

**The Open Hearth Association and Subsidiary**

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

**December 31, 2020 and 2019**

---

# 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, 2020 and 2019, 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, 2020 and 2019, 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 August 27, 2021, 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 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 and Subsidiary'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 and Subsidiary's internal control over financial reporting and compliance.

*CohnReznick LLP*

Hartford, Connecticut  
August 27, 2021

**The Open Hearth Association and Subsidiary**  
**Consolidated Statements of Financial Position**  
**December 31, 2020 and 2019**

<u>Assets</u>		
	2020	2019
Current assets		
Cash	\$ 311,278	\$ 207,384
Custodial cash	63,865	23,787
Accounts receivable	1,200	2,365
Grants receivable	28,044	90,817
Inventory	11,600	11,800
Prepaid expenses	30,791	23,757
Total current assets	446,778	359,910
Property and equipment, net	2,073,672	2,297,062
Other assets		
Investments, endowment	2,836,437	2,430,605
Total other assets	2,836,437	2,430,605
Total	\$ 5,356,887	\$ 5,087,577
<u>Liabilities and Net Assets</u>		
Current liabilities		
Accounts payable	\$ 28,227	\$ 67,357
Accrued expenses	148,337	140,474
Custodial liability	63,865	23,787
Refundable advance	215,555	-
Total current liabilities	455,984	231,618
Net assets		
Without donor restrictions		
Board-designated endowment	2,716,756	2,475,635
Undesignated	1,727,204	1,899,001
Total without donor restrictions	4,443,960	4,374,636
With donor restrictions	456,943	481,323
Total net assets	4,900,903	4,855,959
Total	\$ 5,356,887	\$ 5,087,577

See Notes to Consolidated Financial Statements.

## The Open Hearth Association and Subsidiary

### Consolidated Statements of Activities Years Ended December 31, 2020 and 2019

	2020	2019
Changes in net assets without donor restrictions		
Revenue and support		
Governmental and other grants	\$ 1,267,731	\$ 1,341,793
Program fees	157,262	131,150
In-kind contributions	104,943	119,086
Contributions	608,717	158,174
Wood sales and fees	315	72,236
Investment income	73,041	45,913
Open Hearth Works	20,697	61,883
Other income	-	200
Net assets released from restrictions	204,958	293,318
Total revenue and support	2,437,664	2,223,753
Operating expenses		
Shelter and transitional living	1,049,844	975,725
Wood yard	44,617	188,073
Shelter re-housing program	629,014	567,348
The extended program	31,410	55,937
Working Man's Center	80,341	78,945
Development	27,869	86,324
Management and general	388,218	310,647
Open Hearth Works	35,876	46,134
In-kind expenses	104,943	119,086
Depreciation and amortization	242,998	243,588
Total expenses	2,635,130	2,671,807
Change in net assets without donor restrictions before other changes	(197,466)	(448,054)
Other changes in net assets without donor restrictions		
Unrealized/realized gain on investments	266,790	391,266
Total	266,790	391,266
Change in net assets without donor restrictions	69,324	(56,788)
Changes in net assets with donor restrictions		
Contributions	158,780	439,543
Investment income	2,639	3,297
Unrealized/realized gain on investments	19,159	28,097
Net assets released from restrictions	(204,958)	(293,318)
Change in net assets with donor restrictions	(24,380)	177,619
Change in net assets	44,944	120,831
Net assets, beginning	4,855,959	4,735,128
Net assets, end	\$ 4,900,903	\$ 4,855,959

See Notes to Consolidated Financial Statements.

**The Open Hearth Association and Subsidiary**  
**Consolidated Statement of Functional Expenses**  
**Year Ended December 31, 2020**

	Shelter and Transitional Living	Wood Yard	DOH Shelter Re-Housing	The Extended Program	Working Man's Center	Development	Management and General	Open Hearth Works	Total
Salaries and wages	\$ 535,393	\$ 1,375	\$ 468,029	\$ 7,427	\$ 56,887	\$ -	\$ 146,820	\$ 32,164	\$ 1,248,095
Employee benefits and pension	108,825	16,354	90,505	1,009	9,930	-	15,016	3,049	244,688
Employee related expenses	771	-	76	-	-	473	5,730	-	7,050
Program expenses	11,991	113	431	833	608	153	3,604	575	18,308
Client expenses	142,465	-	12,793	997	276	150	3,513	-	160,194
Professional fees	-	-	-	-	2,741	21,647	98,264	-	122,652
Bank fees and interest	-	-	-	-	-	232	15,666	88	15,986
Supplies	33,144	-	1,587	2,721	130	-	3,975	-	41,557
Telephone	-	-	-	-	-	-	23,890	-	23,890
Postage and office supplies	-	-	-	410	275	-	15,288	-	15,973
Insurance	54,355	25,065	15,839	2,867	1,067	-	8,264	-	107,457
Occupancy	92,551	1,346	27,134	9,942	1,656	-	1,822	-	134,451
Maintenance and repairs	64,846	203	12,395	5,204	817	-	18,253	-	101,718
Conference and conventions	960	-	225	-	5,911	-	3,638	-	10,734
Fundraising expenses	-	-	-	-	-	5,214	14,488	-	19,702
Printing and publications	-	-	-	-	-	-	1,774	-	1,774
Dues and subscriptions	-	50	-	-	7	-	2,572	-	2,629
Depreciation and amortization	170,923	5,037	41,712	16,310	6,214	-	2,802	-	242,998
Vehicle expense	4,543	(89)	-	-	36	-	5,641	-	10,131
In-kind expenses	4,943	100,000	-	-	-	-	-	-	104,943
Cost of sales, wood	-	200	-	-	-	-	-	-	200
<b>Subtotal</b>	<b>1,225,710</b>	<b>149,654</b>	<b>670,726</b>	<b>47,720</b>	<b>86,555</b>	<b>27,869</b>	<b>391,020</b>	<b>35,876</b>	<b>2,635,130</b>
Less depreciation and amortization	(170,923)	(5,037)	(41,712)	(16,310)	(6,214)	-	(2,802)	-	(242,998)
Less in-kind expenses	(4,943)	(100,000)	-	-	-	-	-	-	(104,943)
<b>Total</b>	<b>\$ 1,049,844</b>	<b>\$ 44,617</b>	<b>\$ 629,014</b>	<b>\$ 31,410</b>	<b>\$ 80,341</b>	<b>\$ 27,869</b>	<b>\$ 388,218</b>	<b>\$ 35,876</b>	<b>\$ 2,287,189</b>

See Notes to Consolidated Financial Statements.

**The Open Hearth Association and Subsidiary**  
**Consolidated Statement of Functional Expenses**  
**Year Ended December 31, 2019**

	Shelter and Transitional Living	Wood Yard	DOH Shelter Re-Housing	The Extended Program	Working Man's Center	Development	Management and General	Open Hearth Works	Total
Salaries and wages	\$ 469,659	\$ 41,735	\$ 387,530	\$ 6,451	\$ 51,458	\$ -	\$ 125,161	\$ 39,090	\$ 1,121,084
Employee benefits and pension	116,136	14,817	80,435	2,259	7,520	-	25,383	3,694	250,244
Employee related expenses	1,096	-	117	-	-	-	2,154	-	3,367
Program expenses	6,802	10,817	424	-	-	-	-	62	18,105
Client expenses	123,754	42	38,979	25,224	2,656	-	2,195	-	192,850
Professional fees	-	-	-	-	10,344	42,280	113,184	3,212	169,020
Bank fees and interest	55	2,494	-	-	-	-	13,355	76	15,980
Supplies	16,771	-	2,247	3,851	183	-	367	-	23,419
Telephone	6,739	4,448	-	-	-	-	11,636	-	22,823
Postage and office supplies	6,717	48	225	16	484	223	4,932	-	12,645
Insurance	49,341	22,759	14,474	2,640	910	-	5,278	-	95,402
Occupancy	89,851	6,787	26,341	9,648	1,612	-	1,769	-	136,008
Maintenance and repairs	76,981	1,731	15,917	5,830	974	-	1,069	-	102,502
Conference and conventions	1,039	-	609	-	2,587	40	1,790	-	6,065
Fundraising expenses	-	-	-	-	-	42,858	150	-	43,008
Printing and publications	-	-	-	-	-	923	-	-	923
Dues and subscriptions	201	50	-	-	-	-	2,193	-	2,444
Depreciation and amortization	173,130	5,465	41,085	16,080	5,068	-	2,760	-	243,588
Vehicle expense	10,483	5,145	50	18	117	-	2	-	15,815
In-kind expenses	19,086	100,000	-	-	-	-	-	-	119,086
Miscellaneous	100	-	-	-	100	-	-	-	200
Taxes	-	-	-	-	-	-	29	-	29
Cost of sales, wood	-	77,200	-	-	-	-	-	-	77,200
<b>Subtotal</b>	<b>1,167,941</b>	<b>293,538</b>	<b>608,433</b>	<b>72,017</b>	<b>84,013</b>	<b>86,324</b>	<b>313,407</b>	<b>46,134</b>	<b>2,671,807</b>
Less depreciation and amortization	(173,130)	(5,465)	(41,085)	(16,080)	(5,068)	-	(2,760)	-	(243,588)
Less in-kind expenses	(19,086)	(100,000)	-	-	-	-	-	-	(119,086)
<b>Total</b>	<b>\$ 975,725</b>	<b>\$ 188,073</b>	<b>\$ 567,348</b>	<b>\$ 55,937</b>	<b>\$ 78,945</b>	<b>\$ 86,324</b>	<b>\$ 310,647</b>	<b>\$ 46,134</b>	<b>\$ 2,309,133</b>

See Notes to Consolidated Financial Statements.



**The Open Hearth Association and Subsidiary**

**Consolidated Statements of Cash Flows  
Years Ended December 31, 2020 and 2019**

	2020	2019
Cash flows from operating activities		
Change in net assets	\$ 44,944	\$ 120,831
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Unrealized gain on investments	(155,616)	(355,023)
Realized gain on investments	(130,333)	(64,340)
Depreciation and amortization	242,998	243,588
Changes in operating assets and liabilities		
Accounts receivable	1,165	(365)
Grants receivable	62,773	(73,671)
Inventory	200	22,800
Prepaid expenses	(7,034)	4,268
Accounts payable	(39,130)	14,312
Accrued expenses	7,863	1,066
Custodial liability	40,078	(31,080)
Refundable advance	215,555	-
	283,463	(117,614)
Net cash provided by (used in) operating activities		
Cash flows from investing activities		
Proceeds from sale of investments	295,250	506,017
Purchase of investments	(415,133)	(394,756)
Purchase of property and equipment	(19,608)	(55,941)
	(139,491)	55,320
Net cash (used in) provided by investing activities		
Cash flows from financing activities		
Long-term debt payments	-	(7,728)
Line of credit borrowings	150,000	908,732
Line of credit repayments	(150,000)	(908,732)
	-	(7,728)
Net cash used in financing activities		
Net increase (decrease) in cash and restricted cash	143,972	(70,022)
Cash and restricted cash, beginning	231,171	301,193
Cash and restricted cash, end	\$ 375,143	\$ 231,171
Cash paid during the year for interest	\$ 7,788	\$ 8,378

See Notes to Consolidated Financial Statements.

## The Open Hearth Association and Subsidiary

### Notes to Consolidated Financial Statements December 31, 2020 and 2019

#### 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 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 clients assist in operations. It also maintains a kitchen in which clients assist in the operations for the welfare of all the clients. Other programs are provided to enable the clients 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 consolidated 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. 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 and Open Hearth Works, Inc. are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and, therefore, has made no provision for federal or state income taxes in the accompanying consolidated financial statements.

The Association has no unrecognized tax benefits at December 31, 2020 and 2019. The Association's federal information returns prior to calendar year 2017 are closed and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

## The Open Hearth Association and Subsidiary

### Notes to Consolidated Financial Statements December 31, 2020 and 2019

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, 2020 and 2019.

The following table provides a reconciliation of cash and restricted cash reported within the consolidated statements of financial position that sum to the total of the same such amount shown in the consolidated statements of cash flows:

	2020	2019
Cash	\$ 311,278	\$ 207,384
Custodial cash	63,865	23,787
Total	<u>\$ 375,143</u>	<u>\$ 231,171</u>

#### 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. There were no bad debts for the years ended December 31, 2020 and 2019.

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, 2020 and 2019.

#### 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, 2020 and 2019

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 2020 and 2019.

#### **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.

Revenue from grants and contracts with resource providers such as the government and its agencies, other associations and private foundations are accounted for either as exchange transactions or as contributions. When the resource provider receives commensurate value in return for the resources transferred to the Association, the revenue from the grant or contract is accounted for as an exchange transaction in accordance with ASU 2014-09. For purposes of determining whether a transfer of asset is a contribution or an exchange, the Association deems that the resource provider is not synonymous with the general public, i.e., indirect benefit received by the public as a result of the assets transferred is not deemed equivalent to commensurate value received by the resource provider. Moreover, the execution of a resource provider's mission or the positive sentiment from acting as a donor is not deemed to constitute commensurate value received by a resource provider. Revenue from grants and contracts that are accounted for as exchange transactions is recognized when performance obligations have been satisfied. Grants and contracts awarded for the acquisition of long-lived assets are reported as nonoperating revenue, in the absence of donor stipulations to the contrary, during the fiscal year in which the assets are acquired. Cash received in excess of revenue recognized is recorded as refundable advances.

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, 2020 and 2019, 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.

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

### **Notes to Consolidated Financial Statements December 31, 2020 and 2019**

#### **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 consolidated statements of activities as net assets released from restrictions. Donor-restricted contributions whose conditions and restrictions are met in the same reporting period have been reported as support increasing net assets without donor restrictions in the consolidated statements 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 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.

#### **Program revenue**

Consists of program fees, wood sales and Open Hearth Works revenue to support state grant program operations under the DOH Shelter Housing and the Extended Program. Revenue is recognized in the consolidated financial statements at a point in time when the services are provided.

#### **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 may be 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.

The consolidated 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.

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

### **Notes to Consolidated Financial Statements December 31, 2020 and 2019**

#### **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**

The Association adopted FASB ASU 2014-09, Revenue from Contracts with Customers. This standard provides new revenue recognition guidance that superseded existing revenue recognition guidance. The update, as amended, requires the recognition of revenue related to the transfer of goods or services to customers which reflects the consideration to which the Association expects to be entitled in exchange for those goods or services, as well as additional qualitative and quantitative disclosures about revenues. The Association adopted ASU 2014-09 on January 1, 2020 using the modified retrospective method of transition for all contracts that were not completed as of that date.

The Association's revenue for reporting periods ended after December 31, 2019 are presented under the new guidance, while financial results for prior periods will continue to be reported in accordance with the prior guidance and the Association's historical accounting policy. The Association has not experienced significant changes to the pattern of revenue recognition for its contracts, the identification of contracts and performance obligations or the measurement of variable consideration. Adopting the new standard did not have a material effect on the timing of the Association's revenue recognition.

#### **Subsequent events**

The Association has evaluated events and transactions for potential recognition or disclosure through August 27, 2021, 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.

## The Open Hearth Association and Subsidiary

### Notes to Consolidated Financial Statements December 31, 2020 and 2019

#### Funding source concentrations

The following grantor agencies provided over 10% of the Association's total support and revenue for the year ended December 31, 2020:

<u>Granting agency</u>	<u>% of revenue</u>	<u>% of receivable</u>
Department of Housing	11.2%	0.00%
Department of Correction	33.7%	0.00%

The following grantor agencies provided over 10% of the Association's total support and revenue for the year ended December 31, 2019:

<u>Granting agency</u>	<u>% of revenue</u>	<u>% of receivable</u>
Department of Housing	13.7%	0.00%
Department of Correction	41.0%	0.00%

#### 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, 2020 and 2019, the Association has financial assets available to meet annual operating needs for the subsequent fiscal year as follows:

	<u>2020</u>	<u>2019</u>
Cash	\$ 311,278	\$ 207,384
Accounts receivable	1,200	2,365
Grants receivable	28,044	90,817
Investments available for subsequent year	102,042	105,797
Total	<u>\$ 442,564</u>	<u>\$ 406,363</u>

These financial assets are not subject to any donor or contractual restrictions. The Association supports its general operations primarily with contributions without donor restrictions 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 9.

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 gifts without donor restrictions such as a bequest to the board-designated endowment.

## The Open Hearth Association and Subsidiary

### Notes to Consolidated Financial Statements December 31, 2020 and 2019

#### 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, 2020 are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3	Total
Money market funds	\$ 126,345	\$ -	\$ -	\$ 126,345
Equity mutual funds				
U.S. Large Cap	1,106,508	-	-	1,106,508
U.S. Mid Cap	232,705	-	-	232,705
U.S. Small Cap	206,706	-	-	206,706
International	339,447	-	-	339,447
Emerging markets	104,726	-	-	104,726
Fixed income mutual funds				
Investment grade	455,998	-	-	455,998
International	37,001	-	-	37,001
Global High Yield Taxable	55,949	-	-	55,949
Real estate	145,487	-	-	145,487
Commodities	25,565	-	-	25,565
<b>Total</b>	<b>\$ 2,836,437</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,836,437</b>



## The Open Hearth Association and Subsidiary

### Notes to Consolidated Financial Statements December 31, 2020 and 2019

Financial assets carried at fair value at December 31, 2019 are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3	Total
Money market funds	\$ 51,873	\$ -	\$ -	\$ 51,873
Equity mutual funds				
U.S. Large Cap	1,010,051	-	-	1,010,051
U.S. Mid Cap	202,526	-	-	202,526
U.S. Small Cap	176,755	-	-	176,755
International	195,490	-	-	195,490
Emerging markets	121,571	-	-	121,571
Fixed income mutual funds				
Investment grade	412,585	-	-	412,585
International	35,744	-	-	35,744
Global High Yield Taxable	55,381	-	-	55,381
Real estate	142,729	-	-	142,729
Commodities	25,900	-	-	25,900
<b>Total</b>	<b>\$ 2,430,605</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,430,605</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, 2020.

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 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:

	2020	2019
Interest income	\$ 75,680	\$ 49,210
Unrealized gain on investments	155,616	355,023
Realized gain on investments	130,333	64,340
<b>Total</b>	<b>\$ 361,629</b>	<b>\$ 468,573</b>

## The Open Hearth Association and Subsidiary

### Notes to Consolidated Financial Statements December 31, 2020 and 2019

#### Note 5 - Property and equipment

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

	2020	2019
Building and building improvements	\$ 5,670,413	\$ 5,662,962
Machinery and other equipment	267,125	259,071
Furniture and fixtures	197,693	193,590
Automotive equipment	89,639	89,639
Wood yard	420,147	420,147
Total	6,645,017	6,625,409
Less accumulated depreciation	(4,571,345)	(4,328,347)
Net property and equipment	<u>\$ 2,073,672</u>	<u>\$ 2,297,062</u>

#### 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 February 28, 2021. Interest expense incurred on the line of credit was \$7,038 and \$7,826 for the years ended December 31, 2020 and 2019, respectively.

#### Note 7 - Net assets with donor restrictions

Net assets with donor restrictions are available for the following purpose or time restrictions at December 31, 2020 and 2019:

	2020	2019
Purpose restrictions		
Resident training and programs	\$ 102,592	\$ 118,048
Open Hearth Works programs	98,669	98,669
Food	-	23,634
Building - repairs	36,000	36,000
Endowment - restricted for time	62,133	47,423
Endowment - restricted in perpetuity	157,549	157,549
	<u>\$ 456,943</u>	<u>\$ 481,323</u>

## The Open Hearth Association and Subsidiary

### Notes to Consolidated Financial Statements December 31, 2020 and 2019

Net assets with donor restrictions released from restrictions during 2020 and 2019 by incurring expenses satisfying the following purpose or time restrictions were as follows:

	2020	2019
Purpose restrictions		
Resident training and programs	\$ 138,236	\$ 186,720
Open Hearth Works programs	-	27,100
Food	23,634	34,666
Building - repairs	36,000	37,431
Endowment	7,088	7,401
	<u>\$ 204,958</u>	<u>\$ 293,318</u>

#### Note 8 - Refundable advance

On May 1, 2020, the Association received loan proceeds in the amount of \$215,555 under the Paycheck Protection Program ("PPP"). Established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), the PPP provides for loans to qualifying businesses in amounts up to 2.5 times the business's average monthly payroll expenses. PPP loans and accrued interest are forgivable after a "covered period" (eight or 24 weeks) as long as the borrower maintains its payroll levels and uses the loan proceeds for eligible purposes, including payroll, benefits, rent, and utilities. The forgiveness amount will be reduced if the borrower terminates employees or reduces salaries during the covered period. Any unforgiven portion of a PPP loan is payable over two or five years at an interest rate of 1%, with a deferral of payments for 10 months after the end of the covered period. See note 12 for related subsequent event.

#### Note 9 - 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 corpus restricted in perpetuity and the net appreciation of those funds. 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

## The Open Hearth Association and Subsidiary

### Notes to Consolidated Financial Statements December 31, 2020 and 2019

- 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

Endowment net asset composition by type of fund as of December 31, 2020 is as follows:

	Without donor restriction	With Donor Restriction		Total
		Time and purpose restricted	Restricted in Perpetuity	
Donor-restricted endowment funds	\$ -	\$ 62,133	\$ 157,549	\$ 219,682
Board-designated endowment funds	<u>2,716,756</u>	<u>-</u>	<u>-</u>	<u>2,716,756</u>
Total funds	<u>\$ 2,716,756</u>	<u>\$ 62,133</u>	<u>\$ 157,549</u>	<u>\$ 2,936,438</u>

Changes in endowment net assets for the year ended December 31, 2020 are as follows:

	Without donor restriction	With Donor Restriction		Total
		Time and purpose restricted	Restricted in Perpetuity	
Endowment net assets, beginning of year	\$ 2,475,635	\$ 47,423	\$ 157,549	\$ 2,680,607
Investment return				
Investment income	36,746	2,639	-	39,385
Investment gain	266,790	19,159	-	285,949
Expenditure of endowment assets	<u>(62,415)</u>	<u>(7,088)</u>	<u>-</u>	<u>(69,503)</u>
Endowment net assets, end of year	<u>\$ 2,716,756</u>	<u>\$ 62,133</u>	<u>\$ 157,549</u>	<u>\$ 2,936,438</u>

**The Open Hearth Association and Subsidiary**

**Notes to Consolidated Financial Statements  
December 31, 2020 and 2019**

Endowment net asset composition by type of fund as of December 31, 2019 is as follows:

	Without donor restriction	With Donor Restriction		Total
		Time and purpose restricted	Restricted in Perpetuity	
Donor-restricted endowment funds	\$ -	\$ 47,423	\$ 157,549	\$ 204,972
Board-designated endowment funds	<u>2,475,635</u>	<u>-</u>	<u>-</u>	<u>2,475,635</u>
Total funds	<u>\$ 2,475,635</u>	<u>\$ 47,423</u>	<u>\$ 157,549</u>	<u>\$ 2,680,607</u>

Changes in endowment net assets for the year ended December 31, 2019 are as follows:

	Without donor restriction	With Donor Restriction		Total
		Time and purpose restricted	Restricted in Perpetuity	
Endowment net assets, beginning of year	\$ 2,141,525	\$ 23,430	\$ 157,549	\$ 2,322,504
Investment return				
Investment income	45,913	3,297	-	49,210
Investment gain	391,266	28,097	-	419,363
Expenditure of endowment assets	<u>(103,069)</u>	<u>(7,401)</u>	<u>-</u>	<u>(110,470)</u>
Endowment net assets, end of year	<u>\$ 2,475,635</u>	<u>\$ 47,423</u>	<u>\$ 157,549</u>	<u>\$ 2,680,607</u>

As of December 31, 2020 and 2019, donor-restricted endowment funds in the amount of \$157,549 are classified as net assets with donor restrictions in perpetuity. 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, 2020 and 2019.

## The Open Hearth Association and Subsidiary

### Notes to Consolidated Financial Statements December 31, 2020 and 2019

#### Note 10 - In-kind contributions

The Association received donated property and food in connection with its shelter and transitional living programs. The fair value of these items for the years ended December 31, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Rent	\$ 100,000	\$ 100,000
Food	<u>4,943</u>	<u>19,086</u>
	<u>\$ 104,943</u>	<u>\$ 119,086</u>

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

#### Note 11 - Commitments and contingencies

In early 2020, an outbreak of a novel strain of coronavirus ("COVID-19") emerged globally. As a result, events have occurred including mandates from federal, state and local authorities leading to an overall decline in economic activity. As of December 31, 2020, there was no significant impact to the Association's operations. However, the Association is not able to reliably estimate the length or severity of this outbreak. If the length of the outbreak and related effects on the Association's operations continues for an extended period of time, there could be a loss of revenues and other material adverse effects to the Association's financial position, results of activities, and cash flows.

#### Note 12 - Subsequent events

The Association submitted its application for PPP loan forgiveness subsequent to December 31, 2020 and received notice from its lender on February 24, 2021 that the SBA approved forgiveness in the amount of \$215,555 for the PPP Loan and the related interest thereon. There is a six-year period during which the SBA can review the Association's forgiveness calculation.



**Independent Member of Nexia International**

**[cohnreznick.com](http://cohnreznick.com)**