

HOSANNA INDUSTRIES, INC.

FINANCIAL STATEMENTS
December 31, 2014 and 2013

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February 17, 2015

Board of Directors
Hosanna Industries, Inc.
Rochester, Pennsylvania

Independent Auditor's Report

We have audited the accompanying financial statements of Hosanna Industries, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2014 and 2013, and the related statements of activities, functional expenses 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 Hosanna Industries, Inc. as of December 31, 2014 and 2013, 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.

Hill, Barth & King LLC

Certified Public Accountants

HOSANNA INDUSTRIES, INC.

STATEMENTS OF FINANCIAL POSITION

December 31, 2014 and 2013

| | <u>2014</u> | <u>2013</u> |
|-----------------------------------------|----------------------------|----------------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 973,843 | \$ 721,003 |
| Tax refund receivable | 5,562 | 7,327 |
| Accounts receivable | 3,617 | 29,271 |
| Prepaid expenses | 15,087 | 13,529 |
| Total Current Assets | <u>998,109</u> | <u>771,130</u> |
| INVESTMENTS | 1,634,845 | 1,512,440 |
| PROPERTY AND EQUIPMENT, NET | <u>707,042</u> | <u>722,100</u> |
| TOTAL ASSETS | <u><u>\$ 3,339,996</u></u> | <u><u>\$ 3,005,670</u></u> |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 10,960 | \$ 27,505 |
| Taxes payable | 105 | - |
| Notes payable - current portion | - | 4,486 |
| Total Current Liabilities | <u>11,065</u> | <u>31,991</u> |
| NET ASSETS | | |
| Unrestricted | 3,123,948 | 2,843,805 |
| Temporarily restricted | 204,983 | 129,874 |
| Total Net Assets | <u>3,328,931</u> | <u>2,973,679</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u><u>\$ 3,339,996</u></u> | <u><u>\$ 3,005,670</u></u> |

See accompanying notes to financial statements

HOSANNA INDUSTRIES, INC.

STATEMENTS OF ACTIVITIES
Years Ended December 31, 2014 and 2013

| | <u>2014</u> | <u>2013</u> |
|---------------------------------------------------|-------------------------|-------------------------|
| UNRESTRICTED REVENUE AND SUPPORT | | |
| Contributions | \$ 886,510 | \$ 480,292 |
| Federal Home Loan Bank | - | 29,226 |
| Construction reimbursements | 181,562 | 204,667 |
| Benefit events | 113,312 | 93,764 |
| Trade skill learning center | 4,140 | 26,070 |
| Interest and investment income | 37,067 | 32,358 |
| Miscellaneous | 2,028 | 3,860 |
| Realized and unrealized gain on investments | 1,592 | 97,221 |
| Gain on sale of assets | - | 4,698 |
| Net assets released from restrictions | <u>75,045</u> | <u>191,536</u> |
| Total Unrestricted Revenue and Support | <u>1,301,256</u> | <u>1,163,692</u> |
| EXPENSES | | |
| Field programs | 781,127 | 763,960 |
| Operational programs | 132,088 | 146,815 |
| Program development | <u>107,898</u> | <u>101,281</u> |
| Total Expenses | <u>1,021,113</u> | <u>1,012,056</u> |
| Increase in Unrestricted Net Assets | <u>280,143</u> | <u>151,636</u> |
| TEMPORARILY RESTRICTED NET ASSETS | | |
| Contributions | 150,154 | 281,500 |
| Net assets released from restrictions | <u>(75,045)</u> | <u>(191,536)</u> |
| Increase in Temporarily Restricted Net Assets | <u>75,109</u> | <u>89,964</u> |
| INCREASE IN NET ASSETS | 355,252 | 241,600 |
| NET ASSETS - BEGINNING OF YEAR | <u>2,973,679</u> | <u>2,732,079</u> |
| NET ASSETS - END OF YEAR | <u>\$ 3,328,931</u> | <u>\$ 2,973,679</u> |

See accompanying notes to financial statements

HOSANNA INDUSTRIES, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

Year Ended December 31, 2014

| | <u>Field Programs</u> | <u>Operational Programs</u> | <u>Program Development</u> | <u>Total</u> |
|-------------------------------------|----------------------------------|----------------------------------------|---------------------------------------|----------------------------|
| SALARY AND RELATED COSTS | | | | |
| Salaries and wages | \$ 253,913 | \$ 72,768 | \$ 39,357 | \$ 366,038 |
| Payroll taxes | 17,171 | 4,921 | 2,662 | 24,754 |
| Health insurance and other benefits | 73,368 | 12,863 | 6,803 | 93,034 |
| Total Salary and Related Costs | <u>344,452</u> | <u>90,552</u> | <u>48,822</u> | <u>483,826</u> |
| OTHER EXPENSES | | | | |
| Project expenses | 252,080 | - | - | 252,080 |
| Depreciation | 44,511 | 7,855 | - | 52,366 |
| Development | - | - | 44,999 | 44,999 |
| Trade skill learning center | 11,597 | - | - | 11,597 |
| Property expense | 34,044 | 11,348 | - | 45,392 |
| Vehicle operating costs | 34,488 | - | - | 34,488 |
| Utilities | 30,572 | 2,699 | 2,698 | 35,969 |
| Administrative | 5,715 | 17,145 | 5,714 | 28,574 |
| Public relations | 974 | 1,624 | 3,898 | 6,496 |
| Small tools | 17,837 | - | - | 17,837 |
| Staff development | 3,298 | 412 | 412 | 4,122 |
| Office expenses | 452 | 453 | 1,355 | 2,260 |
| Summer staff expense | 420 | - | - | 420 |
| Apparel | 650 | - | - | 650 |
| Artisan of the Nazareth | 37 | - | - | 37 |
| Total Expenses | <u><u>\$ 781,127</u></u> | <u><u>\$ 132,088</u></u> | <u><u>\$ 107,898</u></u> | <u><u>\$ 1,021,113</u></u> |

See accompanying notes to financial statements

HOSANNA INDUSTRIES, INC.

STATEMENTS OF FUNCTIONAL EXPENSES (CONTINUED)

Year Ended December 31, 2013

| | <u>Field Programs</u> | <u>Operational Programs</u> | <u>Program Development</u> | <u>Total</u> |
|-------------------------------------|----------------------------------|----------------------------------------|---------------------------------------|----------------------------|
| SALARY AND RELATED COSTS | | | | |
| Salaries and wages | \$ 236,076 | \$ 81,888 | \$ 32,289 | \$ 350,253 |
| Payroll taxes | 15,773 | 5,471 | 2,157 | 23,401 |
| Health insurance and other benefits | 48,945 | 19,519 | 7,697 | 76,161 |
| Total Salary and Related Costs | <u>300,794</u> | <u>106,878</u> | <u>42,143</u> | <u>449,815</u> |
| OTHER EXPENSES | | | | |
| Project expenses | 272,450 | - | - | 272,450 |
| Depreciation | 45,229 | 7,982 | - | 53,211 |
| Development | - | - | 44,535 | 44,535 |
| Trade skill learning center | 20,189 | - | - | 20,189 |
| Property expense | 33,481 | 9,913 | - | 43,394 |
| Vehicle operating costs | 44,509 | - | - | 44,509 |
| Utilities | 27,903 | 2,463 | 2,462 | 32,828 |
| Administrative | 5,675 | 17,026 | 5,674 | 28,375 |
| Public relations | 490 | 818 | 1,963 | 3,271 |
| Small tools | 6,626 | - | - | 6,626 |
| Staff development | 2,758 | 345 | 345 | 3,448 |
| Office expenses | 1,390 | 1,390 | 4,159 | 6,939 |
| Summer staff expense | 250 | - | - | 250 |
| Apparel | 2,216 | - | - | 2,216 |
| Total Expenses | <u><u>\$ 763,960</u></u> | <u><u>\$ 146,815</u></u> | <u><u>\$ 101,281</u></u> | <u><u>\$ 1,012,056</u></u> |

See accompanying notes to financial statements

HOSANNA INDUSTRIES, INC.

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2014 and 2013

| | <u>2014</u> | <u>2013</u> |
|-----------------------------------------------------------------------------------------------|-------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Increase in net assets | \$ 355,252 | \$ 241,600 |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities: | | |
| Depreciation | 52,366 | 53,211 |
| Gain on sale of assets | - | (4,698) |
| Donated property and equipment | (7,721) | (20,000) |
| Realized and unrealized gain on investments | (1,592) | (97,221) |
| Changes in: | | |
| Tax refund receivable | 1,765 | (1,120) |
| Accounts receivable | 25,654 | (18,261) |
| Prepaid expenses | (1,558) | 5,787 |
| Accounts payable | (16,545) | 11,993 |
| Taxes payable | 105 | (220) |
| Net Cash Provided by Operating Activities | <u>407,726</u> | <u>171,071</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of property and equipment | (29,587) | (53,141) |
| Proceeds from sale of property and equipment | - | 46,000 |
| Purchase of investments | (120,813) | (224,798) |
| Net Cash Used in Investing Activities | <u>(150,400)</u> | <u>(231,939)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Repayment of notes payable | (4,486) | (8,974) |
| Net Cash Used in Financing Activities | <u>(4,486)</u> | <u>(8,974)</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 252,840 | (69,842) |
| CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR | <u>721,003</u> | <u>790,845</u> |
| CASH AND CASH EQUIVALENTS - END OF YEAR | <u>\$ 973,843</u> | <u>\$ 721,003</u> |
| SUPPLEMENTAL INFORMATION | | |
| Donated investments | <u>\$ 117,425</u> | <u>\$ 52,556</u> |

See accompanying notes to financial statements

HOSANNA INDUSTRIES, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

NOTE A - NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Hosanna Industries, Inc. (the Organization) was formed in 1990 as a non-profit corporation, pursuant to the Commonwealth of Pennsylvania non-Profit Corporation Laws.

The Organization's primary mission is to provide home construction, repair, and rehabilitation for low income persons living in deteriorating housing. In addition, the Organization is committed to:

- Providing vocational training for unskilled workers, particularly in the construction trades;
- Providing assistance in the development and start-up of small businesses by persons who lack the economic ability and expertise to do so without assistance;
- Creating job opportunities for unemployed persons;
- Mobilizing relief workers to areas of disaster and poverty.

The Organization's operations are primarily funded from contributions received from individuals, churches, businesses, and foundations. In addition, the Federal Home Loan Bank provides funding for the direct cost incurred on specific projects. The majority of the donors are located in Southwestern Pennsylvania.

Basis of Accounting

The Organization prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with original maturities of three months or less, excluding amounts held in investments which are subject to the Organization's Investment Policy Statement. The Organization maintains cash and cash equivalent accounts, which may, at times, exceed federally insured limits.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are measured at fair value in the statements of financial position. Investment income (including realized and unrealized gains and losses on investments, interest, and dividends) is included in the change in unrestricted net assets unless the income is restricted by donor or law.

HOSANNA INDUSTRIES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2014 and 2013

NOTE A - NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (Continued)

Although the Organizations investments are invested in a variety of financial instruments, the related fair values, as presented in the financial statements, are subject to various market risks including changes in the equity markets, the interest rate environment, and economic conditions. Due to the level of risk associated with investment securities, it is reasonably possible that the fair value of investments reported in the accompanying statements of financial position could materially change in the near term.

Accounts Receivable

Accounts receivable are reported at net realizable value. Accounts are charged to bad debt expense when deemed uncollectible based on a periodic review by management. The potential risk is limited to the amounts recorded in the financial statements. The allowance for doubtful accounts is estimated based on a periodic review of individual accounts by management and past experience. There was no allowance for doubtful accounts at December 31, 2014 and 2013.

Property and Equipment

Property and equipment are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Repairs and maintenance which do not extend the lives of applicable assets are charged to expense as incurred.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Donor-Restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. Permanently restricted net assets are those whose use by the Organization has been restricted by donors to be maintained by the Organization in perpetuity. Temporarily restricted net assets have been limited, by donors, to a specific time period or purpose. When a donor restriction expires or has been met, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Contributions received with donor-imposed restrictions that are met in the same year in which the contributions are received are generally classified as unrestricted contributions.

HOSANNA INDUSTRIES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2014 and 2013

**NOTE A - NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

In-Kind Contributions

The Organization receives donated material and services from various individuals and organizations. Donated services that (a) create or enhance a nonfinancial asset or (b) require specialized skills, are provided by individuals possessing those skills, and would need to be purchased if they were not donated are recorded as contributions in the statements of activities. Donated services such as fundraising, clerical assistance or other volunteer efforts not requiring specialized skills are not recorded in the statements of activities. For the years ended December 31, 2014 and 2013, donated services were obtained largely from unskilled volunteers; therefore, the value of those contributed services has not been reported.

Income Taxes

The Organization is a nonprofit corporation that is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3) and classified by the Internal Revenue Service as other than a private foundation. The Organization is also exempt from state income taxes. Accordingly, no provision for income tax is recorded in these financial statements. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income.

The Organization assesses uncertain tax positions in accordance with FASB ASC 740 and has determined that all income tax filing positions would be sustained upon examination and, accordingly, has not recorded any reserves or related accruals for interest and penalties at December 31, 2014 and 2013 for uncertain income tax positions.

The Organization files informational tax returns for exempt organizations in the U.S. federal jurisdiction and the state of Pennsylvania. With few exceptions, the Organization is no longer subject to U.S. federal or informational tax return examinations by tax authorities for years before 2011.

HOSANNA INDUSTRIES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2014 and 2013

NOTE A - NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Allocation of Expenses

The costs of providing activities and programs have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among programs and supporting services benefited. Expenses are allocated on the following functional basis:

- *Field Programs Expenses:* Costs associated with the materials and mission labor directly associated with construction, repair, and rehabilitation projects. These expenses accounted for 76% of total mission expenses for each of the years ended December 31, 2014 and 2013.
- *Operational Programs Expenses:* Costs associated with the operational support activities of the mission workers. These costs are not identifiable with any specific project but they provide operational support and direction to the Organization. These expenses accounted for 13% and 14% of total mission expenses for the years ended December 31, 2014 and 2013, respectively.
- *Program Development Expenses:* Costs associated with the development and implementation of programs designed to increase foundation, church, individual, and local business support. This category also includes costs for any special events conducted by the Organization. These expenses accounted for 11% and 10% of total mission expenses for the years ended December 31, 2014 and 2013, respectively.

Reclassifications

The financial statements for 2013 have been reclassified to conform with the 2014 presentation. Such reclassifications had no effect on changes in net assets.

Subsequent Events

Management evaluated all activity of the Organization through February 17, 2015, the date the financial statements were available to be issued, and concluded that no subsequent events have occurred that would require recognition or disclosure in the financial statements or notes.

NOTE B - INVESTMENTS

The Organization has developed and implemented an Investment Policy Statement (IPS). Objectives of the investment policy include maintaining the purchasing power of the current assets and all future contributions to ensure that the level of programs and services is maintained or increased; maximizing return within reasonable and prudent levels of risk; and maintaining an appropriate asset allocation base on a total return policy that is compatible with a flexible spending policy, while still having the potential to produce positive real returns. The Organization intends to follow general “safe harbor” rules including the use of prudent experts to make the investment decisions; demonstrate that the prudent expert was selected by following a due diligence process; give the prudent expert discretion over the assets; and monitor the activities of the prudent expert to ensure that the expert is performing the agreed upon tasks.

HOSANNA INDUSTRIES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2014 and 2013

NOTE B - INVESTMENTS (CONTINUED)

The investment guidelines are based upon an investment horizon of greater than 10 years. The portfolio's strategic asset allocation is also based on this long-term prospective. The desired investment objective is a long-term rate of return on assets that is at 7% to 8%. There are no short-term liquidity requirements anticipated within the current horizon. The stated goal of the portfolio is to grow the assets to a point where the income could be used to offset administration and other costs of the Organization.

The following asset classes and their corresponding Strategic Ranges were selected and ranked in ascending order of risk/return characteristics:

| <u>Peer Group</u> | <u>Allocation</u> | <u>Lower Limit</u> | <u>Upper Limit</u> |
|----------------------|-------------------|--------------------|--------------------|
| Cash / Money Markets | 5% | 0% | 20% |
| Fixed Income | 35% | 25% | 45% |
| Stocks / Equities | 60% | 50% | 70% |
| Other | 0% | 0% | 20% |

The investment committee recognizes that some risk must be assumed in order to achieve the investment objectives of the portfolio. In establishing the risk tolerances, the ability to withstand short and intermediate term variability were considered. The committee intends to evaluate investment performance from a long-term perspective. Performance will be evaluated based upon 1) achievement of the long-term rate of return target of 7% to 8% and 2) returns relative to a blended benchmark consistent with the strategic targets for the assets, consisting of 60% S&P 500 Total return Index / 40% Barclays Capital Aggregate Total Return Index.

The investment committee will review at least annually all costs associated with the management of the portfolio and additionally the IPS to determine whether stated investment objectives are still relevant and continued feasibility of achieving the same. It is not expected that the IPS will change frequently. In particular, short term changes in the financial markets should not require adjustments to the IPS.

Fees related to investments totaled \$12,724 and \$11,184 for the years ended December 31, 2014 and 2013, respectively.

Investments consist of the following accounts at December 31:

| | <u>2014</u> | <u>2013</u> |
|------------------------|---------------------|---------------------|
| Certificate of deposit | \$ 104,895 | \$ 104,895 |
| Quasi-endowment fund | 706,460 | 657,620 |
| Construction fund | 810,387 | 732,319 |
| Education fund | 13,103 | 13,346 |
| Other | - | 4,260 |
| | <u>\$ 1,634,845</u> | <u>\$ 1,512,440</u> |

HOSANNA INDUSTRIES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2014 and 2013

NOTE C - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

| | <u>2014</u> | <u>2013</u> |
|-------------------------------|-------------------|-------------------|
| Property and improvements | \$ 846,477 | \$ 829,450 |
| Vehicles | 255,369 | 251,444 |
| Furniture and equipment | 304,149 | 315,947 |
| Trade skill learning center | 53,508 | 53,508 |
| | <u>1,459,503</u> | <u>1,450,349</u> |
| Less accumulated depreciation | 752,461 | 728,249 |
| Property and equipment, net | <u>\$ 707,042</u> | <u>\$ 722,100</u> |

NOTE D - NOTES PAYABLE

Notes payable consisted of two five-year, zero interest bearing vehicle notes, which matured in 2014.

NOTE E - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were available for the following purposes at December 31:

| | <u>2014</u> | <u>2013</u> |
|---------------------------------------|-------------------|-------------------|
| Trade skill learning center | \$ 33,305 | \$ 43,805 |
| Hammers, hearts, and hands | 37,943 | - |
| Low income rehabilitation projects | 108,001 | 9,639 |
| Hazelwood rehabilitation | - | 50,000 |
| Beaver Falls/Rochester rehabilitation | 6,427 | 9,000 |
| Education fund for staff scholarships | 15,097 | 15,430 |
| Other | 4,210 | 2,000 |
| | <u>\$ 204,983</u> | <u>\$ 129,874</u> |

HOSANNA INDUSTRIES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2014 and 2013

NOTE F - OPERATING LEASES

The Organization leases office equipment under operating lease agreements. Rental expense was \$3,042 and \$2,594 for each of the years ended December 31, 2014 and 2013, respectively.

Future minimum lease payments under noncancellable leases as of December 31, 2014 are as follows:

| <u>Years ending December 31:</u> | |
|----------------------------------|------------------|
| 2015 | \$ 3,937 |
| 2016 | 3,937 |
| 2017 | 3,937 |
| 2018 | 3,937 |
| 2019 | 984 |
| | <u>\$ 16,732</u> |

NOTE G - RETIREMENT PLAN

The Organization sponsors a defined contribution retirement plan under Internal Revenue Code Section 403(b). Employees can contribute up to 25% of their gross pay, up to federal statutory guidelines. The Organization matches employee contributions up to 3% of compensation. Pension expense was \$6,735 and \$5,644 for the years ended December 31, 2014 and 2013, respectively.

NOTE H - FAIR VALUE MEASUREMENTS

The Organization measures its investments at fair value on a recurring basis in accordance with accounting principles generally accepted in the United States of America. Fair value is defined as the price that would be received to sell an asset or the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value was derived using quoted market prices on nationally recognized securities exchanges. The estimated fair value amounts have been measured as of their respective year-ends and have not been re-evaluated or updated for purposes of these financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each year-end.

HOSANNA INDUSTRIES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2014 and 2013

NOTE H - FAIR VALUE MEASUREMENTS (CONTINUED)

FASB ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are as follows:

- Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2: Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability. Certificates of deposit were classified in Level 2 and were based on original cost, which approximates fair value.
- Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported with little or no market activity). The Organization had no investments qualifying for Level 3 classification.

An asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The fair value of the Organization's investments were measured using the following at December 31:

| | 2014 | | |
|------------------------|---------------------|-------------------|---------------------|
| | Level 1 | Level 2 | Total |
| Certificate of deposit | \$ - | \$ 104,895 | \$ 104,895 |
| Money market funds | 71,196 | - | 71,196 |
| Mutual funds: | | | - |
| Large-cap | 465,288 | - | 465,288 |
| Mid-cap | 121,818 | - | 121,818 |
| Small-cap | 37,421 | - | 37,421 |
| International/global | 220,662 | - | 220,662 |
| Hybrid/balanced | 94,698 | - | 94,698 |
| Fixed income/bond | 448,647 | - | 448,647 |
| Sector | 70,220 | - | 70,220 |
| | <u>\$ 1,529,950</u> | <u>\$ 104,895</u> | <u>\$ 1,634,845</u> |

HOSANNA INDUSTRIES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2014 and 2013

NOTE H - FAIR VALUE MEASUREMENTS (CONTINUED)

| | 2013 | | |
|------------------------|---------------------|-------------------|---------------------|
| | Level 1 | Level 2 | Total |
| Certificate of deposit | \$ - | \$ 104,895 | \$ 104,895 |
| Money market funds | 59,941 | - | 59,941 |
| Mutual funds: | | | - |
| Large-cap | 423,020 | - | 423,020 |
| Mid-cap | 103,794 | - | 103,794 |
| Small-cap | 37,409 | - | 37,409 |
| International/global | 220,550 | - | 220,550 |
| Hybrid/balanced | 50,071 | - | 50,071 |
| Fixed income/bond | 395,682 | - | 395,682 |
| Sector | 117,078 | - | 117,078 |
| | <u>\$ 1,407,545</u> | <u>\$ 104,895</u> | <u>\$ 1,512,440</u> |