

**HAZON, INC.**

**FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

**HAZON, INC.**

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DECEMBER 31, 2016 AND 2015

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# BILLET, FEIT AND PREIS, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Hazon, Inc.  
New York, NY

We have audited the accompanying financial statements of Hazon, Inc. (a New York nonprofit organization), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hazon, Inc. as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Report on Supplementary Information**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on pages 18 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Respectfully submitted,

BILLET, FEIT & PREIS, P.C.



Certified Public Accountants

New York, NY  
April 25, 2017

**HAZON, INC.**

STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2016 AND 2015

ASSETS

	<u>2016</u>	<u>2015</u>
<u>Current Assets</u>		
Cash and cash equivalents	\$1,699,840	\$ 2,536,265
Pledges and grants receivable, net	3,674,810	5,453,496
Accounts receivable	108,476	2,796
Investments	42,420	42,553
Prepaid expenses	79,339	45,595
Property held for sale	-	230,510
Total Current Assets	<u>5,604,885</u>	<u>8,311,215</u>
Property and equipment, net	2,300,402	2,140,708
Security deposits	<u>9,267</u>	<u>11,340</u>
<b>TOTAL ASSETS</b>	<b><u>\$7,914,554</u></b>	<b><u>\$10,463,263</u></b>

LIABILITIES AND NET ASSETS

<u>Current Liabilities</u>		
Accounts payable	\$ 280,560	\$ 86,962
Accrued expenses	348,885	208,405
Grants payable, fiscal sponsorships	779	507
Deferred income	215,424	229,268
Tenant deposits	9,741	9,601
Other liabilities	-	51,738
Mortgage and loan payable, current maturities	24,073	22,738
Total Current Liabilities	<u>879,462</u>	<u>609,219</u>
<u>Long-term Liabilities</u>		
Mortgage and loan payable, less current maturities	<u>45,242</u>	<u>69,596</u>
Total Liabilities	<u>924,704</u>	<u>678,815</u>
<u>Net Assets</u>		
Unrestricted	1,903,176	1,564,156
Temporarily restricted	<u>5,086,674</u>	<u>8,220,292</u>
Total Net Assets	<u>6,989,850</u>	<u>9,784,448</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$7,914,554</u></b>	<b><u>\$10,463,263</u></b>

See accompanying notes to financial statements.

## HAZON, INC.

### STATEMENTS OF ACTIVITIES YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016			2015		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b><u>Revenues and Other Support</u></b>						
General Support:						
Foundation grants	\$ 718,001	\$ 863,441	\$1,581,442	\$ 163,382	\$8,498,994	\$8,662,376
Individual and institutional support	1,140,853	-	1,140,853	325,941	-	325,941
Released from restrictions, prior periods	3,997,059	(3,997,059)	-	3,641,454	(3,641,454)	-
	<u>5,855,913</u>	<u>(3,133,618)</u>	<u>2,722,295</u>	<u>4,130,777</u>	<u>4,857,540</u>	<u>8,988,317</u>
Program Revenues:						
Program fees	2,783,184	-	2,783,184	2,378,811	-	2,378,811
Participant fundraising	107,984	-	107,984	253,374	-	253,374
	<u>2,891,168</u>	<u>-</u>	<u>2,891,168</u>	<u>2,632,185</u>	<u>-</u>	<u>2,632,185</u>
Other Income:						
Donated services	171,988	-	171,988	133,815	-	133,815
Proceeds from insurance settlement	-	-	-	102,541	-	102,541
Investment and other income	78,043	-	78,043	86,717	-	86,717
Sales of merchandise	66,385	-	66,385	124,568	-	124,568
	<u>316,416</u>	<u>-</u>	<u>316,416</u>	<u>447,641</u>	<u>-</u>	<u>447,641</u>
Total revenues and other support excluding fiscal sponsor income	9,063,497	(3,133,618)	5,929,879	7,210,603	4,857,540	12,068,143
Fiscal sponsor income	25,001	-	25,001	32,678	-	32,678
Total Revenues and Other Support	<u>9,088,498</u>	<u>(3,133,618)</u>	<u>5,954,880</u>	<u>7,243,281</u>	<u>4,857,540</u>	<u>12,100,821</u>
<b><u>Operating Expenses</u></b>						
Program expenses	7,278,976	-	7,278,976	5,904,400	-	5,904,400
Management and general	714,847	-	714,847	663,759	-	663,759
Fundraising	555,990	-	555,990	633,078	-	633,078
Donated services	171,988	-	171,988	133,815	-	133,815
Total operating expenses before grants to fiscal sponsors	8,721,801	-	8,721,801	7,335,052	-	7,335,052
Grants to fiscal sponsors	27,677	-	27,677	31,708	-	31,708
Total Operating Expenses	<u>8,749,478</u>	<u>-</u>	<u>8,749,478</u>	<u>7,366,760</u>	<u>-</u>	<u>7,366,760</u>
Change in net assets	339,020	(3,133,618)	(2,794,598)	(123,479)	4,857,540	4,734,061
Net assets, beginning of year	1,564,156	8,220,292	9,784,448	1,687,635	3,362,752	5,050,387
Net assets, end of year	<u>\$1,903,176</u>	<u>\$5,086,674</u>	<u>\$6,989,850</u>	<u>\$1,564,156</u>	<u>\$8,220,292</u>	<u>\$9,784,448</u>

See accompanying notes to financial statements.

## HAZON, INC.

### STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<u>Cash Flows from Operating Activities</u>		
Change in net assets	\$(2,794,598)	\$4,734,061
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	238,130	193,818
(Increase) decrease in operating assets:		
Pledges and grants receivable, net	1,778,686	(2,550,676)
Accounts receivable	(105,680)	91,546
Prepaid expenses	(33,744)	(13,701)
Increase (decrease) in operating liabilities:		
Accounts payable	193,598	(120,483)
Accrued expenses	140,480	15,335
Grants payable, fiscal sponsorships	272	(26,368)
Deferred income	(13,844)	(24,841)
Tenant deposits	140	(474)
Other liabilities	(51,738)	42,873
Total adjustments	2,146,300	(2,392,971)
Net Cash Flows (Used) Provided by Operating Activities	(648,298)	2,341,090
<u>Cash Flows from Investing Activities</u>		
Investments	133	2,970
Acquisition of property and equipment	(397,824)	(147,457)
Donated property held for resale	230,510	-
Increase in security deposit	2,073	(2,073)
Net Cash Flows Used by Investing Activities	(165,108)	(146,560)
<u>Cash Flows from Financing Activities</u>		
Proceeds from loan	-	48,470
Payments on mortgages and loans payable	(23,019)	(14,026)
Net Cash Flows (Used) Provided by Financing Activities	(23,019)	34,444
Net increase (decrease) in cash and cash equivalents	(836,425)	2,228,974
Cash and cash equivalents, beginning of year	2,536,265	307,291
Cash and cash equivalents, end of year	\$1,699,840	\$2,536,265
<u>Supplemental Disclosures:</u>		
Interest paid	\$ 3,098	\$ 3,098
Non-cash investing transactions:		
Donated stock investments	\$ 2,816	\$ -

During the year ended December 31, 2016 fully depreciated property and equipment in the amount of \$278,890 was written off.

See accompanying notes to financial statements.

## HAZON, INC.

### NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2016 AND 2015

#### NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Nature of Activities

Hazon, Inc. (“Hazon”) is a 501(c)(3) non-profit organization working to create a healthier and more sustainable Jewish community and a healthier and more sustainable world for all. Hazon effects change in three main ways, (1) transformative experiences, (2) thought-leadership and (3) capacity building.

For more information about Hazon’s mission and programs, see their website: <http://hazon.org/>

##### Basis of Accounting

The financial statements of Hazon, Inc. have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities. Revenue is recorded as detailed below and expenses are recorded when incurred.

##### Basis of Presentation

Financial statement presentation follows the guidance of the Financial Accounting Standards Board Accounting Standards Codification (“FASB ASC”) under which Hazon is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted Net Assets – Net assets that are not subject to donor-imposed stipulations. A total of \$1,903,176 and \$1,564,156 of the Organization’s net assets was unrestricted as of December 31, 2016 and 2015, respectively.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations or self-imposed limits, such as voluntary resolutions of the board of directors that may or will be met, either by action of Hazon and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the combined statement of activities as net assets released from restrictions. A total of \$5,086,674 and \$8,220,292 of the Organization’s net assets was temporarily restricted as of December 31, 2016 and 2015, respectively. Of this amount \$96,983 is board-imposed as of those respective dates (see Note E).



## HAZON, INC.

### NOTES TO FINANCIAL STATEMENTS (CONTINUED) YEARS ENDED DECEMBER 31, 2016 AND 2015

#### NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that they be permanently maintained by the Organization. The Organization had no permanently restricted net assets as of December 31, 2016 and 2015.

#### Expense Allocation

The costs of providing the various programs and other supporting activities have been summarized on a functional basis in the statement of activities and schedule of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

#### Donated Assets

Donated investments and property are recorded at the underlying asset's fair market value at the date of the donation (see Notes D and E).

#### Donated Services

Hazon pays for most services requiring specific expertise. However, many individuals volunteer significant amounts of time and perform a variety of tasks that assist the Organization by creating, leading and delivering a growing range of programs. These amounts have not been reflected in the statement of activities because the criteria for recognition under FASB ASC have not been satisfied, however Hazon's programmatic impact is significantly leveraged by volunteer leadership.

During the year ended December 31, 2016 and 2015 the Organization has recorded a total of \$171,988 and \$133,815, respectively, of donated services for professional, legal and other consulting fees.

#### Investments

Marketable securities with readily determinable fair values and investments in debt securities are valued at their fair values in the statement of financial position. Other investments whose fair market values are not readily determinable are valued based on management's market observations, such as current private equity funding rounds. Unrealized gains and losses are included as changes in net assets in the statement of activities.

#### Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Contributions are recognized when the donor makes a promise to give to Hazon that is, in substance, unconditional. Contributions that are

## HAZON, INC.

### NOTES TO FINANCIAL STATEMENTS (CONTINUED) YEARS ENDED DECEMBER 31, 2016 AND 2015

#### NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily restricted net assets. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Property and equipment donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as increases in temporarily restricted net assets. Absent donor restrictions regarding how long those donated assets must be maintained, Hazon reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor.

#### Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, the reported amounts of revenues and expenses during the reporting period, and disclosures. Accordingly, actual results could differ from those estimates and assumptions.

#### Cash and Cash Equivalents

Cash and cash equivalents include savings and money market accounts and all highly liquid investments with original maturities of three months or less (see Note B).

#### Pledges, Grants and Accounts Receivable

Pledges, grants and accounts receivable consist of amounts due from donors, grantors and participants. All amounts are currently due. Management periodically assesses the receivable balances for collectability and expenses uncollectible debts as determined. No allowance for doubtful accounts was deemed necessary as of December 31, 2016 and 2015. Pledges and grants to be received after December 31, 2017 are discounted (see Note C).

#### Property and Equipment

Generally, all acquisitions of property and equipment over \$2,500 and all expenditures for renewals and betterments that materially prolong the useful lives of assets are capitalized at cost. Assets contributed to Hazon are recorded at their fair market value at the date of the donation. Depreciation of property and equipment (that is not held for sale) is provided over the estimated useful lives of the respective assets using the straight-line method.

**HAZON, INC.**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*Income Taxes*

Hazon, Inc. is exempt from federal income tax under Section 501(c)(3) of the United States Internal Revenue Code. Gifts to Hazon, Inc. are tax deductible. The federal and state information returns of the Organization for 2012 through 2015 are subject to examination by the Internal Revenue Service and New York State Office of the Attorney General, generally for three years after the filing date. At December 31, 2016, Hazon had no knowledge of any tax returns under examination.

*Deferred Income*

Program revenues related to future periods, primarily from deposits paid for events taking place at the Organization's retreat center, are recorded as deferred income.

*Merchandise Sales*

Merchandise sales and costs of goods sold are recorded net of discounts and allowances for returns.

*Advertising*

The Organization uses advertising to promote its programs among the audiences it serves. Advertising costs are expensed as incurred. Advertising expenses for the year ended December 31, 2016 and 2015 was \$54,894 and \$70,235, respectively.

*Subsequent Events*

Management has evaluated subsequent events through April 25, 2017, the date the financial statements were available to be issued.

NOTE B – CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Cash in checking accounts and on hand	\$ 852,811	\$2,524,325
Cash in broker and savings accounts	847,029	11,940
Total	<u>\$1,699,840</u>	<u>\$2,536,265</u>

See Note I with regard to credit risk at financial institutions.

## HAZON, INC.

### NOTES TO FINANCIAL STATEMENTS (CONTINUED) YEARS ENDED DECEMBER 31, 2016 AND 2015

#### NOTE C – PLEDGES AND GRANTS RECEIVABLE, NET

In March 2015, the Jim Joseph Foundation awarded the Organization a four-year grant (2015 through 2019) in the amount of approximately \$7,500,000 for the purpose of developing its Jewish Outdoor, Food and Environmental Education (“JOFEE”) programs. The amount includes approximately \$3,500,000 for the development of a JOFEE fellowship, and \$4,000,000 in matching funds for business planning and capacity support for Hazon and partner organizations. The matching funds will be paid (a) 25% directly, (b) 50% as a 1:1 match to new and increased dollars raised and (c) 25% as a 1:2 match to new and increased dollars raised.

Pledges and grants receivable, net of unamortized discounts, at December 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Unconditional promises to give:		
Jim Joseph Foundation	\$3,265,065	\$5,127,194
Other receivables	493,851	539,551
	<u>3,758,916</u>	<u>5,666,745</u>
Less unamortized discount	84,106	213,249
Pledges and grants receivable, net	<u>\$3,674,810</u>	<u>\$5,453,496</u>

The pledges and grants receivable are due as follows:

	<u>2016</u>	<u>2015</u>
Less than one year	\$2,317,463	\$2,225,210
One to three years	1,441,453	3,441,535
Total pledges and grants receivable	<u>\$3,758,916</u>	<u>\$5,666,745</u>

Pledges and grants receivable with due dates extending beyond one year are discounted using the prime interest rate for similar credit terms. The applicable rate at December 31, 2016 was 3.25%.

#### NOTE D - INVESTMENTS

A gift of 192 limited partnership units in Global Sun Partners L.P. (“GSP”) was received in 2009, and shares of common stock in two portfolio holdings in 2014. Management valued the limited partnership units at \$42,420 based on known private sales and other financial factors. No appreciation or depreciation in the fair value of GSP was recorded during the years ended December 31, 2016 and 2015. The chief financial officer of GSP is a member of the board of directors and a member of the finance committee of the Organization.

**HAZON, INC.**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE D – INVESTMENTS (CONTINUED)

Donated common stock is valued at its market value. During the years ended December 31, 2016 and 2015 the Organization received donations of common stock in the market value amount of \$2,816 and \$-0, respectively, which are included in individual and institutional support.

Investments as of December 31, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Limited partnership units	\$42,420	\$42,420
Broker investment portfolio	-	133
Total	<u>\$42,420</u>	<u>\$ 42,553</u>

NOTE E – PROPERTY AND EQUIPMENT, NET

Property and equipment, net of accumulated depreciation, as of December 31, 2016 and 2015, consist of:

	<u>2016</u>	<u>2015</u>
Land	\$ 592,000	\$ 592,000
Building and improvements	4,291,406	3,988,482
Furniture and fixtures	306,727	585,616
Office equipment	71,284	71,284
Transportation equipment	227,403	141,704
Software development costs	31,297	31,297
Website	15,919	6,719
	<u>5,536,036</u>	<u>5,417,102</u>
Less: accumulated depreciation	<u>(3,235,634)</u>	<u>(3,276,394)</u>
Property and equipment, net of accumulated depreciation	<u>\$2,300,402</u>	<u>\$2,140,708</u>

In September 2014, a fully-depreciated building at Isabella Freedman was completely destroyed by fire. Net proceeds of \$212,641 received in 2014 from the insurance company has been restricted by the board for building a new structure in its place and for costs related to business interruption. During the year ended December 31, 2015, the amount of \$115,658 was released from restriction, leaving a balance of \$96,983 as of December 31, 2016.

**HAZON, INC.**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE E – PROPERTY AND EQUIPMENT, NET (CONTINUED)

A property at 58 Johnson Road, Falls Village, CT is pledged as collateral for a bank mortgage loan, and a truck is pledged as collateral for a vehicle retail installment contract (see Note F).

Depreciation expense for the year ended December 31, 2016 and 2015 was \$238,130 and \$193,818, respectively, and is included in the statement of activities as allocated in the schedule of functional expenses.

During the year ended December 31, 2015 a residential property with a tax assessed value of \$230,510 was donated to the Organization and as of December 31, 2015 was being held for sale. During the year ended December 31, 2016 management decided to reclassify the asset and use it for organizational purposes.

During the year ended December 31, 2016, fully depreciated property and equipment in the amount of \$278,890 was written off.

NOTE F – LOAN AND MORTGAGE PAYABLE

In December 2003, the Organization received a mortgage loan of \$165,000 from National Iron Bank to purchase property to be used by the retreat center. The loan bears interest at 5.5% with monthly payments of \$1,348 based on a 15-year amortization schedule. The balance as of December 31, 2016 and 2015 is \$30,203 and \$44,563, respectively. The mortgage is secured by the property at 58 Johnson Road, Falls Village, CT. Total interest expense on the loan for the year ended December 31, 2016 and 2015 was \$1,816 and \$2,851, respectively.

In October 2015 the Organization purchased a pick-up truck and financed the balance of \$48,470. The installment loan bears interest at 5.89% with 60 monthly payments of \$937. The balance as of December 31, 2016 and 2015 is \$39,111 and \$47,771, respectively. Total interest expense on the loan for the year ended December 31, 2016 and 2015 was \$2,582 and \$238, respectively.

Future minimum payments required under the mortgage and loan agreements, as of December 31, 2015 are as follows:

**HAZON, INC.**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE F – LOAN AND MORTGAGE PAYABLE (CONTINUED)

	<u>Mortgage</u> <u>Payable</u>	<u>Loan</u> <u>Payable</u>	<u>Total</u>
Year ended December 31:			
2017	\$14,889	\$ 9,184	\$24,073
2018	15,314	9,739	25,053
2019	-	10,329	10,329
2020	-	9,859	9,859
Totals	<u>\$30,203</u>	<u>\$39,111</u>	<u>\$69,314</u>

NOTE G – RENT EXPENSE

In April 2010 the Organization entered into a lease agreement to rent office space at 125 Maiden Lane in New York City at the base amount (not including electricity charges) of \$9,166.67 per month with annual increases of 9.1%. The lease expires on May 31, 2017. A security deposit in the amount of \$9,167 was provided in respect of this lease. The Organization is in negotiations with the landlord to renew the lease.

In June 2014 the Organization entered into a rent agreement for office space at 701 South 50<sup>th</sup> Street in Philadelphia in the amount of \$90 per month. The agreement was for one year with annual renewals on a one-year basis. A security deposit of \$100 was provided in respect of this lease. The lease was terminated in 2015.

In August 2015 the Organization entered into a rent agreement for office space at 6735 Telegraph Road in Bloomfield, MI, in the amount of \$1,125 per month. The lease was terminated in July 2016.

In August 2015 the Organization entered into a rent agreement for office space at 4747 Commonwealth in Detroit, MI in the amount of \$1,100 per month. The agreement was renewed in July 2016 and currently expires in July 2017. A security deposit in the amount of \$1,100 was provided in respect of this lease.

**HAZON, INC.**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE G – RENT EXPENSE (CONTINUED)

The following are the future minimum payments required under the Maiden Lane lease agreement as of December 31, 2016:

<u>For the year ended December 31,</u>	
2017	\$84,624

Total rent expense for the year ended December 31, 2016 and 2015 was \$227,212 and \$193,627, respectively, which is included with occupancy expenses in the schedule of functional expenses.

NOTE H – FUNDRAISING EXPENSES

Total fundraising expenses, which includes allocated payroll and other costs, for the year ended December 31, 2016 and 2015 totaled \$555,990 and \$633,078, respectively.

NOTE I – CONCENTRATION OF RISKS

The Organization's financial instruments that are potentially exposed to concentrations of credit risk consist primarily of cash and cash equivalents. Management has reduced the Organization's exposure to banking risks through diversifying the Organization's cash into several banks. At times the balances in the Organization's cash accounts exceed FDIC and SIPC protection limits; however, the Organization has not experienced any losses in its cash accounts to date.

The investments in marketable securities are presented in the statement of financial position at their fair value based on quoted prices in active markets. Market risk could occur and is dependent on the future changes in market prices of the various investments held.

One major grantor (see Note C) comprised approximately 82% of the total general support for the year ended December 31, 2016 and approximately 87% and 91% of the outstanding pledges and grants receivable, net, as of December 31, 2016 and 2015, respectively.



**HAZON, INC.**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE J – RETIREMENT PLAN

Employees of the Organization may participate in an Internal Revenue Code section 403(b) retirement savings plan. The plan is funded solely by employee contributions to the plan, pursuant to a salary reduction agreement.

NOTE K – FAIR VALUE PRESENTATION

Under the FASB ASC, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the “exit price”) in an orderly transaction between market participants at the measurement date.

In determining fair value, the Organization uses various valuation approaches. GAAP establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Organization. Unobservable inputs reflect the Organization’s assumptions about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 - Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access.

Level 2 - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly, for the asset or liability other than quoted prices included in Level 1.

Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The following methods and assumptions were used by the Organization in estimating its fair value disclosures for financial instruments:

Cash and cash equivalents – the carrying amounts for cash reported in the statement of financial position approximate fair value as they mature in three months or less and do not present unanticipated credit concerns (Level 1).

**HAZON, INC.**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE K – FAIR VALUE PRESENTATION (CONTINUED)

Receivables and payables – the carrying amounts for receivable and payables reported in the statement of financial position approximate fair value because of their short term maturities (Level 1). If significant, receivable and payables due beyond one year are presented at their discounted value (Level 2).

Investments – investments in private equity investments reflect management’s own assumptions and estimated fair value (Level 3). Portfolio investments held by brokers are valued at current market prices (Level 1).

The following table presents the Organization’s fair value hierarchy for the above assets and liabilities measured at fair value on a recurring basis as of December 31, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Assets</u>				
Cash and cash equivalents	\$1,699,840	\$ -	\$ -	\$1,699,840
Pledges and grants receivable, net	2,265,390	1,273,241	-	3,538,631
Investments	-	-	42,420	42,420
Total Assets	<u>\$3,965,230</u>	<u>\$1,273,241</u>	<u>\$ 42,420</u>	<u>\$5,280,891</u>
<u>Liabilities</u>				
Loan payable	\$ 9,184	\$ 27,145	\$ -	\$ 36,329
Mortgage payable	14,889	13,890	-	28,779
Total Liabilities	<u>\$ 24,073</u>	<u>\$ 41,035</u>	<u>\$ -</u>	<u>\$ 65,108</u>

**HAZON, INC.**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE K – FAIR VALUE PRESENTATION (CONTINUED)

The following table presents the Organization’s fair value hierarchy for the above assets and liabilities measured at fair value on a recurring basis as of December 31, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Assets</u>				
Cash and cash equivalents	\$2,536,265	\$ -	\$ -	\$2,536,265
Pledges and grants receivable, net	2,175,210	3,228,286	-	5,403,496
Investments	133	-	42,420	42,553
Total Assets	<u>\$4,711,608</u>	<u>\$3,228,286</u>	<u>\$ 42,420</u>	<u>\$7,982,314</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Liabilities</u>				
Loan payable	\$ 8,659	\$ 35,476	\$ -	\$ 44,135
Mortgage payable	14,079	27,650	-	41,729
Total Liabilities	<u>\$ 22,738</u>	<u>\$ 63,126</u>	<u>\$ -</u>	<u>\$ 85,864</u>

The following table presents information about fair value measurements that use significant unobservable inputs (Level 3 measurements):

	<u>Private Equity Investment</u>
January 1, 2015	\$ 42,420
Transfers in and out of Level 3	-
Purchases, sales and settlements	-
Gains or losses for the year	-
December 31, 2015	<u>42,420</u>
Transfers in and out of Level 3	-
Purchases, sales and settlements	-
Gains or losses for the year	-
December 31, 2016	<u>\$ 42,420</u>

# HAZON, INC.

## SUPPLEMENTARY INFORMATION

### SCHEDULE OF FUNCTIONAL EXPENSES YEAR ENDED DECEMBER 31, 2016

	<u>Program</u> <u>Services</u>	<u>Management</u> <u>and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and related costs	\$3,659,209	\$392,059	\$304,934	\$4,356,202
Grants to organizations	607,143	-	-	607,143
Other program expenses	439,906	47,133	36,659	523,698
Food services	408,536	43,772	34,045	486,353
Professional fees	343,549	36,809	28,629	408,987
Occupancy	203,678	21,823	16,973	242,474
Depreciation	200,030	21,432	16,669	238,131
Insurance	199,901	21,418	16,658	237,977
Repairs and maintenance	197,380	21,148	16,448	234,976
Consultants and other staffing	155,353	16,645	12,946	184,944
Housekeeping	150,477	16,123	12,540	179,140
Utilities	126,208	13,522	10,517	150,247
Travel and accommodations	108,383	11,612	9,032	129,027
Information technology	97,857	10,485	8,155	116,497
Telephone and internet	48,673	5,215	4,056	57,944
Office supplies	47,871	5,129	3,989	56,989
Marketing and communications	46,111	4,940	3,843	54,894
Sales and merchandise	39,609	4,244	3,301	47,154
Printing and copying	34,423	3,688	2,869	40,980
Meals and entertainment	32,392	3,471	2,699	38,562
Miscellaneous	31,596	3,390	2,637	37,623
Permits and registration fees	20,483	2,195	1,707	24,385
Conferences and meetings	17,708	1,897	1,476	21,081
Vehicles	12,818	1,373	1,068	15,259
Postage	11,072	1,186	923	13,181
Payroll services	10,050	1,077	837	11,964
Dues and subscriptions	7,948	852	662	9,462
Bank fees	7,804	836	650	9,290
Professional recruitment	6,967	747	581	8,295
Credit card and processing fees	5,841	626	487	6,954
Totals	<u>\$7,278,976</u>	<u>\$714,847</u>	<u>\$555,990</u>	<u>\$8,549,813</u>