The Open Hearth Association and Subsidiary

Consolidated Financial Statements
and Independent Auditor's Report

December 31, 2016 and 2015

The Open Hearth Association and Subsidiary

Index

Independent Auditor's Report

To the Board of Directors
The Open Hearth Association

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of The Open Hearth Association and Subsidiary (non-profit organizations), which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our 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 consolidated financial statements are free from material misstatement. The financial statements of the Subsidiary were not audited in accordance with *Government Auditing Standards.*

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Open Hearth Association and Subsidiary as of December 31, 2016 and 2015, and the changes in their net assets and their 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 27, 2017, on our consideration of The Open Hearth Association and Subsidiary'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 and Subsidiary's internal control over financial reporting and compliance.

CohnReznick LLP

Hartford, Connecticut
June 27, 2017

The Open Hearth Association and Subsidiary

Consolidated Statements of Financial Position
December 31, 2016 and 2015

Assets

	2016	2015
Current assets		
Cash	$ 265,406	$ 197,419
Custodial cash	91,846	64,964
Accounts receivable	2,800	2,410
Grants receivable	461	25,556
Inventory	28,800	3,100
Prepaid expenses	33,848	41,683
Total current assets	423,161	335,132
Property and equipment, net	2,776,414	2,194,384
Other assets		
Property available for sale	-	28,864
Investments, endowment	2,232,423	2,641,865
Total other assets	2,232,423	2,670,729
Total	$ 5,431,998	$ 5,200,245

Liabilities and Net Assets

	2016	2015
Current liabilities		
Accounts payable	$ 46,444	$ 49,697
Accrued expenses	128,742	110,467
Deferred revenue	26,638	101,634
Custodial liability	91,846	64,964
Current portion of long-term debt	5,378	5,155
Total current liabilities	299,048	331,917
Long-term liability		
Long-term debt, net of current portion	8,443	14,865
Total liabilities	307,491	346,782
Net assets		
Board-designated endowment	2,194,364	2,459,623
Undesignated	799,514	(3,904)
Total unrestricted	2,993,878	2,455,719
Temporarily restricted	1,973,080	2,240,195
Permanently restricted	157,549	157,549
Total net assets	5,124,507	4,853,463
Total	$ 5,431,998	$ 5,200,245

See Notes to Consolidated Financial Statements.

The Open Hearth Association and Subsidiary

Consolidated Statements of Activities
Years Ended December 31, 2016 and 2015

	2016	2015
Changes in unrestricted net assets		
Revenue and support		
Governmental and other grants	$ 1,298,122	$ 1,368,362
Program fees	121,716	120,208
In-kind contributions	153,953	166,019
Contributions	150,478	155,807
Wood sales and fees	222,286	319,181
Home Ownership Program income	3,900	11,900
Investment income	47,760	58,887
Other income	13	73
Net assets released from restrictions	1,113,724	535,888
Total unrestricted revenue and support	3,111,952	2,736,325
Operating expenses		
Shelter and transitional living	1,588,933	1,645,684
Wood yard	330,716	406,561
Home Ownership Program	3,539	9,428
Development	78,148	77,402
Management and general	280,404	269,307
Open Hearth Cleans	8,860	-
In-kind expenses	153,953	166,019
Depreciation and amortization	227,255	200,863
Total expenses	2,671,808	2,775,264
Change in unrestricted net assets before other changes	440,144	(38,939)
Other changes in unrestricted net assets		
Realized loss on sale of property	(7,175)	(9,273)
Unrealized/realized gain (loss) on investments	105,190	(54,007)
Total	98,015	(63,280)
Change in unrestricted net assets	538,159	(102,219)
Changes in temporarily restricted net assets		
Contributions	835,757	340,426
Investment income	3,242	4,336
Unrealized/realized gain (loss) on investments	7,610	(3,878)
Net assets released from restrictions	(1,113,724)	(535,888)
Change in temporarily restricted net assets	(267,115)	(195,004)
Change in net assets	271,044	(297,223)
Net assets, beginning	4,853,463	5,150,686
Net assets, end	$ 5,124,507	$ 4,853,463

See Notes to Consolidated Financial Statements.

The Open Hearth Association and Subsidiary

Consolidated Statements of Cash Flows
Years Ended December 31, 2016 and 2015

	2016	2015
Cash flows from operating activities		
Change in net assets	$ 271,044	$ (297,223)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Unrealized (gain) loss on investments	(62,172)	151,771
Realized gain on investments	(50,628)	(93,886)
Depreciation and amortization	227,255	200,863
Loss from sale of property held for sale	7,175	9,773
Gain on sale of property and equipment	-	(500)
Bad debt expense	-	192
Changes in operating assets and liabilities		
Custodial cash	(26,882)	(13,342)
Accounts receivable	(390)	898
Grants receivable	25,095	6,944
Inventory	(25,700)	6,100
Prepaid expenses	7,835	(2,478)
Accounts payable	(3,253)	8,717
Accrued expenses	18,275	(7,282)
Deferred revenue	(74,996)	89,473
Custodial liability	26,882	13,342
Net cash provided by operating activities	339,540	73,362
Cash flows from investing activities		
Proceeds from sale of investments	836,907	345,755
Proceeds from sale of property	21,000	23,250
Purchase of investments	(314,665)	(358,275)
Purchase of construction in process	-	(41,363)
Purchase of property and equipment	(808,596)	(103,779)
Net cash used in investing activities	(265,354)	(134,412)
Cash flows from financing activities		
Capital lease repayments	-	(4,218)
Long-term debt repayments	(6,199)	(4,978)
Line of credit borrowings	1,285,500	976,000
Line of credit repayments	(1,285,500)	(976,000)
Net cash used in financing activities	(6,199)	(9,196)
Net increase (decrease) in cash	67,987	(70,246)
Cash, beginning	197,419	267,665
Cash, end	$ 265,406	$ 197,419

The Open Hearth Association and Subsidiary

Consolidated Statements of Cash Flows
Years Ended December 31, 2016 and 2015

	2016	2015
Cash paid during the year for interest	$ 14,173	$ 6,297
Supplemental disclosure of noncash investing and financing transactions		
Total additions of property and equipment	$ 849,959	$ 103,779
Less amounts transferred from construction in process	(41,363)	-
Total cash used for purchase of property and equipment	$ 808,596	$ 103,779

See Notes to Consolidated Financial Statements.

Note 1 - Organization and summary of significant accounting policies

Nature of activities

The Open Hearth 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 Open Hearth Association maintains a wood yard in which residents assist in operations and 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 Open Hearth 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.

Open Hearth Cleans, Inc. was formed in 2016 as a nonprofit organization to provide job training opportunities to residents of The Open Hearth Association. The Open Hearth Association is the sole member of Open Hearth Cleans, Inc.

Principles of consolidation

The consolidated financial statements include the accounts of The Open Hearth Association and Open Hearth Cleans, Inc. (collectively referred to as the "Association"). Open Hearth Cleans, Inc. is consolidated as The Open Hearth Association has control over Open Hearth Cleans, Inc. as its sole member. All material inter-organization transactions and balances have been eliminated in consolidation.

Basis of presentation

The accompanying consolidated 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:

<u>Unrestricted</u> - 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.

<u>Temporarily restricted</u> - 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.

<u>Permanently restricted</u> - 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 Open Hearth Association is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code ("IRC") and, therefore, has made no provision for federal or state income taxes in the accompanying consolidated financial statements.

Open Hearth Cleans, Inc. is applying for exemption from federal income tax under Section 501(c)(3) of the IRC and, therefore, has made no provision for federal or state income taxes in the accompanying consolidated financial statements.

The Association has no unrecognized tax benefits at December 31, 2016 and 2015. The Association's federal information returns prior to calendar year 2013 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 consolidated 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, 2016 and 2015.

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 consolidated statements of financial position.

Investments
The Association reports investments at their current fair value and reflects any gain or loss within the accompanying consolidated 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 for the year ended December 31, 2015. There were no bad debts for the year ended December 31, 2016.

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, 2016 and 2015.

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 are 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:

Asset	Term
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.

Property available for sale
Property available for sale consisted of residential condominium units purchased for sale to residents graduating from the Association's recovery programs. The condominiums were rented to residents while they worked to qualify to purchase the properties.

Impairment of long-lived assets
The Association evaluates their 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 2016 and 2015.

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, 2016 and 2015, 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 consolidated statements of activities as net assets released from restrictions.

In-kind contributions

The Association recognizes contributed facilities, food donations and services in the accompanying consolidated financial statements at their estimated fair values. Contributed services are recognized in the consolidated 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 consolidated financial statements. However, a substantial number of volunteers have donated significant amounts of time to the Association's programs.

Endowment fund

The Association's endowment fund includes 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 consolidated statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Use of estimates

The preparation of the consolidated 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 27, 2017, which is the date the consolidated 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, 2016:

Granting agency	% of revenue	% of receivable
Department of Housing	10.8%	-%
Department of Correction	29.2%	-%

The following grantor agencies provided over 10% of the Association's total support and revenue for the year ended December 31, 2015:

Granting agency	% of revenue	% of receivable
Department of Housing	15.5%	-%
Department of Correction	33.3%	-%

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, 2016 are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3	Total
Money market funds	$ 48,502	$ -	$ -	$ 48,502
Equity mutual funds				
U.S. Large Cap	881,302	-	-	881,302
U.S. Mid Cap	180,003	-	-	180,003
U.S. Small Cap	137,802	-	-	137,802
International	193,221	-	-	193,221
Emerging markets	95,784	-	-	95,784
Fixed income mutual funds				
Investment grade	368,909	-	-	368,909
International	36,946	-	-	36,946
Global High Yield Taxable	107,287	-	-	107,287
Real estate	141,553	-	-	141,553
Commodities	41,114	-	-	41,114
Total	$ 2,232,423	$ -	$ -	$ 2,232,423

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 mutual funds				
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

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, 2016.

Investments in money market funds, equity mutual funds, fixed income mutual funds, 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 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:

	2016	2015
Interest income	$ 51,002	$ 63,223
Unrealized gain (loss) on investments	62,172	(151,771)
Realized gain on investments	50,628	93,886
Total	$ 163,802	$ 5,338

Note 4 - Property and equipment

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

	2016	2015
Building and building improvements	$ 5,600,657	$ 4,793,276
Machinery and other equipment	163,164	130,387
Furniture and fixtures	145,340	135,540
Automotive equipment	40,620	40,620
Wood yard	396,927	400,557
Total	6,346,708	5,500,380
Less accumulated depreciation	(3,570,294)	(3,347,359)
Total	2,776,414	2,153,021
Construction in process	-	41,363
Net property and equipment	$ 2,776,414	$ 2,194,384

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 commenced when the assets were placed in service during 2016. There was no construction in process at December 31, 2016.

Note 6 - Line of credit

The Association has a $750,000 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, 2017. Interest expense incurred on the line of credit was $13,395 and $4,241 for the years ended December 31, 2016 and 2015, respectively.

Note 7 - Long-term debt

	2016	2015
4.20% note payable, due in monthly principal and interest payments of $492 through August 2019, secured by equipment	$ 13,821	$ 20,020
Less current portion	(5,378)	(5,155)
Total	$ 8,443	$ 14,865

The following is a schedule of future minimum payments for each of the years subsequent to December 31, 2016:

2017	$ 5,387
2018	5,618
2019	2,816
	$ 13,821

Interest expense incurred on long-term debt was $743 and $955 for the years ended December 31, 2016 and 2015, respectively.

Note 8 - Deferred revenue

Deferred revenue at December 31, 2016 and 2015 represents grant advances which exceed eligible costs incurred at year end. Total balance of deferred revenue at December 31, 2016 and 2015 was $26,638 and $101,634, respectively.

Note 9 - Temporarily restricted net assets

Temporarily restricted net assets are available for the following purpose or time restrictions at December 31, 2016 and 2015:

	2016	2015
Passage of time		
Life of equipment and building improvements purchased with grants	$ 1,747,374	$ 1,860,460
Purpose restrictions		
Resident training and programs	99,007	240,212
Food	45,883	39,883
Building - repairs	50,000	72,813
Endowment	30,816	26,827
	$ 1,973,080	$ 2,240,195

Temporarily restricted net assets released from restrictions during 2016 and 2015 by incurring expenses satisfying the following purpose or time restrictions were as follows:

	2016	2015
Passage of time		
Life of equipment and building improvements purchased with grants	$ 113,085	$ 113,085
Other time restricted	125,013	-
Purpose restrictions		
Resident training and programs	233,028	280,302
Food	25,000	66,970
Building-repairs	610,735	69,115
Endowment	6,863	6,416
	$ 1,113,724	$ 535,888

Note 10 - 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 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 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, 2016 is as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ -	$ 30,816	$ 157,549	$ 188,365
Board-designated endowment funds	2,194,364	-	-	2,194,364
Total funds	$ 2,194,364	$ 30,816	$ 157,549	$ 2,382,729

Changes in endowment net assets for the year ended December 31, 2016 are as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	$ 2,709,623	$ 26,827	$ 157,549	$ 2,893,999
Investment return				
Investment income	45,153	3,242	-	48,395
Investment gain	105,969	7,610	-	113,579
Contributions	270,258	-	-	270,258
Appropriations for capital items	(841,065)	-	-	(841,065)
Expenditure of endowment assets	(95,574)	(6,863)	-	(102,437)
Endowment net assets, end of year	$ 2,194,364	$ 30,816	$ 157,549	$ 2,382,729

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	$ 2,709,623	$ 26,827	$ 157,549	$ 2,893,999

Changes in endowment net assets for the year ended December 31, 2015 are 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	$ 2,709,623	$ 26,827	$ 157,549	$ 2,893,999

As of December 31, 2016 and 2015, 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, 2016 and 2015.

Note 11 - 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, 2016 and 2015 is as follows:

	2016	2015
Rent	$ 100,000	$ 100,000
Food	53,953	66,019
	$ 153,953	$ 166,019

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

Note 12 - Employee benefit plans

Tax deferred annuity plan
The Association maintained a Section 403(b) tax-deferred annuity plan. All employees were eligible to participate in the plan by making contributions through voluntary salary reductions. The plan permited only employee salary reduction contributions and, as such, the Association made no contributions to the plan during 2016 or 2015. The plan will be closed in 2017.

Defined contribution plan
The Association has a qualified 403b defined contribution plan to provide retirement benefits for all eligible employees. There were no contributions to the defined contribution plan during the years ended December 31, 2016 and 2015. The plan was terminated February 2017.