

**The Open Hearth Association and Subsidiary**

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

**December 31, 2023 and 2022**

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# The Open Hearth Association and Subsidiary

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## Independent Auditor's Report

To the Board of Directors  
The Open Hearth Association

Report on Audit of the Consolidated Financial Statements

### *Opinion*

We have audited the consolidated financial statements of The Open Hearth Association and Subsidiary (nonprofit organizations), which comprise the consolidated statements of financial position as of December 31, 2023 and 2022, 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.

In our opinion, the accompanying 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, 2023 and 2022, 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.

### *Basis for Opinion*

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of The Open Hearth Association and Subsidiary and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. The financial statements of the Subsidiary were not audited in accordance with *Government Auditing Standards*.

### *Responsibilities of Management for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about The Open Hearth Association and Subsidiary's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

### *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Open Hearth Association and Subsidiary's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The Open Hearth Association and Subsidiary's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audits.

### *Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2024, 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.



Hartford, Connecticut  
September 27, 2024

**The Open Hearth Association and Subsidiary**

**Consolidated Statements of Financial Position**

**December 31, 2023 and 2022**

	<u>Assets</u>	
	<u>2023</u>	<u>2022</u>
Current assets		
Cash	\$ 120,415	\$ 189,779
Custodial cash	89,584	96,704
Accounts receivable	-	83,765
Grants receivable	251,854	15,500
Prepaid expenses	45,687	34,752
	<u>507,540</u>	<u>420,500</u>
Property and equipment, net	<u>1,765,211</u>	<u>1,810,164</u>
Other assets		
Investments, endowment	<u>2,398,085</u>	<u>2,243,011</u>
Total	<u>\$ 4,670,836</u>	<u>\$ 4,473,675</u>
	<u>Liabilities and Net Assets</u>	
Current liabilities		
Accounts payable	\$ 35,328	\$ 41,739
Accrued expenses	210,576	198,727
Custodial liability	89,584	96,704
Line of credit	315,000	-
Refundable advance	-	24,420
	<u>650,488</u>	<u>361,590</u>
Net assets		
Without donor restrictions		
Board-designated endowment	2,192,335	2,397,497
Undesignated	<u>1,510,546</u>	<u>1,405,674</u>
Total without donor restrictions	3,702,881	3,803,171
With donor restrictions	<u>317,467</u>	<u>308,914</u>
Total net assets	<u>4,020,348</u>	<u>4,112,085</u>
Total	<u>\$ 4,670,836</u>	<u>\$ 4,473,675</u>

See Notes to Consolidated Financial Statements.

**The Open Hearth Association and Subsidiary**

**Consolidated Statements of Activities  
Years Ended December 31, 2023 and 2022**

	2023	2022
Changes in net assets without donor restrictions		
Revenue and support		
Governmental and other grants	\$ 1,831,199	\$ 1,726,350
Program fees	119,634	111,877
Contributions	346,925	501,511
Investment income	78,916	109,674
Open Hearth Works		
Governmental and other grants	548,390	192,469
Program fees and other income	34,213	37,730
Other income	31,090	16,980
Net assets released from restrictions	254,067	305,258
Total revenue and support	3,244,434	3,001,849
Operating expenses		
Shelter and transitional living	1,364,812	1,280,227
Shelter re-housing program	643,853	722,183
The Extended Program	38,729	37,331
Working Man's Center	80,938	80,792
Jobs Re-Entry Program	148,481	106,214
Open Hearth Works	458,025	256,968
Total program expenses	2,734,838	2,483,715
Fundraising	89,033	60,141
Management and general	501,575	415,702
Depreciation and amortization	227,826	210,429
Total expenses	3,553,272	3,169,987
Change in net assets without donor restrictions before other changes	(308,838)	(168,138)
Other changes in net assets without donor restrictions		
Unrealized/realized gain (loss) on investments	208,548	(496,155)
Change in net assets without donor restrictions	(100,290)	(664,293)
Changes in net assets with donor restrictions		
Contributions	244,624	165,380
Investment income	3,020	3,749
Unrealized/realized gain (loss) on investments	14,976	(35,629)
Net assets released from restrictions	(254,067)	(305,258)
Change in net assets with donor restrictions	8,553	(171,758)
Change in net assets	(91,737)	(836,051)
Net assets, beginning	4,112,085	4,948,136
Net assets, end	\$ 4,020,348	\$ 4,112,085

See Notes to Consolidated Financial Statements.

**The Open Hearth Association and Subsidiary**  
**Consolidated Statement of Functional Expenses**  
**Year Ended December 31, 2023**

	Shelter and Transitional Living	DOH Shelter Re-Housing	The Extended Program	Working Man's Center	Jobs Re-Entry Program	Open Hearth Works	Total Program Expenses	Fundraising	Management and General	Total
Salaries and wages	\$ 728,657	\$ 458,199	\$ 8,053	\$ 59,434	\$ 129,440	\$ 334,737	\$ 1,718,520	\$ -	\$ 125,884	\$ 1,844,404
Employee benefits and pension	112,104	106,303	3,309	14,582	11,639	38,610	286,547	-	10,947	297,494
Employee related expenses	612	68	-	-	-	-	680	-	2,985	3,665
Program expenses	19,201	319	-	20	158	34,813	54,511	-	12,587	67,098
Client expenses	212,285	13,240	925	1,908	2,176	9,200	239,734	-	4,408	244,142
Professional fees	-	-	-	-	3,538	8,444	11,982	41,542	98,996	152,520
Bank fees and interest	-	-	-	-	-	-	-	-	37,835	37,835
Supplies	47,702	1,689	2,895	138	-	-	52,424	-	2,613	55,037
Telephone	-	-	-	-	-	-	-	-	29,583	29,583
Postage and office supplies	20	-	-	-	-	-	20	-	20,486	20,506
Insurance	85,000	24,950	9,173	467	-	-	119,590	-	15,152	134,742
Occupancy	100,845	29,541	10,827	1,799	1,530	-	144,542	-	20,758	165,300
Maintenance and repairs	50,302	9,544	3,547	590	-	221	64,204	-	95,632	159,836
Conference and conventions	1,002	-	-	2,000	-	-	3,002	-	5,752	8,754
Fundraising expenses	-	-	-	-	-	-	-	47,491	-	47,491
Printing and publications	-	-	-	-	-	-	-	-	1,775	1,775
Dues and subscriptions	50	-	-	-	-	-	50	-	169	219
Depreciation and amortization	148,835	37,516	13,740	2,297	-	22,917	225,305	-	2,521	227,826
Vehicle expense	6,716	-	-	-	-	-	6,716	-	15,735	22,451
Miscellaneous	316	-	-	-	-	32,000	32,316	-	278	32,594
Subtotal	1,513,647	681,369	52,469	83,235	148,481	480,942	2,960,143	89,033	504,096	3,553,272
Less depreciation and amortization	(148,835)	(37,516)	(13,740)	(2,297)	-	(22,917)	(225,305)	-	(2,521)	(227,826)
Total	<u>\$ 1,364,812</u>	<u>\$ 643,853</u>	<u>\$ 38,729</u>	<u>\$ 80,938</u>	<u>\$ 148,481</u>	<u>\$ 458,025</u>	<u>\$ 2,734,838</u>	<u>\$ 89,033</u>	<u>\$ 501,575</u>	<u>\$ 3,325,446</u>

**The Open Hearth Association and Subsidiary**  
**Consolidated Statement of Functional Expenses**  
**Year Ended December 31, 2022**

	Shelter and Transitional Living	DOH Shelter Re-Housing	The Extended Program	Working Man's Center	Jobs Re-Entry Program	Open Hearth Works	Total Program Expenses	Fundraising	Management and General	Total
Salaries and wages	\$ 633,161	\$ 536,862	\$ 7,936	\$ 58,889	\$ 84,604	\$ 193,422	\$ 1,514,874	\$ -	\$ 166,105	\$ 1,680,979
Employee benefits and pension	105,282	112,938	2,951	13,219	12,369	18,141	264,900	-	22,365	287,265
Employee related expenses	638	71	-	-	88	-	797	-	4,312	5,109
Program expenses	21,495	202	-	-	-	13,004	34,701	-	698	35,399
Client expenses	199,119	9,172	881	2,111	1,854	7,520	220,657	-	-	220,657
Professional fees	-	-	-	-	2,962	6,655	9,617	17,609	101,182	128,408
Bank fees and interest	-	-	-	-	-	-	-	-	18,408	18,408
Supplies	50,039	1,730	2,923	1,717	-	-	56,409	-	3,174	59,583
Telephone	-	-	-	-	65	519	584	-	31,307	31,891
Postage and office supplies	370	-	-	464	122	45	1,001	42	16,563	17,606
Insurance	78,509	22,717	8,472	1,395	-	-	111,093	-	2,388	113,481
Occupancy	103,198	30,257	11,088	1,844	-	-	146,387	-	2,451	148,838
Maintenance and repairs	67,808	8,234	3,080	741	-	782	80,645	-	32,058	112,703
Conference and conventions	1,405	-	-	-	4,150	-	5,555	-	6,010	11,565
Fundraising expenses	-	-	-	-	-	-	-	42,490	338	42,828
Printing and publications	-	-	-	-	-	-	-	-	1,462	1,462
Dues and subscriptions	50	-	-	-	-	-	50	-	705	755
Depreciation and amortization	147,191	41,185	15,084	2,655	-	-	206,115	-	4,314	210,429
Vehicle expense	19,153	-	-	412	-	-	19,565	-	6,176	25,741
Miscellaneous	-	-	-	-	-	16,880	16,880	-	-	16,880
<b>Subtotal</b>	<b>1,427,418</b>	<b>763,368</b>	<b>52,415</b>	<b>83,447</b>	<b>106,214</b>	<b>256,968</b>	<b>2,689,830</b>	<b>60,141</b>	<b>420,016</b>	<b>3,169,987</b>
Less depreciation and amortization	(147,191)	(41,185)	(15,084)	(2,655)	-	-	(206,115)	-	(4,314)	(210,429)
<b>Total</b>	<b>\$ 1,280,227</b>	<b>\$ 722,183</b>	<b>\$ 37,331</b>	<b>\$ 80,792</b>	<b>\$ 106,214</b>	<b>\$ 256,968</b>	<b>\$ 2,483,715</b>	<b>\$ 60,141</b>	<b>\$ 415,702</b>	<b>\$ 2,959,558</b>

See Notes to Consolidated Financial Statements.

**The Open Hearth Association and Subsidiary**

**Consolidated Statements of Cash Flows  
Years Ended December 31, 2023 and 2022**

	2023	2022
Cash flows from operating activities		
Change in net assets	\$ (91,737)	\$ (836,051)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Unrealized (gain) loss on investments	(211,845)	865,483
Realized gain on investments	(11,679)	(333,699)
Depreciation and amortization	227,826	210,429
Changes in operating assets and liabilities		
Accounts receivable	83,765	(82,385)
Grants receivable	(236,354)	13,144
Prepaid expenses	(10,935)	(5,205)
Accounts payable	(6,411)	(25,283)
Accrued expenses	11,849	16,198
Custodial liability	(7,120)	27,202
Refundable advance	(24,420)	22,753
	<u>(277,061)</u>	<u>(127,414)</u>
Net cash used in operating activities		
Cash flows from investing activities		
Proceeds from sale of investments	676,225	2,349,110
Purchase of investments	(607,775)	(2,254,742)
Purchase of property and equipment	(182,873)	(78,897)
	<u>(114,423)</u>	<u>15,471</u>
Net cash (used in) provided by investing activities		
Cash flows from financing activities		
Line of credit borrowings	1,100,000	800,000
Line of credit repayments	(785,000)	(800,000)
	<u>315,000</u>	<u>-</u>
Net cash provided by financing activities		
Net decrease in cash and restricted cash	(76,484)	(111,943)
Cash and restricted cash, beginning	<u>286,483</u>	<u>398,426</u>
Cash and restricted cash, end	<u>\$ 209,999</u>	<u>\$ 286,483</u>
Cash paid during the year for interest	<u>\$ 29,078</u>	<u>\$ 9,107</u>

See Notes to Consolidated Financial Statements.

## The Open Hearth Association and Subsidiary

### Notes to Consolidated Financial Statements December 31, 2023 and 2022

#### 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 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, 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 are Board designated as funds functioning as an endowment.

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

Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions may be 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.

Management has analyzed the tax positions taken by the Association and has concluded that, as of December 31, 2023 and 2022, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the consolidated financial statements. The Association's federal information returns prior to calendar year 2020 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, 2023 and 2022

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, 2023 and 2022.

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:

	2023	2022
Cash	\$ 120,415	\$ 189,779
Custodial cash	89,584	96,704
Total	<u>\$ 209,999</u>	<u>\$ 286,483</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 to be without donor restrictions 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, 2023 and 2022.

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, 2023 and 2022.

#### 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, 2023 and 2022

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

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 2023 and 2022.

#### **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. 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, 2023 and 2022, 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, 2023 and 2022**

#### **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, 2023 and 2022

#### Use of estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

#### Subsequent events

The Association has evaluated events and transactions for potential recognition or disclosure through September 27, 2024, 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, 2023:

Granting agency	% of revenue	% of receivable
Department of Housing	12.7%	0.00%
Department of Correction	42.6%	17.8%

## The Open Hearth Association and Subsidiary

### Notes to Consolidated Financial Statements December 31, 2023 and 2022

The following grantor agencies provided over 10% of the Association's total support and revenue for the year ended December 31, 2022:

<u>Granting agency</u>	<u>% of revenue</u>	<u>% of receivable</u>
Department of Housing	15.0%	0.00%
Department of Correction	55.8%	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, 2023 and 2022, the Association has financial assets available to meet annual operating needs for the subsequent fiscal year as follows:

	<u>2023</u>	<u>2022</u>
Cash	\$ 120,415	\$ 189,779
Accounts receivable	-	83,765
Grants receivable	251,854	15,500
Investments available for subsequent year	103,690	104,146
Total	<u>\$ 475,959</u>	<u>\$ 393,190</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 8.

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 Association also has a line of credit available in the amount of \$500,000 to assist with any necessary short-term liquidity needs.

## The Open Hearth Association and Subsidiary

### Notes to Consolidated Financial Statements December 31, 2023 and 2022

#### 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, 2023 are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3	Total
Money market funds	\$ 78,042	\$ -	\$ -	\$ 78,042
Equity mutual funds				
U.S. Large Cap	597,086	-	-	597,086
U.S. Mid Cap	309,961	-	-	309,961
U.S. Small Cap	122,040	-	-	122,040
International	213,081	-	-	213,081
Emerging markets	142,261	-	-	142,261
Fixed income mutual funds				
Investment grade	287,910	-	-	287,910
International	94,835	-	-	94,835
Real estate funds	461,643	-	-	461,643
Commodities funds	91,226	-	-	91,226
<b>Total</b>	<b>\$ 2,398,085</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,398,085</b>

## The Open Hearth Association and Subsidiary

### Notes to Consolidated Financial Statements December 31, 2023 and 2022

Financial assets carried at fair value at December 31, 2022 are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3	Total
Money market funds	\$ 72,287	\$ -	\$ -	\$ 72,287
Equity mutual funds				
U.S. Large Cap	476,846	-	-	476,846
U.S. Mid Cap	313,797	-	-	313,797
U.S. Small Cap	156,841	-	-	156,841
International	225,255	-	-	225,255
Emerging markets	132,064	-	-	132,064
Fixed income mutual funds				
Investment grade	347,858	-	-	347,858
International	87,992	-	-	87,992
Global High Yield Taxable	43,769	-	-	43,769
Real estate funds	304,110	-	-	304,110
Commodities funds	82,192	-	-	82,192
Total	\$ 2,243,011	\$ -	\$ -	\$ 2,243,011

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, 2023.

Investments in money market funds, equity mutual funds, fixed income mutual funds, real estate funds and commodities funds 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:

	2023	2022
Interest income	\$ 81,936	\$ 113,423
Unrealized gain on investments	211,845	(865,483)
Realized gain on investments	11,679	333,699
Total	\$ 305,460	\$ (418,361)

## The Open Hearth Association and Subsidiary

### Notes to Consolidated Financial Statements December 31, 2023 and 2022

#### Note 5 - Property and equipment

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

	<u>2023</u>	<u>2022</u>
Building and building improvements	\$ 5,807,723	\$ 5,784,473
Machinery and other equipment	355,700	321,078
Furniture and fixtures	197,693	197,693
Automotive equipment	<u>216,574</u>	<u>91,574</u>
Total	6,577,690	6,394,818
Less accumulated depreciation	<u>(4,812,479)</u>	<u>(4,584,654)</u>
Net property and equipment	<u>\$ 1,765,211</u>	<u>\$ 1,810,164</u>

#### Note 6 - Line of credit

The Association has a \$500,000 working capital revolving line of credit agreement with Bank of America bearing interest at the Bank's Prime Rate plus 1%, payable monthly (9.5% at December 31, 2023). Borrowings under this agreement are collateralized by substantially all of the Association's assets. The line of credit is available through May 28, 2025. Interest expense incurred on the line of credit was \$29,078 and \$9,107 for the years ended December 31, 2023 and 2022, respectively. The outstanding balance at December 31, 2023 and 2022 was \$315,000 and \$0, respectively.

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

Net assets with donor restrictions are restricted for the following purpose restrictions or time restrictions at December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Purpose restrictions		
Resident training and programs	\$ 111,717	\$ 113,400
Endowment - restricted for time	48,201	37,965
Endowment - restricted in perpetuity	<u>157,549</u>	<u>157,549</u>
	<u>\$ 317,467</u>	<u>\$ 308,914</u>

## The Open Hearth Association and Subsidiary

### Notes to Consolidated Financial Statements December 31, 2023 and 2022

Net assets with donor restrictions released from restrictions during 2023 and 2022 by incurring expenses satisfying the following purpose or time restrictions were as follows:

	<u>2023</u>	<u>2022</u>
Purpose restrictions		
Resident training and programs	\$ 246,307	\$ 158,368
Open Hearth Works programs	-	99,689
Building - repairs	-	40,000
Endowment	<u>7,760</u>	<u>7,201</u>
	<u>\$ 254,067</u>	<u>\$ 305,258</u>

#### Note 8 - 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.
- General economic conditions.
- The possible effect of inflation and deflation.
- The expected total return from income (loss) and the appreciation (depreciation) 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, 2023 and 2022

Endowment net asset composition by type of fund as of December 31, 2023 is as follows:

	Without donor restriction	With donor restriction		Total
		Time and purpose restricted	Restricted in perpetuity	
Donor-restricted endowment	\$ -	\$ 48,201	\$ 157,549	\$ 205,750
Board-designated endowment funds	2,192,335	-	-	2,192,335
<b>Total funds</b>	<b>\$ 2,192,335</b>	<b>\$ 48,201</b>	<b>\$ 157,549</b>	<b>\$ 2,398,085</b>

Changes in endowment net assets for the year ended December 31, 2023 are as follows:

	Without donor restriction	With donor restriction		Total
		Time and purpose restricted	Restricted in perpetuity	
Endowment net assets, beginning of year	\$ 2,397,497	\$ 37,965	\$ 157,549	\$ 2,593,011
Investment return				
Investment income	42,051	3,020	-	45,071
Investment gain	208,548	14,976	-	223,524
Contributions	37,645	-	-	37,645
Expenditure of endowment assets	(493,406)	(7,760)	-	(501,166)
<b>Endowment net assets, end of year</b>	<b>\$ 2,192,335</b>	<b>\$ 48,201</b>	<b>\$ 157,549</b>	<b>\$ 2,398,085</b>

Endowment net asset composition by type of fund as of December 31, 2022 is as follows:

	Without donor restriction	With donor restriction		Total
		Time and purpose restricted	Restricted in perpetuity	
Donor-restricted endowment	\$ -	\$ 37,965	\$ 157,549	\$ 195,514
Board-designated endowment funds	2,397,497	-	-	2,397,497
<b>Total funds</b>	<b>\$ 2,397,497</b>	<b>\$ 37,965</b>	<b>\$ 157,549</b>	<b>\$ 2,593,011</b>

## The Open Hearth Association and Subsidiary

### Notes to Consolidated Financial Statements December 31, 2023 and 2022

Changes in endowment net assets for the year ended December 31, 2022 are as follows:

	Without donor restriction	With donor restriction		Total
		Time and purpose restricted	Restricted in perpetuity	
Endowment net assets, beginning of year	\$ 2,884,568	\$ 77,046	\$ 157,549	\$ 3,119,163
Investment return				
Investment income	52,200	3,749	-	55,949
Investment loss	(496,154)	(35,629)	-	(531,783)
Contributions	57,156	-	-	57,156
Expenditure of endowment	(100,273)	(7,201)	-	(107,474)
Endowment net assets, end of year	\$ 2,397,497	\$ 37,965	\$ 157,549	\$ 2,593,011

As of December 31, 2023 and 2022, 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, 2023 and 2022.

When necessary to meet the needs of operations, the Association will at times borrow funds from the endowment balance and then subsequently repay these balances. At December 31, 2023 and 2022, there were borrowings against the endowment of \$0 and \$250,000.

#### **Note 9 - Conditional contributions**

The Association receives conditional grants related to various federal and state grant funding. At December 31, 2023 contributions of approximately \$614,000 have not been recognized in the accompanying consolidated statement of activities because the conditions on which they depend have not been met. The conditional contribution depends on incurring qualified expenditures.



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