

The Open Hearth Association, Inc.

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

December 31, 2015 and 2014

COHN  REZNICK
ACCOUNTING • TAX • ADVISORY

The Open Hearth Association, Inc.

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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, 2015 and 2014, 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, 2015 and 2014, 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 23, 2016, 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. That 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.

A handwritten signature in black ink that reads "Cohn Reznick LLP". The signature is written in a cursive, flowing style.

Hartford, Connecticut
June 23, 2016

The Open Hearth Association, Inc.

Statements of Financial Position
December 31, 2015 and 2014

	<u>Assets</u>	
	<u>2015</u>	<u>2014</u>
Current assets		
Cash	\$ 197,419	\$ 267,665
Custodial cash	64,964	51,622
Accounts receivable	2,410	3,500
Grants receivable	25,556	32,500
Inventory	3,100	9,200
Prepaid expenses	41,683	39,205
Total current assets	<u>335,132</u>	<u>403,692</u>
Property and equipment, net	<u>2,194,384</u>	<u>2,248,090</u>
Other assets		
Property available for sale	28,864	63,402
Investments, endowment	2,641,865	2,687,230
Total other assets	<u>2,670,729</u>	<u>2,750,632</u>
Total	<u>\$ 5,200,245</u>	<u>\$ 5,402,414</u>
	<u>Liabilities and Net Assets</u>	
Current liabilities		
Accounts payable	\$ 49,697	\$ 40,980
Accrued expenses	110,467	117,749
Deferred revenue	101,634	12,161
Custodial liability	64,964	51,622
Current portion of long-term debt	5,155	4,954
Current portion of capital lease	-	4,218
Total current liabilities	<u>331,917</u>	<u>231,684</u>
Long-term liability		
Long-term debt, net of current portion	<u>14,865</u>	<u>20,044</u>
Total liabilities	<u>346,782</u>	<u>251,728</u>
Net assets		
Board designated endowment	2,459,623	2,497,507
Undesignated	(3,904)	60,431
Total unrestricted	<u>2,455,719</u>	<u>2,557,938</u>
Temporarily restricted	2,240,195	2,435,199
Permanently restricted	157,549	157,549
Total net assets	<u>4,853,463</u>	<u>5,150,686</u>
Total	<u>\$ 5,200,245</u>	<u>\$ 5,402,414</u>

See Notes to Financial Statements.

The Open Hearth Association, Inc.
Statements of Activities
Years Ended December 31, 2015 and 2014

	2015	2014
Changes in unrestricted net assets		
Revenue and support		
Governmental and other grants	\$ 1,368,362	\$ 1,350,309
Program fees	120,208	104,130
In-kind contributions	166,019	250,853
Contributions	155,807	109,382
Wood sales and fees	319,181	330,567
Home Ownership Program income	11,900	14,954
Investment income	58,887	59,600
Other income	73	293
Net assets released from restrictions	535,888	507,169
	2,736,325	2,727,257
Total unrestricted revenue and other support		
Operating expenses		
Shelter and transitional living	1,645,684	1,683,826
Wood yard	406,561	472,691
Home Ownership Program	9,428	11,534
Development	77,402	83,900
Management and general	269,307	283,305
In-kind expenses	166,019	250,853
Depreciation and amortization	200,863	197,143
	2,775,264	2,983,252
Total expenses		
Change in unrestricted net assets before other changes	(38,939)	(255,995)
Other changes in unrestricted net assets		
Realized gain (loss) on sale of assets	(9,273)	13,855
Unrealized/realized gain (loss) on investments	(54,007)	87,263
	(63,280)	101,118
Total		
Change in unrestricted net assets	(102,219)	(154,877)
Changes in temporarily restricted net assets		
Contributions	340,426	349,197
Investment income	4,336	3,830
Unrealized/realized gain (loss) on investments	(3,878)	6,266
Net assets released from restrictions	(535,888)	(507,169)
	(195,004)	(147,876)
Change in temporarily restricted net assets		
Change in net assets	(297,223)	(302,753)
Net assets, beginning of year	5,150,686	5,453,439
Net assets, end of year	\$ 4,853,463	\$ 5,150,686

See Notes to Financial Statements.

The Open Hearth Association, Inc.
Statements of Cash Flows
Years Ended December 31, 2015 and 2014

	2015	2014
Cash flows from operating activities		
Change in net assets	\$ (297,223)	\$ (302,753)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Unrealized loss on investments	151,771	30,699
Realized gain on investments	(93,886)	(124,228)
Depreciation and amortization	200,863	197,143
(Gain) loss from sale of property held for sale	9,773	(12,427)
Gain on sale of property and equipment	(500)	(1,428)
Bad debt expense	192	584
Changes in operating assets and liabilities		
Custodial cash	(13,342)	(8,277)
Accounts receivable	898	(239)
Grants receivable	6,944	23,464
Inventory	6,100	(6,143)
Prepaid expenses	(2,478)	(2,876)
Accounts payable	8,717	(13,158)
Accrued expenses	(7,282)	(53,594)
Deferred revenue	89,473	(51)
Custodial liability	13,342	8,277
	<u>73,362</u>	<u>(265,007)</u>
Net cash provided by (used in) operating activities		
Cash flows from investing activities		
Proceeds from sale of investments	345,755	368,595
Proceeds from sale of property	23,250	24,470
Purchase of investments	(358,275)	(78,629)
Purchase of construction in process	(41,363)	-
Purchase of property and equipment	(103,779)	(30,287)
	<u>(134,412)</u>	<u>284,149</u>
Net cash provided by (used in) investing activities		
Cash flows from financing activities		
Capital lease repayments	(4,218)	(16,872)
Long-term debt repayments	(4,978)	(1,563)
Line of credit borrowings	976,000	850,000
Line of credit repayments	(976,000)	(850,000)
	<u>(9,196)</u>	<u>(18,435)</u>
Net cash used in financing activities		
Net increase (decrease) in cash	(70,246)	707
Cash, beginning	<u>267,665</u>	<u>266,958</u>
Cash, end	<u>\$ 197,419</u>	<u>\$ 267,665</u>

The Open Hearth Association, Inc.
Statements of Cash Flows
Years Ended December 31, 2015 and 2014

	2015	2014
Cash paid during the year for interest	\$ 6,297	\$ 3,143
Supplemental disclosure of noncash investing and financing transactions		
Total additions of property and equipment	\$ 103,779	\$ 56,848
Less amounts financed through long-term debt	-	(26,561)
Total cash used for purchase of property and equipment	\$ 103,779	\$ 30,287

See Notes to Financial Statements.

The Open Hearth Association, Inc.

**Notes to Financial Statements
December 31, 2015 and 2014**

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, 2015 and 2014. The Association's federal information returns prior to calendar year 2012 are closed and management continually evaluates existing statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

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.

The Open Hearth Association, Inc.

**Notes to Financial Statements
December 31, 2015 and 2014**

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, 2015 and 2014.

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 \$192 and \$584 for the years ended December 31, 2015 and 2014, 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, 2015 and 2014.

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.

Estimated useful lives for financial reporting purposes are as follows:

<u>Asset</u>	<u>Term</u>
Buildings 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 change in net assets for the period.

The Open Hearth Association, Inc.

**Notes to Financial Statements
December 31, 2015 and 2014**

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 2015 and 2014.

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.

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, 2015 and 2014, 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.

The Open Hearth Association, Inc.

**Notes to Financial Statements
December 31, 2015 and 2014**

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.

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.

Subsequent events

The Association has evaluated events and transactions for potential recognition or disclosure through June 23, 2016, 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, 2015:

<u>Granting agency</u>	<u>% of revenue</u>	<u>% of receivable</u>
Department of Housing	15.5%	-%
Department of Correction	33.3%	-%

The Open Hearth Association, Inc.

Notes to Financial Statements
December 31, 2015 and 2014

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

<u>Granting agency</u>	<u>% of revenue</u>	<u>% of receivable</u>
Department of Housing	15.4%	-%
Department of Correction	33.9%	-%

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.

The Open Hearth Association, Inc.

**Notes to Financial Statements
December 31, 2015 and 2014**

Financial assets carried at fair value at December 31, 2015 are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3	Total
Money market funds	\$ 149,493	\$ -	\$ -	\$ 149,493
Equity mutual funds				
U.S. Large Cap	1,094,107	-	-	1,094,107
U.S. Mid Cap	166,165	-	-	166,165
U.S. Small Cap	143,805	-	-	143,805
International	263,673	-	-	263,673
Emerging markets	91,315	-	-	91,315
Fixed income				
Investment grade	358,257	-	-	358,257
International	166,589	-	-	166,589
Real estate	166,390	-	-	166,390
Commodities	42,071	-	-	42,071
Total	\$ 2,641,865	\$ -	\$ -	\$ 2,641,865

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 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, 2015.

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 and to transact at that price. The funds held by the Organization are deemed to be actively traded.

The Open Hearth Association, Inc.

**Notes to Financial Statements
December 31, 2015 and 2014**

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:

	2015	2014
Interest income	\$ 63,223	\$ 63,430
Unrealized loss on investments	(151,771)	(30,699)
Realized gain on investments	93,886	124,228
	\$ 5,338	\$ 156,959
Total	\$ 5,338	\$ 156,959

Note 4 - Property and equipment

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

	2015	2014
Building and building improvements	\$ 4,793,276	\$ 4,787,126
Machinery and other equipment	130,387	121,091
Furniture and fixtures	135,540	47,756
Automotive equipment	40,620	40,620
Wood yard	400,557	400,557
	5,500,380	5,397,150
Total	5,500,380	5,397,150
Less accumulated depreciation	(3,347,359)	(3,149,060)
	2,153,021	2,248,090
Total	2,153,021	2,248,090
Construction in process	41,363	-
	\$ 2,194,384	\$ 2,248,090
Net property and equipment	\$ 2,194,384	\$ 2,248,090

Note 5 - Construction in process

Construction in process as of December 31, 2015 was \$41,363 and included costs incurred related to renovations at the Hartford, Connecticut location. Depreciation will commence when the assets are placed in service. There was no construction in process at December 31, 2014.

Note 6 - 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, 2016. Interest expense incurred on the line of credit was \$4,241 and \$2,775 for the years ended December 31, 2015 and 2014, respectively.

The Open Hearth Association, Inc.

**Notes to Financial Statements
December 31, 2015 and 2014**

Note 7 - Capital lease

The Association had a lease agreement for equipment. This obligation was 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:

	2015	2014
Equipment	\$ 50,615	\$ 50,615
Less accumulated amortization	(50,615)	(46,397)
Total	\$ -	\$ 4,218

The lease was paid in full during the year ended December 31, 2015.

Note 8 - Long-term debt

	2015	2014
4.20% note payable, due in monthly principal and interest payments of \$492 through August 2019, secured by equipment	\$ 20,020	\$ 24,998
Less current portion	(5,155)	(4,954)
Total	\$ 14,865	\$ 20,044

The following is a schedule of future minimum payments for each of the years subsequent to December 31, 2015:

2016	\$ 5,155
2017	5,387
2018	5,618
2019	3,860
	\$ 20,020

Interest expense incurred on long-term debt was \$955 and \$407 for the years ended December 31, 2015 and 2014, respectively.

The Open Hearth Association, Inc.

**Notes to Financial Statements
December 31, 2015 and 2014**

Note 9 - Deferred revenue

Deferred revenue at December 31, 2015 and 2014 represents grant advances which exceed eligible costs incurred at year end. Total balance of deferred revenue at December 31, 2015 and 2014 was \$101,634 and \$12,161, respectively.

Note 10 - Temporarily restricted net assets

Temporarily restricted net assets are available for the following purpose or time restrictions at December 31, 2015 and 2014:

	2015	2014
Passage of time		
Life of equipment and building improvements purchased with grants	\$ 1,860,460	\$ 1,973,545
Purpose restrictions		
Resident training and programs	240,212	309,869
Food	39,883	69,000
Building - repairs	72,813	50,000
Endowment	26,827	32,785
	\$ 2,240,195	\$ 2,435,199

Temporarily restricted net assets released from restrictions during 2015 and 2014 by incurring expenses satisfying the following purpose or time restrictions were as follows:

	2015	2014
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	280,302	280,006
Food	66,970	106,307
Building-repairs	69,115	-
Endowment	6,416	6,271
	\$ 535,888	\$ 507,169

Note 11 - 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.

The Open Hearth Association, Inc.

Notes to Financial Statements
December 31, 2015 and 2014

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.

Endowment net asset composition by type of fund as of December 31, 2015 is as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	\$ -	\$ 26,827	\$ 157,549	\$ 184,376
Board-designated endowment funds	2,709,623	-	-	2,709,623
Total funds	<u>\$ 2,709,623</u>	<u>\$ 26,827</u>	<u>\$ 157,549</u>	<u>\$ 2,893,999</u>

The Open Hearth Association, Inc.

**Notes to Financial Statements
December 31, 2015 and 2014**

Changes in endowment net assets for the year ended December 31, 2015 was as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	\$ 2,772,507	\$ 32,785	\$ 157,549	\$ 2,962,841
Investment return				
Investment income	60,382	4,336	-	64,718
Investment loss	(54,007)	(3,878)	-	(57,885)
Contributions	20,080	-	-	20,080
Expenditure of endowment assets	(89,339)	(6,416)	-	(95,755)
Endowment net assets, end of year	<u>\$ 2,709,623</u>	<u>\$ 26,827</u>	<u>\$ 157,549</u>	<u>\$ 2,893,999</u>

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	<u>2,772,507</u>	<u>-</u>	<u>-</u>	<u>2,772,507</u>
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>

As of December 31, 2015 and 2014, 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.

The Open Hearth Association, Inc.

**Notes to Financial Statements
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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, 2015 and 2014.

Note 12 - 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, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Rent	\$ 100,000	\$ 100,000
Food	<u>66,019</u>	<u>150,853</u>
	<u>\$ 166,019</u>	<u>\$ 250,853</u>

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

Note 13 - Employee benefit plans

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 2015 or 2014.

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, 2015 and 2014.

Defined benefit plan

The Association had a non-contributory defined benefit pension plan (the "Plan") that covered certain eligible employees. The 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 of \$8,526 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.

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

Projected benefit obligation at beginning of year	\$	63,000
Actuarial loss		(10,680)
Benefits paid		(56,686)
Plan expense		(4,160)
Contributions		8,526
		-
Projected benefit obligation at end of year	\$	-
Fair value of plan assets at beginning of year	\$	44,226
Return on plan assets		1
Contributions		27,300
Actuarial expense		(10,681)
Plan expense		(4,160)
Benefits paid		(56,686)
		-
Fair value of plan assets at end of year	\$	-

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

Fixed income securities		
Balance, beginning of year	\$	44,226
Purchases		27,300
Sales		(71,526)
		-
Balance, end of year	\$	-

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