA.

In accordance with CTUPMIFA, the Association considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the various funds;
- (2) The purposes of the Association and the donor-restricted endowment funds;
- (3) General economic conditions;
- (4) The possible effect of inflation and deflation;
- (5) The expected total return from income and the appreciation of investments;
- (6) Other resources of the Association; and
- (7) The Association's investment policies.

The Open Hearth Association, Inc.

**Notes to Financial Statements
December 31, 2014 and 2013**

Endowment net asset composition by type of fund as of December 31, 2014 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 32,785	\$ 157,549	\$ 190,334
Board-designated endowment funds	2,772,507	-	-	2,772,507
Total funds	<u>\$ 2,772,507</u>	<u>\$ 32,785</u>	<u>\$ 157,549</u>	<u>\$ 2,962,841</u>

Changes in endowment net assets for the year ended December 31, 2014 was as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 2,697,269	\$ 28,960	\$ 157,549	\$ 2,883,778
Investment return:				
Investment income	53,329	3,830	-	57,159
Investment gain	87,263	6,266	-	93,529
Contributions	21,970	-	-	21,970
Expenditure of endowment assets	(87,324)	(6,271)	-	(93,595)
Endowment net assets, end of year	<u>\$ 2,772,507</u>	<u>\$ 32,785</u>	<u>\$ 157,549</u>	<u>\$ 2,962,841</u>

Endowment net asset composition by type of fund as of December 31, 2013 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 28,960	\$ 157,549	\$ 186,509
Board-designated endowment funds	2,697,269	-	-	2,697,269
Total funds	<u>\$ 2,697,269</u>	<u>\$ 28,960</u>	<u>\$ 157,549</u>	<u>\$ 2,883,778</u>

Changes in endowment net assets for the year ended December 31, 2013 was as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 2,256,629	\$ -	\$ 157,549	\$ 2,414,178
Investment return:				
Investment income	42,216	3,009	-	45,225
Investment gain	455,589	32,716	-	488,305
Transfers	970	(970)	-	-
Contributions	22,564	-	-	22,564
Expenditure of endowment assets	(80,699)	(5,795)	-	(86,494)
Endowment net assets, end of year	<u>\$ 2,697,269</u>	<u>\$ 28,960</u>	<u>\$ 157,549</u>	<u>\$ 2,883,778</u>

The Open Hearth Association, Inc.

Notes to Financial Statements December 31, 2014 and 2013

As of December 31, 2014 and 2013, donor-restricted endowment funds in the amount of \$157,549 are classified as permanently restricted net assets. The earnings on these funds are to be used to support operations.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or applicable law requires the Association to retain as a fund of perpetual duration. There were no deficiencies for the years ended December 31, 2014 and 2013.

Note 10 - In-kind contributions

The Association received donated property and food in connection with its shelter and transitional living programs. The fair value of these items for the years ended December 31, 2014 and 2013 is as follows:

	2014	2013
Rent	\$ 100,000	\$ 100,000
Food	150,853	208,210
	<u>\$ 250,853</u>	<u>\$ 308,210</u>

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

Note 11 - Employee benefit plans

Defined contribution plan

The Association has a qualified non-contributory 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 suspended on October 1, 2009, as part of the Association's cost cutting measures. As such, there were no contributions to the defined contribution plan during the years ended December 31, 2014 and 2013.

Defined benefit plan

The Association had a non-contributory defined benefit pension plan (the "Plan") that covered certain eligible employees. The defined benefit plan was frozen and participants accrued no additional benefits under the Plan. The Board of Directors approved a resolution to terminate the Plan. The Association received the required approvals from regulatory authorities for the plan termination and the plan was terminated in October 2014. The Association recorded a charge in 2014 and 2013 of \$8,526 and \$8,494, respectively, which represented the amount required to write off the net unamortized actuarial loss and record an additional obligation to fully fund the Plan termination obligation.

The Open Hearth Association, Inc.

**Notes to Financial Statements
December 31, 2014 and 2013**

The following table summarizes the benefit obligations, the fair value of plan assets and the funded status for 2014 and 2013:

	2014	2013
Projected benefit obligation at beginning of year:	\$ 63,000	\$ 58,000
Actuarial loss	(10,680)	5,000
Benefits paid	(56,686)	-
Plan expense	(4,160)	-
Contributions	8,526	-
Projected benefit obligation at end of year	<u>\$ -</u>	<u>\$ 63,000</u>
Fair value of plan assets at beginning of year:	\$ 44,226	\$ 47,720
Return on plan assets	1	501
Contributions	27,300	-
Actuarial expense	(10,681)	(3,995)
Plan expense	(4,160)	-
Benefits paid	(56,686)	-
Fair value of plan assets at end of year	<u>\$ -</u>	<u>\$ 44,226</u>
Underfunded status	<u>\$ -</u>	<u>\$ (18,774)</u>

The December 31, 2013 the under funded status was \$18,744 and was reported as accrued expenses on the statements of financial position.

The defined benefit pension plan assets were held in a trust. The Association, with the assistance of an outside consultant, established investment guidelines. These guidelines were based on market conditions, risk tolerance, funding requirements and benefit payments. As pension liabilities are long-term in nature, the Association employed a long-term total return approach to maximize the long-term rate of return on plan assets. An annual analysis on the risk versus the return of the investment portfolio was conducted to justify the expected long-term rate of return assumption.

The investment portfolio consisted principally of equities and fixed income securities. The Association's allocation for the pension plan was as follows as of December 31, 2013:

Fixed income securities	<u><u>100.0%</u></u>
-------------------------	----------------------

The pension assets carried at fair value at December 31, 2013 are classified in the table below:

	Level 1	Level 2	Level 3	Total
Fixed income securities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 44,226</u>	<u>\$ 44,226</u>

The Plan values its financial assets of the Plan based on the fair value hierarchy as disclosed in Note 3. The fixed income securities are designated as a level 3 investment and is valued by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the credit worthiness of the issuer.

The Open Hearth Association, Inc.

**Notes to Financial Statements
December 31, 2014 and 2013**

The following table sets forth a summary of changes in the fair value of the Association's level 3 assets for the years ended December 31, 2014 and 2013:

	2014	2013
Fixed income securities		
Balance, beginning of year	\$ 44,226	\$ 47,720
Purchases	27,300	501
Sales	(71,526)	(3,995)
Balance, end of year	\$ -	\$ 44,226

Qualitative information about significant unobservable inputs used in level 3 fair value measurements:

The following table represents the Association's level 3 financial instrument, the valuation technique used to measure the fair value of the financial instrument, and the significant unobservable inputs and the range of values for those inputs at December 31, 2013:

Instrument	Fair Value	Principal Valuation Technique	Unobservable Inputs	Range of Significant Input Values	Weighted Average
Interest Accumulation Account	\$ 44,226	Discounted cash flow	Current yields of similar instruments	1.5% - 2.0%	1.65%

Taxed 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 2014 or 2013.

Note 12 - Related party transactions

The Association purchased heating and cooling related services from companies of which members of the Association's Board of Directors have ownership in. For the year ended December 31, 2013, the Association paid \$2,029 to these related parties. As of June 30, 2013 the Association no longer had any related party transactions. There were no related party transactions for the year ended December 31, 2014.