

**The Open Hearth Association and Subsidiary**

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

**December 31, 2018 and 2017**

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**COHN  REZNICK**  
ACCOUNTING • TAX • ADVISORY

# The Open Hearth Association and Subsidiary

## Index

|                                                | <u>Page</u> |
|------------------------------------------------|-------------|
| Independent Auditor's Report                   | 2           |
| Consolidated Financial Statements              |             |
| Consolidated Statements of Financial Position  | 4           |
| Consolidated Statements of Activities          | 5           |
| Consolidated Statements of Functional Expenses | 6           |
| Consolidated Statements of Cash Flows          | 8           |
| Notes to Consolidated Financial Statements     | 9           |

## 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 (nonprofit organizations), which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, and the related consolidated statements of activities, functional expenses, 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, 2018 and 2017, 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 July 22, 2019 on our consideration of The Open Hearth Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of The Open Hearth Association's 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's internal control over financial reporting and compliance.

*CohnReznick LLP*

Hartford, Connecticut  
July 22, 2019

**The Open Hearth Association and Subsidiary**  
**Consolidated Statements of Financial Position**  
**December 31, 2018 and 2017**

| <u>Assets</u>                          |              |              |
|----------------------------------------|--------------|--------------|
|                                        | 2018         | 2017         |
| Current assets                         |              |              |
| Cash                                   | \$ 246,326   | \$ 249,414   |
| Custodial cash                         | 54,867       | 55,583       |
| Accounts receivable                    | 2,000        | 6,075        |
| Grants receivable                      | 17,146       | 72,704       |
| Inventory                              | 34,600       | 55,800       |
| Prepaid expenses                       | 28,025       | 39,899       |
| Total current assets                   | 382,964      | 479,475      |
| Property and equipment, net            | 2,484,709    | 2,643,105    |
| Other assets                           |              |              |
| Investments, endowment                 | 2,122,503    | 2,456,204    |
| Total                                  | \$ 4,990,176 | \$ 5,578,784 |
| <u>Liabilities and Net Assets</u>      |              |              |
| Current liabilities                    |              |              |
| Accounts payable                       | \$ 53,045    | \$ 75,448    |
| Accrued expenses                       | 139,408      | 127,946      |
| Custodial liability                    | 54,867       | 55,583       |
| Current portion of long-term debt      | 6,229        | 9,085        |
| Total current liabilities              | 253,549      | 268,062      |
| Long-term liability                    |              |              |
| Long-term debt, net of current portion | 1,499        | 7,893        |
| Total liabilities                      | 255,048      | 275,955      |
| Net assets                             |              |              |
| Board-designated endowment             | 2,141,525    | 2,452,872    |
| Undesignated                           | 2,289,899    | 2,504,708    |
| Total without donor restrictions       | 4,431,424    | 4,957,580    |
| With donor restrictions                | 303,704      | 345,249      |
| Total net assets                       | 4,735,128    | 5,302,829    |
| Total                                  | \$ 4,990,176 | \$ 5,578,784 |

See Notes to Consolidated Financial Statements.

**The Open Hearth Association and Subsidiary**

**Consolidated Statements of Activities  
Years Ended December 31, 2018 and 2017**

|                                                                      | 2018         | 2017         |
|----------------------------------------------------------------------|--------------|--------------|
| Changes in net assets without donor restrictions                     |              |              |
| Revenue and support                                                  |              |              |
| Governmental and other grants                                        | \$ 1,270,362 | \$ 1,271,890 |
| Program fees                                                         | 109,795      | 130,392      |
| In-kind contributions                                                | 122,278      | 159,102      |
| Contributions                                                        | 338,742      | 377,927      |
| Wood sales and fees                                                  | 162,167      | 156,707      |
| Investment income                                                    | 98,228       | 89,665       |
| Open Hearth Works                                                    | 16,220       | 12,070       |
| Other income                                                         | 5,226        | 10,500       |
| Net assets released from restrictions                                | 238,565      | 340,089      |
| Total revenue and support                                            | 2,361,583    | 2,548,342    |
| Operating expenses                                                   |              |              |
| Shelter and transitional living                                      | 906,762      | 1,249,684    |
| Wood yard                                                            | 221,065      | 148,653      |
| Shelter re-housing program                                           | 614,267      | 289,578      |
| Extended living program                                              | 58,336       | 25,933       |
| Working Man's Center                                                 | 78,224       | -            |
| Development                                                          | 71,186       | 79,154       |
| Management and general                                               | 291,193      | 272,343      |
| Open Hearth Works                                                    | 15,495       | 11,021       |
| In-kind expenses                                                     | 122,278      | 159,102      |
| Depreciation and amortization                                        | 261,069      | 266,305      |
| Total expenses                                                       | 2,639,875    | 2,501,773    |
| Change in net assets without donor restrictions before other changes | (278,292)    | 46,569       |
| Other changes in net assets without donor restrictions               |              |              |
| Realized gain on sale of property                                    | -            | 13,650       |
| Unrealized/realized gain (loss) on investments                       | (247,864)    | 269,193      |
| Total                                                                | (247,864)    | 282,843      |
| Change in net assets without donor restrictions                      | (526,156)    | 329,412      |
| Changes in net assets with donor restrictions                        |              |              |
| Contributions                                                        | 211,854      | 166,826      |
| Investment income                                                    | 2,961        | 2,841        |
| Unrealized/realized gain (loss) on investments                       | (17,795)     | 19,332       |
| Net assets released from restrictions                                | (238,565)    | (340,089)    |
| Change in net assets with donor restrictions                         | (41,545)     | (151,090)    |
| Change in net assets                                                 | (567,701)    | 178,322      |
| Net assets, beginning                                                | 5,302,829    | 5,124,507    |
| Net assets, end                                                      | \$ 4,735,128 | \$ 5,302,829 |

See Notes to Consolidated Financial Statements.

**The Open Hearth Association and Subsidiary**  
**Consolidated Statement of Functional Expenses**  
**Year Ended December 31, 2018**

|                               | Shelter and<br>transitional<br>living | Wood<br>yard      | Shelter<br>re-housing<br>program | Extended living<br>program | Working Man's<br>Center | Development      | Management<br>and general | Open Hearth<br>Works | Total               |
|-------------------------------|---------------------------------------|-------------------|----------------------------------|----------------------------|-------------------------|------------------|---------------------------|----------------------|---------------------|
| Salaries and wages            | \$ 414,609                            | \$ 55,932         | \$ 427,388                       | \$ 6,373                   | \$ 50,710               | \$ -             | \$ 126,473                | \$ 12,309            | \$ 1,093,794        |
| Employee benefits and pension | 97,726                                | 9,341             | 88,540                           | 2,044                      | 9,502                   | -                | 24,403                    | 1,390                | 232,946             |
| Employee related expenses     | 1,113                                 | -                 | 165                              | -                          | -                       | -                | 1,724                     | -                    | 3,002               |
| Program expenses              | 9,951                                 | 9,090             | 706                              | 1,164                      | 2,075                   | -                | 4                         | -                    | 22,990              |
| Client expenses               | 126,606                               | 119               | 34,488                           | 25,268                     | 9,602                   | 400              | 2,194                     | -                    | 198,677             |
| Professional fees             | 133                                   | -                 | 50                               | -                          | 615                     | 26,291           | 92,989                    | 1,661                | 121,739             |
| Bank fees and interest        | 384                                   | 3,138             | -                                | -                          | -                       | 150              | 7,135                     | 135                  | 10,942              |
| Supplies                      | 16,821                                | -                 | 2,052                            | 3,518                      | 173                     | -                | 1,727                     | -                    | 24,291              |
| Telephone                     | 9,892                                 | 4,266             | -                                | -                          | -                       | -                | 11,358                    | -                    | 25,516              |
| Postage and office supplies   | 5,513                                 | 24                | 166                              | -                          | 1,180                   | -                | 4,205                     | -                    | 11,088              |
| Insurance                     | 50,867                                | 23,386            | 14,813                           | 2,698                      | 784                     | -                | 5,291                     | -                    | 97,839              |
| Occupancy                     | 78,398                                | 7,974             | 22,889                           | 8,398                      | 1,254                   | -                | 1,552                     | -                    | 120,465             |
| Maintenance and repairs       | 84,645                                | 6,585             | 22,780                           | 8,873                      | 1,104                   | -                | 1,492                     | -                    | 125,479             |
| Conference and conventions    | 876                                   | -                 | 225                              | -                          | 1,184                   | -                | 3,766                     | -                    | 6,051               |
| Fundraising expenses          | -                                     | -                 | -                                | -                          | -                       | 43,685           | 773                       | -                    | 44,458              |
| Printing and publications     | -                                     | -                 | -                                | -                          | -                       | 660              | -                         | -                    | 660                 |
| Dues and subscriptions        | 68                                    | 50                | 5                                | -                          | -                       | -                | 2,080                     | -                    | 2,203               |
| Depreciation                  | 186,189                               | 11,016            | 44,837                           | 15,063                     | 1,280                   | -                | 2,684                     | -                    | 261,069             |
| Vehicle expense               | 9,160                                 | 4,960             | -                                | -                          | 41                      | -                | -                         | -                    | 14,161              |
| In-kind expense               | 22,278                                | 100,000           | -                                | -                          | -                       | -                | -                         | -                    | 122,278             |
| Bad debt expense              | -                                     | 4,210             | -                                | -                          | -                       | -                | 4,000                     | -                    | 8,210               |
| Miscellaneous                 | -                                     | 360               | -                                | -                          | -                       | -                | -                         | -                    | 360                 |
| Taxes                         | -                                     | -                 | -                                | -                          | -                       | -                | 27                        | -                    | 27                  |
| Cost of sales, wood           | -                                     | 91,630            | -                                | -                          | -                       | -                | -                         | -                    | 91,630              |
| <b>Subtotal</b>               | <b>1,115,229</b>                      | <b>332,081</b>    | <b>659,104</b>                   | <b>73,399</b>              | <b>79,504</b>           | <b>71,186</b>    | <b>293,877</b>            | <b>15,495</b>        | <b>2,639,875</b>    |
| Less depreciation             | (186,189)                             | (11,016)          | (44,837)                         | (15,063)                   | (1,280)                 | -                | (2,684)                   | -                    | (261,069)           |
| Less in-kind expense          | (22,278)                              | (100,000)         | -                                | -                          | -                       | -                | -                         | -                    | (122,278)           |
| <b>Total</b>                  | <b>\$ 906,762</b>                     | <b>\$ 221,065</b> | <b>\$ 614,267</b>                | <b>\$ 58,336</b>           | <b>\$ 78,224</b>        | <b>\$ 71,186</b> | <b>\$ 291,193</b>         | <b>\$ 15,495</b>     | <b>\$ 2,256,528</b> |

See Notes to Consolidated Financial Statements.

**The Open Hearth Association and Subsidiary**  
**Consolidated Statement of Functional Expenses**  
**Year Ended December 31, 2017**

|                               | Shelter and<br>transitional<br>living | Wood<br>yard      | Shelter<br>re-housing<br>program | Extended living<br>program | Development      | Management<br>and general | Open Hearth<br>Works | Total               |
|-------------------------------|---------------------------------------|-------------------|----------------------------------|----------------------------|------------------|---------------------------|----------------------|---------------------|
| Salaries and wages            | \$ 669,248                            | \$ 27,966         | \$ 206,190                       | \$ 3,107                   | \$ -             | \$ 123,417                | \$ 8,181             | \$ 1,038,109        |
| Employee benefits and pension | 147,568                               | 10,971            | 38,416                           | 902                        | -                | 23,669                    | 971                  | 222,497             |
| Employee related expenses     | 1,275                                 | 39                | 173                              | -                          | -                | 1,681                     | -                    | 3,168               |
| Program expenses              | 17,132                                | 4,077             | 610                              | 202                        | -                | 14                        | -                    | 22,035              |
| Client expenses               | 129,680                               | -                 | 15,015                           | 11,672                     | 14               | 1,484                     | -                    | 157,865             |
| Professional fees             | 1,462                                 | -                 | -                                | -                          | 23,670           | 81,147                    | 1,689                | 107,968             |
| Bank fees and interest        | 1,854                                 | 3,833             | -                                | -                          | -                | 7,770                     | 180                  | 13,637              |
| Supplies                      | 13,968                                | 6                 | 889                              | 1,213                      | -                | 4,504                     | -                    | 20,580              |
| Telephone                     | 8,589                                 | 4,378             | -                                | -                          | -                | 10,589                    | -                    | 23,556              |
| Postage and office supplies   | 6,975                                 | 64                | 36                               | -                          | -                | 2,934                     | -                    | 10,009              |
| Insurance                     | 56,233                                | 21,809            | 7,010                            | 1,266                      | -                | 5,285                     | -                    | 91,603              |
| Occupancy                     | 107,622                               | 7,774             | 12,097                           | 4,430                      | -                | 1,715                     | -                    | 133,638             |
| Maintenance and repairs       | 75,950                                | 1,855             | 8,575                            | 3,141                      | -                | 1,848                     | -                    | 91,369              |
| Conference and conventions    | 729                                   | -                 | 567                              | -                          | -                | 1,846                     | -                    | 3,142               |
| Fundraising expenses          | -                                     | -                 | -                                | -                          | 55,470           | 869                       | -                    | 56,339              |
| Printing and publications     | -                                     | -                 | -                                | -                          | -                | 862                       | -                    | 862                 |
| Dues and subscriptions        | 50                                    | -                 | -                                | -                          | -                | 2,682                     | -                    | 2,732               |
| Depreciation                  | 213,294                               | 13,147            | 29,902                           | 7,238                      | -                | 2,724                     | -                    | 266,305             |
| Vehicle expense               | 11,349                                | 6,481             | -                                | -                          | -                | -                         | -                    | 17,830              |
| In-kind expense               | 59,102                                | 100,000           | -                                | -                          | -                | -                         | -                    | 159,102             |
| Taxes                         | -                                     | -                 | -                                | -                          | -                | 27                        | -                    | 27                  |
| Cost of sales, wood           | -                                     | 59,400            | -                                | -                          | -                | -                         | -                    | 59,400              |
| Subtotal                      | 1,522,080                             | 261,800           | 319,480                          | 33,171                     | 79,154           | 275,067                   | 11,021               | 2,501,773           |
| Less depreciation             | (213,294)                             | (13,147)          | (29,902)                         | (7,238)                    | -                | (2,724)                   | -                    | (266,305)           |
| Less in-kind expense          | (59,102)                              | (100,000)         | -                                | -                          | -                | -                         | -                    | (159,102)           |
| Total                         | <u>\$ 1,249,684</u>                   | <u>\$ 148,653</u> | <u>\$ 289,578</u>                | <u>\$ 25,933</u>           | <u>\$ 79,154</u> | <u>\$ 272,343</u>         | <u>\$ 11,021</u>     | <u>\$ 2,076,366</u> |

See Notes to Consolidated Financial Statements.



**The Open Hearth Association and Subsidiary**

**Consolidated Statements of Cash Flows  
Years Ended December 31, 2018 and 2017**

|                                                                                            | 2018         | 2017       |
|--------------------------------------------------------------------------------------------|--------------|------------|
| Cash flows from operating activities                                                       |              |            |
| Change in net assets                                                                       | \$ (567,701) | \$ 178,322 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities |              |            |
| Unrealized (gain) loss on investments                                                      | 372,614      | (213,284)  |
| Realized gain on investments                                                               | (106,955)    | (75,241)   |
| Depreciation and amortization                                                              | 261,069      | 266,305    |
| Gain on sale of property                                                                   | -            | (13,650)   |
| Bad debt expense                                                                           | 8,210        | -          |
| Changes in operating assets and liabilities                                                |              |            |
| Custodial cash                                                                             | 716          | 36,263     |
| Accounts receivable                                                                        | (4,135)      | (3,275)    |
| Grants receivable                                                                          | 55,558       | (72,243)   |
| Inventory                                                                                  | 21,200       | (27,000)   |
| Prepaid expenses                                                                           | 11,874       | (6,051)    |
| Accounts payable                                                                           | (22,403)     | 29,004     |
| Accrued expenses                                                                           | 11,462       | (796)      |
| Deferred revenue                                                                           | -            | (26,638)   |
| Custodial liability                                                                        | (716)        | (36,263)   |
| Net cash provided by operating activities                                                  | 40,793       | 35,453     |
| Cash flows from investing activities                                                       |              |            |
| Proceeds from sale of investments                                                          | 849,097      | 476,625    |
| Proceeds from sale of property                                                             | -            | 13,650     |
| Purchase of investments                                                                    | (781,055)    | (411,881)  |
| Purchase of property and equipment                                                         | (102,673)    | (121,993)  |
| Net cash used in investing activities                                                      | (34,631)     | (43,599)   |
| Cash flows from financing activities                                                       |              |            |
| Long-term debt repayments                                                                  | (9,250)      | (7,846)    |
| Line of credit borrowings                                                                  | 695,000      | 695,000    |
| Line of credit repayments                                                                  | (695,000)    | (695,000)  |
| Net cash used in financing activities                                                      | (9,250)      | (7,846)    |
| Net decrease in cash                                                                       | (3,088)      | (15,992)   |
| Cash, beginning                                                                            | 249,414      | 265,406    |
| Cash, end                                                                                  | \$ 246,326   | \$ 249,414 |
| Cash paid during the year for interest                                                     | \$ 2,451     | \$ 3,278   |
| Supplemental disclosure of noncash investing and financing transactions                    |              |            |
| Total additions of property and equipment                                                  | \$ 118,158   | \$ 132,996 |
| Less amounts financed                                                                      | -            | (11,003)   |
| Less amounts transferred from construction in progress                                     | (15,485)     | -          |
| Total cash used for purchase of property and equipment                                     | \$ 102,673   | \$ 121,993 |

See Notes to Consolidated Financial Statements.

## The Open Hearth Association and Subsidiary

### Notes to Consolidated Financial Statements December 31, 2018 and 2017

#### 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 Works, 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 shareholder of Open Hearth Works, Inc.

##### **Principles of consolidation**

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

##### **Basis of presentation**

The accompanying financial statements of the Association have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The Association reports information regarding its financial position and activities according to the following net asset categories:

##### *Net assets without donor restrictions*

Net assets without donor restrictions represent available resources other than donor-restricted contributions. Included in net assets without donor restrictions are funds that may be earmarked for specific purposes.

##### *Net assets with donor restrictions*

Net assets subject to donor- (or certain grantor-) imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

##### **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 Works, 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 Open Hearth Association and Subsidiary**

### **Notes to Consolidated Financial Statements December 31, 2018 and 2017**

The Association has no unrecognized tax benefits at December 31, 2018 and 2017. The Association's federal information returns prior to calendar year 2015 are closed and management continually evaluates expiring 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, 2018 and 2017.

#### **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. Bad debts for the years ended December 31, 2018 and 2017 were \$8,210 and \$0, 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, 2018 and 2017.

#### **Inventory**

Inventory consists of firewood and related processing costs 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.

## The Open Hearth Association and Subsidiary

### Notes to Consolidated Financial Statements December 31, 2018 and 2017

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.

#### Impairment of long-lived assets

The Association evaluates their long-lived assets for impairment annually or whenever events or changes that indicate that 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 2018 and 2017.

#### 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, 2018 and 2017, 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

The Association reports unconditional promises to give as revenue when the promise is received. Conditional promises to give are recognized as revenue when the condition is met. Contributions received are recorded as with or without donor restrictions depending on the existence and/or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period have been reported as unrestricted support in the consolidated statement of activities.

##### 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

## **The Open Hearth Association and Subsidiary**

### **Notes to Consolidated Financial Statements December 31, 2018 and 2017**

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.

#### **Newly adopted accounting standards**

During 2018, the Association adopted the provisions of Accounting Standards Update ("ASU") 2016-14. The provisions improve the usefulness and reduce the complexities of information provided to donors, grantors, creditors, and other users of the financial statements by eliminating the distinction between resources with permanent restrictions and those with temporary restrictions from the face of the financial statements. Enhanced disclosures in the notes to the financial statements will provide useful information about the nature, amounts and effects of the various types of donor-imposed restrictions, which often include limits on the purposes for which the resources can be used as well as the time frame for their use. The guidance also enhances disclosures for board designated amounts, composition of net assets without donor restrictions, liquidity, and expenses by both their nature and functional classification.

**The Open Hearth Association and Subsidiary**

**Notes to Consolidated Financial Statements  
December 31, 2018 and 2017**

A recap of the net asset reclassifications driven by the adoption of ASU 2016-14 as of December 31, 2017 follows:

| Net Assets Classifications                                | ASU 2016-14 Classifications |                         |              |
|-----------------------------------------------------------|-----------------------------|-------------------------|--------------|
|                                                           | Without donor restrictions  | With donor restrictions | Total        |
| As previously presented:                                  |                             |                         |              |
| Unrestricted                                              | \$ 3,323,290                | \$ -                    | \$ 3,323,290 |
| Temporarily restricted                                    | -                           | 1,821,990               | 1,821,990    |
| Permanently restricted                                    | -                           | 157,549                 | 157,549      |
| Net assets, as previously presented                       | 3,323,290                   | 1,979,539               | 5,302,829    |
| Reclassifications to implement ASU 2016-14:               |                             |                         |              |
| Equipment and building improvements purchased with grants | 1,634,290                   | (1,634,290)             | -            |
| Net assets, as reclassified                               | \$ 4,957,580                | \$ 345,249              | \$ 5,302,829 |

**Subsequent events**

The Association has evaluated events and transactions for potential recognition or disclosure through July 22, 2019, 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, 2018:

| Granting agency          | % of revenue | % of receivable |
|--------------------------|--------------|-----------------|
| Department of Housing    | 12.9%        | -%              |
| Department of Correction | 39.0%        | 17.9%           |

**The Open Hearth Association and Subsidiary**

**Notes to Consolidated Financial Statements  
December 31, 2018 and 2017**

The following grantor agencies provided over 10% of the Association's total support and revenue for the year ended December 31, 2017:

| <u>Granting agency</u>   | <u>% of<br/>revenue</u> | <u>% of<br/>receivable</u> |
|--------------------------|-------------------------|----------------------------|
| Department of Housing    | 10.5%                   | -%                         |
| Department of Correction | 36.0%                   | 28.1%                      |

**Note 3 - Liquidity**

The Association regularly monitors liquidity required to meet its annual operating needs and other contractual commitments while also striving to maximize the return on investment of its funds not required for annual operations. As of December 31, 2018, the Association has approximately \$376,000 of financial assets available to meet annual operating needs for the 2019 fiscal year as follows:

|                                           |    |                       |
|-------------------------------------------|----|-----------------------|
| Cash                                      | \$ | 246,326               |
| Accounts receivable                       |    | 2,000                 |
| Grants receivable                         |    | 17,146                |
| Investments available for subsequent year |    | <u>110,470</u>        |
| Total                                     | \$ | <u><u>375,942</u></u> |

These financial assets are not subject to any donor or contractual restrictions. The Association supports its general operations primarily with unrestricted donor contributions and donor-restricted funds whose time or purpose restriction has been met. In addition, the Board of Directors appropriates a portion of the earnings from the Association's board-designated and donor-restricted endowment balances as described in Note 10.

The Association's Investment Policy Statement requires the investment portfolio to maintain liquid instruments within its portfolio to ensure assets are available to meet general expenditures, liabilities and other obligations as they come due. The Association's investment committee meets quarterly to review investment performance and consider near-term liquidity needs.

In addition to financial assets available to meet general expenditures within one year, amounts reported as board designated could be made available, as needed, by Board action. The Board of Directors generally designates unusual unrestricted gifts such as a bequest to the board-designated endowment.

## The Open Hearth Association and Subsidiary

### Notes to Consolidated Financial Statements December 31, 2018 and 2017

#### Note 4 - 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, 2018 are classified in the table below in one of the three categories described above:

|                           | Level 1             | Level 2     | Level 3     | Total               |
|---------------------------|---------------------|-------------|-------------|---------------------|
| Money market funds        | \$ 76,008           | \$ -        | \$ -        | \$ 76,008           |
| Equity mutual funds       |                     |             |             |                     |
| U.S. Large Cap            | 731,826             | -           | -           | 731,826             |
| U.S. Mid Cap              | 149,690             | -           | -           | 149,690             |
| U.S. Small Cap            | 123,951             | -           | -           | 123,951             |
| International             | 239,169             | -           | -           | 239,169             |
| Emerging markets          | 119,591             | -           | -           | 119,591             |
| Fixed income mutual funds |                     |             |             |                     |
| Investment grade          | 444,782             | -           | -           | 444,782             |
| International             | 32,453              | -           | -           | 32,453              |
| Global High Yield Taxable | 46,985              | -           | -           | 46,985              |
| Hedge funds               | 135,634             | -           | -           | 135,634             |
| Commodities               | 22,414              | -           | -           | 22,414              |
|                           | <u>\$ 2,122,503</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 2,122,503</u> |
| Total                     | <u>\$ 2,122,503</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 2,122,503</u> |



## The Open Hearth Association and Subsidiary

### Notes to Consolidated Financial Statements December 31, 2018 and 2017

Financial assets carried at fair value at December 31, 2017 are classified in the table below in one of the three categories described above:

|                           | Level 1             | Level 2     | Level 3     | Total               |
|---------------------------|---------------------|-------------|-------------|---------------------|
| Money market funds        | \$ 64,976           | \$ -        | \$ -        | \$ 64,976           |
| Equity mutual funds       |                     |             |             |                     |
| U.S. Large Cap            | 928,935             | -           | -           | 928,935             |
| U.S. Mid Cap              | 253,538             | -           | -           | 253,538             |
| U.S. Small Cap            | 176,294             | -           | -           | 176,294             |
| International             | 233,926             | -           | -           | 233,926             |
| Emerging markets          | 156,913             | -           | -           | 156,913             |
| Fixed income mutual funds |                     |             |             |                     |
| Investment grade          | 455,689             | -           | -           | 455,689             |
| International             | 35,497              | -           | -           | 35,497              |
| Global High Yield Taxable | 101,202             | -           | -           | 101,202             |
| Commodities               | 49,234              | -           | -           | 49,234              |
| <b>Total</b>              | <b>\$ 2,456,204</b> | <b>\$ -</b> | <b>\$ -</b> | <b>\$ 2,456,204</b> |

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, 2018.

Investments in money market funds, equity mutual funds, fixed income mutual funds, hedge funds and commodities are valued at the daily closing price as reported by the fund (level 1). Mutual funds are open-end 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 Association 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:

|                                       | 2018                | 2017              |
|---------------------------------------|---------------------|-------------------|
| Interest income                       | \$ 101,189          | \$ 92,506         |
| Unrealized gain (loss) on investments | (372,614)           | 213,284           |
| Realized gain on investments          | 106,955             | 75,241            |
| <b>Total</b>                          | <b>\$ (164,470)</b> | <b>\$ 381,031</b> |

**The Open Hearth Association and Subsidiary**

**Notes to Consolidated Financial Statements  
December 31, 2018 and 2017**

**Note 5 - Property and equipment**

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

|                                    | 2018                | 2017                |
|------------------------------------|---------------------|---------------------|
| Building and building improvements | \$ 5,628,777        | \$ 5,613,372        |
| Machinery and other equipment      | 237,314             | 172,921             |
| Furniture and fixtures             | 193,590             | 155,230             |
| Automotive equipment               | 89,639              | 89,639              |
| Wood yard                          | 420,147             | 420,147             |
| Total                              | 6,569,467           | 6,451,309           |
| Less accumulated depreciation      | (4,084,758)         | (3,823,689)         |
| Total                              | 2,484,709           | 2,627,620           |
| Construction in progress           | -                   | 15,485              |
| Net property and equipment         | <u>\$ 2,484,709</u> | <u>\$ 2,643,105</u> |

**Note 6 - Construction in progress**

Construction in progress as of December 31, 2017 was \$15,485 and included costs incurred related to renovations at the Hartford, Connecticut location. Depreciation commenced when the assets were placed in service. There was no construction in progress as of December 31, 2018.

**Note 7 - 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 August 29, 2019. Interest expense incurred on the line of credit was \$1,712 and \$2,339 for the years ended December 31, 2018 and 2017, respectively.

**The Open Hearth Association and Subsidiary**

**Notes to Consolidated Financial Statements  
December 31, 2018 and 2017**

**Note 8 - Long-term debt**

Long term debt consists of the following at December 31, 2018 and 2017:

|                                                                                                                       | <u>2018</u>     | <u>2017</u>     |
|-----------------------------------------------------------------------------------------------------------------------|-----------------|-----------------|
| 4.20% note payable, due in monthly principal and interest payments of \$492 through August 2019, secured by equipment | \$ 4,332        | \$ 7,937        |
| 7.03% note payable, due in monthly principal and interest payments of \$393 through May 2020, secured by equipment    | <u>3,396</u>    | <u>9,041</u>    |
| Subtotal                                                                                                              | 7,728           | 16,978          |
| Less current portion                                                                                                  | <u>(6,229)</u>  | <u>(9,085)</u>  |
| Total                                                                                                                 | <u>\$ 1,499</u> | <u>\$ 7,893</u> |

The following is a schedule of future minimum payments for each of the years subsequent to December 31, 2018:

|      |                 |
|------|-----------------|
| 2019 | \$ 6,229        |
| 2020 | <u>1,499</u>    |
|      | <u>\$ 7,728</u> |

Interest expense incurred on long-term debt was \$739 and \$939 for the years ended December 31, 2018 and 2017, respectively.

**Note 9 - Net assets with donor restrictions**

Net assets with donor restrictions are available for the following purpose or time restrictions at December 31, 2018 and 2017:

|                                      | <u>2018</u>       | <u>2017</u>       |
|--------------------------------------|-------------------|-------------------|
| Purpose restrictions                 |                   |                   |
| Resident training and programs       | \$ 85,294         | \$ 111,917        |
| Building - repairs                   | 37,431            | 30,000            |
| Endowment - restricted for time      | 23,430            | 45,783            |
| Endowment - restricted in perpetuity | <u>157,549</u>    | <u>157,549</u>    |
|                                      | <u>\$ 303,704</u> | <u>\$ 345,249</u> |

## The Open Hearth Association and Subsidiary

### Notes to Consolidated Financial Statements December 31, 2018 and 2017

Net assets with donor restrictions released from restrictions during 2018 and 2017 by incurring expenses satisfying the following purpose or time restrictions were as follows:

|                                                                   | <u>2018</u>       | <u>2017</u>       |
|-------------------------------------------------------------------|-------------------|-------------------|
| Passage of time                                                   |                   |                   |
| Life of equipment and building improvements purchased with grants | \$ -              | \$ 113,085        |
| Purpose restrictions                                              |                   |                   |
| Resident training and programs                                    | 198,477           | 123,715           |
| Food                                                              | -                 | 46,083            |
| Building-repairs                                                  | 32,569            | 50,000            |
| Endowment                                                         | 7,519             | 7,206             |
|                                                                   | <u>\$ 238,565</u> | <u>\$ 340,089</u> |

#### Note 10 - Endowment

The Association's endowment consists of donor-restricted funds where the donor identified a portion of the fund to remain in perpetuity and unavailable for spending. These donor-restricted funds include the permanently restricted corpus and the net appreciation of the fund. Funds designated by the Board of Directors as restricted to purpose or time are also included in the Association's endowment and are reported as net assets without donor 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 date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. As a result of this interpretation, the Association retains in perpetuity (a) the original value of initial and subsequent gift amounts (including promises to give net of discount and allowance for doubtful accounts) donated to the Endowment and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by the Association in a manner consistent with the standard of prudence prescribed by CTUPMIFA. The Association considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

**The Open Hearth Association and Subsidiary**

**Notes to Consolidated Financial Statements  
December 31, 2018 and 2017**

Endowment net asset composition by type of fund as of December 31, 2018 is as follows:

|                                  | <u>Without donor<br/>restrictions</u> | <u>With donor<br/>restrictions</u> | <u>Total</u>        |
|----------------------------------|---------------------------------------|------------------------------------|---------------------|
| Donor-restricted endowment funds | \$ -                                  | \$ 180,979                         | \$ 180,979          |
| Board-designated endowment funds | <u>2,141,525</u>                      | <u>-</u>                           | <u>2,141,525</u>    |
| Total funds                      | <u>\$ 2,141,525</u>                   | <u>\$ 180,979</u>                  | <u>\$ 2,322,504</u> |

Changes in endowment net assets for the year ended December 31, 2018 are as follows:

|                                         | <u>Change in<br/>without donor<br/>restrictions</u> | <u>Change in<br/>with donor<br/>restrictions</u> | <u>Change in<br/>total</u> |
|-----------------------------------------|-----------------------------------------------------|--------------------------------------------------|----------------------------|
| Endowment net assets, beginning of year | \$ 2,452,872                                        | \$ 203,332                                       | \$ 2,656,204               |
| Investment return                       |                                                     |                                                  |                            |
| Investment income                       | 41,228                                              | 2,961                                            | 44,189                     |
| Investment loss                         | (247,864)                                           | (17,795)                                         | (265,659)                  |
| Contributions                           | -                                                   | -                                                | -                          |
| Expenditure of endowment assets         | <u>(104,711)</u>                                    | <u>(7,519)</u>                                   | <u>(112,230)</u>           |
| Endowment net assets, end of year       | <u>\$ 2,141,525</u>                                 | <u>\$ 180,979</u>                                | <u>\$ 2,322,504</u>        |

Endowment net asset composition by type of fund as of December 31, 2017 is as follows:

|                                  | <u>Without donor<br/>restrictions</u> | <u>With donor<br/>restrictions</u> | <u>Total</u>        |
|----------------------------------|---------------------------------------|------------------------------------|---------------------|
| Donor-restricted endowment funds | \$ -                                  | \$ 203,332                         | \$ 203,332          |
| Board-designated endowment funds | <u>2,452,872</u>                      | <u>-</u>                           | <u>2,452,872</u>    |
| Total funds                      | <u>\$ 2,452,872</u>                   | <u>\$ 203,332</u>                  | <u>\$ 2,656,204</u> |

**The Open Hearth Association and Subsidiary**

**Notes to Consolidated Financial Statements  
December 31, 2018 and 2017**

Changes in endowment net assets for the year ended December 31, 2017 are as follows:

|                                         | Change in<br>without donor<br>restrictions | Change in<br>with donor<br>restrictions | Change in<br>total  |
|-----------------------------------------|--------------------------------------------|-----------------------------------------|---------------------|
| Endowment net assets, beginning of year | \$ 2,194,364                               | \$ 188,365                              | \$ 2,382,729        |
| Investment return                       |                                            |                                         |                     |
| Investment income                       | 39,560                                     | 2,841                                   | 42,401              |
| Investment gain                         | 269,193                                    | 19,332                                  | 288,525             |
| Contributions                           | 50,105                                     | -                                       | 50,105              |
| Expenditure of endowment assets         | <u>(100,350)</u>                           | <u>(7,206)</u>                          | <u>(107,556)</u>    |
| Endowment net assets, end of year       | <u>\$ 2,452,872</u>                        | <u>\$ 203,332</u>                       | <u>\$ 2,656,204</u> |

As of December 31, 2018 and 2017, donor-restricted endowment funds restricted in perpetuity in the amount of \$157,549 are classified as net assets with donor restrictions. 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, 2018 and 2017.

**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, 2018 and 2017 is as follows:

|      | 2018              | 2017              |
|------|-------------------|-------------------|
| Rent | \$ 100,000        | \$ 100,000        |
| Food | <u>22,278</u>     | <u>59,102</u>     |
|      | <u>\$ 122,278</u> | <u>\$ 159,102</u> |

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 permitted only employee salary reduction contributions and, as such, the Association made no contributions to the plan during 2017. The plan was terminated in 2017.

**The Open Hearth Association and Subsidiary**

**Notes to Consolidated Financial Statements  
December 31, 2018 and 2017**

**Note 13 - Functionalized expenses**

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include maintenance and repairs, occupancy, and depreciation, which are allocated on a square footage basis; client expenses and supplies, which are allocated on a headcount basis; and salaries and wages, benefits, payroll taxes, professional services, office expenses, information technology, interest, insurance, and other, which are allocated on the basis of estimates of time and effort.

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