



**HAWTHORNE SOCIAL SERVICE
ASSOCIATION, INC**

FINANCIAL REPORT

December 31, 2021

Hawthorne 
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Hawthorne Social Service Association, Inc.
Indianapolis, Indiana

Opinion

We have audited the financial statements of Hawthorne Social Service Association, Inc. (the "Organization"), which comprise the statements of financial position as of December 31, 2021 and 2020, the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2021 and 2020, and the results of its operations and 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"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization 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.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for 12 months beyond the date of this report.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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.

INDEPENDENT AUDITOR'S REPORT - continued

Auditor's Responsibilities for the Audit of the Financial Statements - continued

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 financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the 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 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 Organization'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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization'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 audit.

Pile CPAs

Indianapolis, Indiana
April 27, 2022

HAWTHORNE SOCIAL SERVICE ASSOCIATION, INC

STATEMENTS OF FINANCIAL POSITION

Years ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash and cash equivalents	\$ 3,840,098	\$ 1,227,676
Accounts receivable, less allowance for doubtful accounts - 2021 \$4,773 and 2020: \$2,656	18,696	19,308
Grants receivable	823,864	1,069,611
Interest receivable	3,510	2,750
Prepaid expense	8,411	6,953
TOTAL CURRENT ASSETS	<u>4,694,579</u>	<u>2,326,298</u>
<u>INVESTMENTS</u> , at fair value	<u>6,367,985</u>	<u>5,625,464</u>
<u>PROPERTY AND EQUIPMENT</u> , net	<u>3,835,147</u>	<u>3,673,541</u>
TOTAL ASSETS	<u>\$ 14,897,711</u>	<u>\$ 11,625,303</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 66,710	\$ 86,159
Accrued expenses	48,783	42,680
Deferred revenue	1,272,089	36,217
TOTAL CURRENT LIABILITIES	<u>1,387,582</u>	<u>165,056</u>
<u>NET ASSETS</u>		
Without donor restrictions	6,401,725	5,265,180
With donor restrictions		
Purpose restrictions	2,378,404	1,465,067
Perpetual in nature	4,730,000	4,730,000
	<u>7,108,404</u>	<u>6,195,067</u>
TOTAL NET ASSETS	<u>13,510,129</u>	<u>11,460,247</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 14,897,711</u>	<u>\$ 11,625,303</u>

See Notes to Financial Statements.

HAWTHORNE SOCIAL SERVICE ASSOCIATION, INC

STATEMENTS OF ACTIVITIES

Year ended December 31, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<u>SUPPORT AND REVENUE</u>			
Direct public support:			
Contributions	\$ 38,361	\$ -	\$ 38,361
Grants	7,021,728	1,575,389	8,597,117
Fundraising-special events	9,250	-	9,250
In-kind contributions	190,466	-	190,466
	<u>7,259,805</u>	<u>1,575,389</u>	<u>8,835,194</u>
Program service fees	168,614	-	168,614
Interest and dividends, net of fees	565	193,523	194,088
Realized gain (loss) on investments	-	220,974	220,974
Unrealized gain (loss) on investments	-	482,936	482,936
Other revenue	76,047	-	76,047
Gain (loss) on asset disposal	900	-	900
Release from restrictions	1,559,485	(1,559,485)	-
	<u>1,805,611</u>	<u>(662,052)</u>	<u>1,143,559</u>
TOTAL SUPPORT AND REVENUE	<u>9,065,416</u>	<u>913,337</u>	<u>9,978,753</u>
<u>EXPENSES</u>			
Program services	7,797,834	-	7,797,834
Supporting activities	131,037	-	131,037
	<u>7,928,871</u>	<u>-</u>	<u>7,928,871</u>
CHANGE IN NET ASSETS	<u>1,136,545</u>	<u>913,337</u>	<u>2,049,882</u>
<u>NET ASSETS</u>			
Beginning of year	<u>5,265,180</u>	<u>6,195,067</u>	<u>11,460,247</u>
End of year	<u>\$ 6,401,725</u>	<u>\$ 7,108,404</u>	<u>\$ 13,510,129</u>

See Notes to Financial Statements.

HAWTHORNE SOCIAL SERVICE ASSOCIATION, INC

STATEMENTS OF ACTIVITIES - continued

Year ended December 31, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<u>SUPPORT AND REVENUE</u>			
Direct public support:			
Contributions	\$ 105,862	\$ -	\$ 105,862
Grants and contracts	4,404,009	1,278,038	5,682,047
Fundraising-special events	780	-	780
In-kind contributions	105,783	-	105,783
	<u>4,616,434</u>	<u>1,278,038</u>	<u>5,894,472</u>
Program service fees	90,994	-	90,994
Interest and dividends, net of fees	546	114,242	114,788
Realized gain (loss) on investments	-	(11,928)	(11,928)
Unrealized gain (loss) on investments	-	490,902	490,902
Other revenue	30,067	-	30,067
Gain (loss) on asset disposal	(136,155)	-	(136,155)
Release from restrictions	1,199,292	(1,199,292)	-
	<u>1,184,744</u>	<u>(606,076)</u>	<u>578,668</u>
TOTAL SUPPORT AND REVENUE	<u>5,801,178</u>	<u>671,962</u>	<u>6,473,140</u>
<u>EXPENSES</u>			
Program services	4,301,004	-	4,301,004
Supporting activities	107,615	-	107,615
	<u>4,408,619</u>	<u>-</u>	<u>4,408,619</u>
CHANGE IN NET ASSETS	1,392,559	671,962	2,064,521
<u>NET ASSETS</u>			
Beginning of year	<u>3,872,621</u>	<u>5,523,105</u>	<u>9,395,726</u>
End of year	<u>\$ 5,265,180</u>	<u>\$ 6,195,067</u>	<u>\$ 11,460,247</u>

See Notes to Financial Statements.

HAWTHORNE SOCIAL SERVICE ASSOCIATION, INC

STATEMENTS OF FUNCTIONAL EXPENSES

Year ended December 31, 2021

	Program Services						Supporting Activities				Total
	School Age Child Care	Homeless Prevention Services	Youth General Social Development	Early Childhood	Senior Citizens Services	Economic Develop- ment	Total Program	Mgmt. and General	Fund- Raising	Total Supporting	
Salaries and wages	\$ 253,752	\$ 573,272	\$ 7,888	\$ 146,296	\$ -	\$ 57,473	\$ 1,038,681	\$ 17,665	\$ 43,981	\$ 61,646	\$ 1,100,327
Employee benefits	(202)	(322)	-	220	454	-	150	-	-	-	150
Payroll taxes	20,080	44,739	666	11,243	-	4,450	81,178	1,199	3,349	4,548	85,726
Legal and professional	48,479	55,876	3,389	23,131	13,142	860	144,877	31,216	-	31,216	176,093
Office supplies	28,970	7,509	8	41,322	1,195	1,017	80,021	1,429	-	1,429	81,450
Communications	8,694	11,244	2,593	10,576	3,331	-	36,438	4,195	-	4,195	40,633
Postage and shipping	34	554	-	34	34	-	656	49	-	49	705
Occupancy-rental, utilities	8,118	45,285	1,824	10,859	4,358	-	70,444	7,100	-	7,100	77,544
Occupancy-routine upkeep	11,816	11,118	5,559	15,195	5,149	-	48,837	4,591	-	4,591	53,428
Occupancy-repairs	3,591	7,630	1,921	5,070	2,190	8	20,410	1,367	-	1,367	21,777
Conferences and meetings	1,196	10,444	-	1,171	383	134	13,328	714	-	714	14,042
Printing and publications	1,212	1,371	2	915	582	-	4,082	770	-	770	4,852
Travel and transportation	14,943	314	-	1,984	1,494	-	18,735	121	-	121	18,856
Contributions, dues, and awards	116	928	-	457	56	80	1,637	113	-	113	1,750
Rental/maintenance	2,182	3,986	1,691	2,182	1,933	-	11,974	602	-	602	12,576
Activity fees and charges	5,743	-	-	-	-	-	5,743	-	-	-	5,743
Other insurance	3,656	3,812	407	3,415	1,290	166	12,746	1,317	-	1,317	14,063
Specific assistance	-	5,844,429	-	162	-	-	5,844,591	-	-	-	5,844,591
Special event expenses	861	3,153	-	638	639	-	5,291	1,135	-	1,135	6,426
Other expenses	59,022	137,483	109	8,686	504	-	205,804	3,782	-	3,782	209,586
Depreciation	82,448	38,053	15,855	14,270	1,585	-	152,211	6,342	-	6,342	158,553
	<u>\$ 554,711</u>	<u>\$ 6,800,878</u>	<u>\$ 41,912</u>	<u>\$ 297,826</u>	<u>\$ 38,319</u>	<u>\$ 64,188</u>	<u>\$ 7,797,834</u>	<u>\$ 83,707</u>	<u>\$ 47,330</u>	<u>\$ 131,037</u>	<u>\$ 7,928,871</u>

See Notes to Financial Statements.

HAWTHORNE SOCIAL SERVICE ASSOCIATION, INC

STATEMENTS OF FUNCTIONAL EXPENSES - continued

Year ended December 31, 2020

	Program Services						Supporting Activities				
	School Age Child Care	Homeless Prevention Services	Youth General Social Development	Early Childhood	Senior Citizens Services	Economic Develop- ment	Total Program	Mgmt. and General	Fund- Raising	Total Supporting	Total
Salaries and wages	\$ 161,796	\$ 624,231	\$ 4,470	\$ 62,843	\$ 5,832	\$ 74	\$ 859,246	\$ 29,721	\$ 13,399	\$ 43,120	\$ 902,366
Employee benefits	-	-	-	583	547	-	1,130	(45)	-	(45)	1,085
Payroll taxes	12,529	49,100	370	4,927	468	6	67,400	2,306	1,060	3,366	70,766
Legal and professional	25,182	91,108	2,500	19,803	10,117	-	148,710	25,700	1,025	26,725	175,435
Office supplies	27,099	7,286	-	20,482	1,476	-	56,343	979	-	979	57,322
Communications	4,518	19,137	1,434	5,804	1,913	-	32,806	2,788	-	2,788	35,594
Postage and shipping	168	780	-	168	168	-	1,284	168	-	168	1,452
Occupancy-rental, utilities	4,001	53,778	1,124	5,281	2,730	-	66,914	4,016	-	4,016	70,930
Occupancy-routine upkeep	7,828	9,481	3,122	8,973	3,707	-	33,111	2,930	-	2,930	36,041
Occupancy-repairs	1,687	5,880	764	2,082	1,012	-	11,425	1,103	-	1,103	12,528
Conferences and meetings	1,017	10,282	-	651	117	-	12,067	477	-	477	12,544
Printing and publications	536	433	-	463	112	-	1,544	150	-	150	1,694
Travel and transportation	5,563	554	-	63	3,922	-	10,102	-	-	-	10,102
Contributions, dues, and awards	160	1,055	-	251	160	-	1,626	241	-	241	1,867
Rental/maintenance	14,160	10,226	555	2,081	663	-	27,685	227	-	227	27,912
Activity fees and charges	9,986	-	-	-	-	-	9,986	-	-	-	9,986
Other insurance	3,630	3,786	403	3,407	1,274	168	12,668	1,276	-	1,276	13,944
Specific assistance	473	2,662,135	270	3,295	212	-	2,666,385	5,305	-	5,305	2,671,690
Special event expenses	65	65	-	65	65	-	260	6,315	-	6,315	6,575
Other expenses	55,245	66,461	135	3,200	629	403	126,073	2,047	-	2,047	128,120
Depreciation	83,546	38,560	16,066	14,460	1,607	-	154,239	6,427	-	6,427	160,666
	<u>\$ 419,189</u>	<u>\$ 3,654,338</u>	<u>\$ 31,213</u>	<u>\$ 158,882</u>	<u>\$ 36,731</u>	<u>\$ 651</u>	<u>\$ 4,301,004</u>	<u>\$ 92,131</u>	<u>\$ 15,484</u>	<u>\$ 107,615</u>	<u>\$ 4,408,619</u>

See Notes to Financial Statements.

HAWTHORNE SOCIAL SERVICE ASSOCIATION, INC

STATEMENTS OF CASH FLOWS

Years ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Change in net assets	\$ 2,049,882	\$ 2,064,521
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	158,553	160,666
Donated property and equipment	-	(13,642)
Provision for bad debts	2,117	-
Realized and unrealized (gain) loss	(703,910)	(478,974)
(Gain) loss on disposal of fixed assets	(900)	136,155
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(1,505)	(14,346)
Grants and contracts receivable	245,747	(813,383)
Interest receivable	(760)	2,159
Prepaid expenses	(1,458)	8,907
Increase (decrease) in:		
Accounts payable	(19,449)	13,812
Accrued payroll and taxes	6,103	(41,275)
Deferred revenue	1,235,872	36,217
Net cash provided by (used in) operating activities	<u>2,970,292</u>	<u>1,060,817</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Proceeds from sale of investments	1,175,465	1,079,176
Purchase of investments	(1,214,076)	(995,610)
Proceeds from sale of assets	900	-
Purchases of property and equipment	(320,159)	(106,393)
Net cash provided by (used in) investing activities	<u>(357,870)</u>	<u>(22,827)</u>
Increase (decrease) in cash and cash equivalents	2,612,422	1,037,990
<u>CASH AND CASH EQUIVALENTS</u>		
Beginning of year	<u>1,227,676</u>	<u>189,686</u>
End of year	<u>\$ 3,840,098</u>	<u>\$ 1,227,676</u>
<u>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</u>		
In-kind contributions	<u>\$ 190,466</u>	<u>\$ 105,783</u>

See Notes to Financial Statements.

HAWTHORNE SOCIAL SERVICE ASSOCIATION, INC

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE 1 NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Hawthorne Social Service Association, Inc. (the "Organization") was incorporated as a not-for-profit organization on July 26, 1923 under the laws of the state of Indiana. The Organization is also known in the community as Hawthorne Community Center.

The Organization's mission is to provide or facilitate services and programs that meet the economic, educational, and recreational needs of the entire Hawthorne Community. The Organization's vision is to be headquartered in a state of the art facility easily accessible to the entire community. Within its walls, the caring, highly motivated staff welcomes a multicultural community of all ages. Programs and services for the very young to our most senior citizens are designed from the needs indicated by the people we serve. The programs evolve as the needs arise, from a community with changing demographics.

The Organization communicates, cooperates, and interacts with all service providers and funders that share the mission of providing high quality programs and services with the Organization's service community. The Organization serves residents in the near-west side of Indianapolis, Indiana. The Organization offers a variety of social service programs for its neighborhood youth including preschool programs and activities, before and after school programs, summer day camp, organized sports, dance, tumbling, and other educational and cultural activities. The Organization uniquely relies on its clients as potential resources for other clients. For example, teens assist in supporting activities for senior citizens and older children and educate younger school-aged children about the dangers of drugs and alcohol. In support of the growing Hispanic population, the Organization publishes a bi-lingual newsletter and teaches preschool lessons in English and Spanish. The Organization's program services include the following:

School age child care: Providing licensed day care, before and after school care, and day camp.

Homeless prevention services: Providing family support, self-sufficiency, and emergency assistance services.

Youth general social development: A program that fosters youth development through activities and events that promote appropriate peer and adult relationships.

Early childhood: Providing licensed day care, classes, and other services for preschool children.

Senior citizens services: Providing transportation, case management, activities, and other services to seniors over the age of 55.

Economic development: Providing affordable housing from rehabbed homes for families in the Center for Working Families Program.

HAWTHORNE SOCIAL SERVICE ASSOCIATION, INC

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE 1 NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES - continued

A summary of the Organization's significant accounting policies follows:

A. Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting.

B. Basis of Presentation

These financial statements have been prepared to focus on the entity as a whole and to present transactions according to the existence or absence of donor-imposed restrictions in conformity with accounting principles generally accepted in the United States of America. This has been done by classification of fund transactions and balances into two categories of net assets:

Net Assets without Donor Restrictions: These net assets generally result from revenues generated by receiving contributions that have no donor restrictions, providing services, and receiving interest from operating investments, less expenses incurred in providing program-related services, raising contributions, and performing administrative functions.

Net Assets with Donor Restrictions: These net assets result from gifts of cash and other assets that are received with donor stipulations that limit the use of the donated assets, either temporarily or permanently, until the donor restriction expires, that is until the stipulated time restriction ends or the purpose of the restriction is accomplished, the net assets are restricted.

C. Cash and Cash Equivalents

The Organization's cash and cash equivalents consist of checking and money market savings accounts. The Organization maintains checking and savings balances at commercial banks. The demand deposit accounts are partially insured by the Federal Deposit Insurance Corporation. The balances, at times, may exceed federally insured limits.

D. Concentration of Risks

In 2021, approximately 59% of the Organization's total revenue was from one donor. In 2020, approximately 75% of the Organization's total revenue was from three donors.

E. Accounts Receivable

The Organization follows the allowance method for accounting for uncollectible accounts. Management established an allowance for bad debts of \$4,773 and \$2,656 for the years ended December 31, 2021 and 2020.

The Organization's policy for determining when receivables are past due is on a case-by-case basis. Uncollectible accounts are reported in accordance with the policy described above when it is determined the amounts have become uncollectible. Amounts are considered uncollectible at the time management believes satisfactory payment arrangements cannot be made.

HAWTHORNE SOCIAL SERVICE ASSOCIATION, INC

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE 1 NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES - continued

F. Grants Receivable

Grants receivable include reimbursements and unconditional promises to give, and are reported at net realizable value. All amounts are expected to be collected within one year, and none are considered uncollectible as of the years ended December 31, 2021 and 2020.

G. Investments

The Organization accounts for investments with readily determinable fair values in the statement of financial position at fair value. Unrealized gains and losses are included in the change in net assets in the accompanying statement of activities.

Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term could materially affect the amounts reported in the Organization's financial statements. To date, there have been no losses on such accounts.

H. Property and Equipment

Property and equipment are stated at cost. Donated property and equipment is recorded at fair value. The Organization's capitalization policy is \$1,500. Depreciation is provided using the straight-line method over the estimated useful lives of the assets. Estimated useful lives for furniture and equipment range from 3 to 10 years and buildings and improvements range from 30 to 40 years.

When necessary, a valuation allowance is used to reduce the carrying value of properties held for future use to their estimated realizable value. The Organization has determined that no valuation allowance is necessary as of December 31, 2021 and 2020.

The Organization reviews long-lived assets, including property and equipment, for impairment whenever events or changes in business circumstances indicate that the carrying value may not be fully recoverable. If impairment is present, the carrying value of the impaired asset is reduced to its fair value. During the years ended December 31, 2021 and 2020, there was no impairment loss recognized on long-lived assets.

Expenditures for property and equipment and for renewals or betterments which extend the originally estimated economic life of the assets are capitalized. Expenditures for maintenance and repairs are charged to expense. When an asset is retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any gain or loss is included in the statement of activities.

I. Support and Revenues

The Organization receives support from private contributions and grants, and recognizes this support when cash or an unconditional promise to give is received. Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return - are not recognized until the conditions on which they depend have been met.

HAWTHORNE SOCIAL SERVICE ASSOCIATION, INC

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE 1 NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES - continued

I. Support and Revenues - continued

Contributions and grants recognized are recorded as net assets without donor restrictions or net assets with donor restrictions depending upon the existence and/or nature of any donor restrictions.

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 amounts. When a stipulated time restriction ends or purpose restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restriction.

A portion of the Organization's revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as deferred revenue in the statement of financial position.

The Organization reports gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions specifying 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, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Program service fees are recognized as income during the period in which the service is provided. Money received due to early registrations and costs incurred related to programs are deferred until the programs are completed. Such deferred income and expenses are recognizable within one year.

J. In-Kind Contributions

In addition to receiving cash contributions, the Organization received in-kind contributions totaling \$190,466 and \$105,783 for the years ending December 31, 2021 and 2020, respectively, which are reported as contributions in the statements of activities.

K. Functional Expenses

Expenses are reported when incurred. In the statements of functional expenses, costs not specifically related to program services are allocated in accordance with management's estimates of program support requirements. Salaries and related expenses are charged to program services based upon estimated time spent by personnel on the related programs. Direct expenses are charged to the various programs. Occupancy expenses are allocated based upon actual utilization of space.

HAWTHORNE SOCIAL SERVICE ASSOCIATION, INC

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE 1 NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES - continued

L. Tax Status

The Organization is exempt from federal and state income taxes on its related activities under Internal Revenue Service Code Section 501(c)(3). Accordingly, no provision for federal and state income taxes has been made.

The Organization files the required federal and state information returns. Whenever tax returns are filed, the filing organization must evaluate the merits of its tax positions and determine if they will be ultimately sustained. Those tax positions for the Organization include maintaining their tax-exempt status and the taxability of any unrelated business income. The Organization believes these positions are sustainable. Although the Organization has not incurred any interest and penalties associated with these positions, it is their policy to expense them in the statement of activities.

M. 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.

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Organization operates. It is unknown how long these conditions will last and what the complete financial effect will be to the organization. Our concentrations due to grantor or contributor; concentrated revenue from particular programs, services or fund-raising events; and the market or geographic area in which the Organization conducts operations make it reasonably possible that we are vulnerable to the risk of a near-term severe impact.

Additionally, it is reasonably possible that estimates made in the financial statements have been, or will be, materially and adversely impacted in the near term as a result of these conditions.

N. Reclassifications

Certain prior year balances have been reclassified to conform with current year classifications and presentations.

O. Evaluation of Subsequent Events

the Organization has evaluated subsequent events through April 27, 2022, which is the date the financial statements were available to be issued.

HAWTHORNE SOCIAL SERVICE ASSOCIATION, INC

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE 2 RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

On August 28, 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2018-13, Fair Value Measurement (Topic 820), Changes to the Disclosure Requirements for Fair Value Measurement. The standard removes the following disclosure requirements from Topic 820, Fair Value Measurement: 1. The amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy. 2. The policy for timing of transfers between levels within the fair value hierarchy. 3. The valuation processes for Level 3 fair value measurements. 4. For nonpublic entities, the changes in unrealized gains and losses for the period included in earnings for recurring Level 3 fair value measurements held at the end of the reporting period. In addition and instead of a rollforward for Level 3 fair value measurements, a nonpublic entity is required to disclose transfers into and out of Level 3 of the fair value hierarchy and purchases and issues of Level 3 assets and liabilities. The Organization adopted all applicable provisions of this standard for the year ending December 31, 2020 which did not have a material impact on the financial statements.

NOTE 3 RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In February 2016, the FASB issued ASU 2016-02, Leases. The standard requires all leases with lease terms over 12 months to be capitalized as a right-of-use asset and corresponding lease liability on the statement of financial position at the date of the lease commencement. Leases will be classified as either finance or operating, and this distinction will be relevant for the pattern of expense recognition in the statement of activities. This standard will be effective for the entity for the year ending December 31, 2022. The Organization is currently in the process of evaluating the effect of adoption of this ASU on its financial statements.

In September 2020, the FASB issued ASU 2020-07, Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets. The standard will improve transparency in the reporting of contributed nonfinancial assets, also known as gifts in-kind, for not-for-profit organizations. The ASU requires a not-for-profit organization to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash or other financial assets, along with expanded disclosure requirements. This standard will be effective for the organization for the year ending December 31, 2022. The Organization does not expect this ASU to have a significant impact on the Organization's financial statements.

NOTE 4 LIQUIDITY AND AVAILABILITY

The following table reflects the Organization's financial assets as of December 31, 2021 and 2020, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date, due to contractual restrictions.

HAWTHORNE SOCIAL SERVICE ASSOCIATION, INC

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE 4 LIQUIDITY AND AVAILABILITY - continued

The Organization regularly monitors liquidity required to meet its operational needs and other contractual commitments, while also striving to maximize the investment of its endowment funds. Hawthorne has various sources of liquidity at its disposal including cash and cash equivalents, line of credit and endowment investments. In 2021 and 2020, 3.2% and 4% of the value of the endowment, as of June of each calendar year, was used to support the agency's operating budget, respectively.

For purposes of analyzing resources available to meet operating expenditures over a 12 month period, Hawthorne considers all expenditures related to its ongoing programs/services that include early childhood education, school aged child care, organized sports, senior citizen nutrition/social development, employment, adult education, financial literacy and emergency assistance. The Organization strives to secure and maintain unrestricted funds to cover three months of general operating expenditures.

The Organization's financial health is monitored through monthly reporting to both the Finance Committee and Board of Directors.

The table below represents financial assets available for general expenditures within one year at December 31, 2021 and 2020:

Financial assets at year-end:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 3,840,098	\$ 1,227,676
Accounts receivable	18,696	19,308
Grants receivable	823,864	1,069,611
Interest receivable	3,510	2,750
Investments	<u>6,367,985</u>	<u>5,625,464</u>
Total financial assets	<u>11,054,153</u>	<u>7,944,809</u>

Less amounts not available to be used within one year:

Investments held for endowments	(6,367,985)	(5,625,464)
Deferred revenue for rental assistance program	(1,272,089)	(36,217)
Donor-imposed restrictions	<u>(740,419)</u>	<u>(569,603)</u>
Financial assets not available to be used within one year	<u>(8,380,493)</u>	<u>(6,231,284)</u>

Financial assets available to meet general expenditures
within one year

<u>\$ 2,673,660</u>	<u>\$ 1,713,525</u>
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HAWTHORNE SOCIAL SERVICE ASSOCIATION, INC

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE 5 PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

	<u>2021</u>	<u>2020</u>
Land	\$ 2,500	\$ 2,500
Land improvements	102,656	100,065
Buildings	4,310,829	4,310,829
Building improvements	1,058,044	815,652
Furniture and equipment	91,936	92,481
Autos/trucks	88,131	94,211
Other equipment	128,924	128,924
CIP - building improvements	75,175	-
	<u>5,858,195</u>	<u>5,544,662</u>
Less accumulated depreciation	<u>2,023,048</u>	<u>1,871,121</u>
	<u>\$ 3,835,147</u>	<u>\$ 3,673,541</u>

NOTE 6 INVESTMENTS

Investments are presented in the financial statements at fair value. Investments at December 31, 2021 and 2020 are comprised of the following:

	<u>2021</u>		
	Net		
	Unrealized		
	Cost	Gains (Losses)	Fair Value
Money Market Funds	\$ 45,294	\$ -	\$ 45,294
Equity Securities	685,225	323,494	1,008,719
Mutual Funds	2,009,410	214,826	2,224,236
Corporate and government bonds	613,868	(4,297)	609,571
Exchange-traded funds ("ETFs")	1,561,181	918,984	2,480,165
	<u>\$ 4,914,978</u>	<u>\$ 1,453,007</u>	<u>\$ 6,367,985</u>
	<u>2020</u>		
	Net		
	Unrealized		
	Cost	Gains (Losses)	Fair Value
Money Market Funds	\$ 110,500	\$ -	\$ 110,500
Equity Securities	746,124	160,003	906,127
Mutual Funds	1,561,180	223,998	1,785,178
Corporate and government bonds	456,920	20,260	477,180
Exchange-traded funds ("ETFs")	1,784,985	561,494	2,346,479
	<u>\$ 4,659,709</u>	<u>\$ 965,755</u>	<u>\$ 5,625,464</u>

HAWTHORNE SOCIAL SERVICE ASSOCIATION, INC

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE 6 INVESTMENTS - continued

Net return on investments is as follows:

	<u>2021</u>	<u>2020</u>
Investment income, net of related expenses of \$35,230 and \$31,077, respectively	\$ 193,523	\$ 114,242
Realized gain (loss)	220,974	(11,928)
Unrealized gain (loss)	482,936	490,902
	<u>\$ 897,433</u>	<u>\$ 593,216</u>

NOTE 7 FAIR VALUE MEASUREMENTS

The Organization utilizes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques 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 are described below:

- **Level 1** Quoted prices for identical assets and liabilities traded in active exchange markets, such as the New York Stock Exchange.
- **Level 2** Observable inputs other than Level 1 including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data.
- **Level 3** Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

In determining the appropriate levels, the Organization performs a detailed analysis of the assets and liabilities that are measured and reported on a fair value basis. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3. The Organization does not have any significant level 3 assets or liabilities. During the years ended December 31, 2021 and 2020, there were no changes to the Organization's valuation techniques that had, or are expected to have, a material impact on its financial position or results of operations.

HAWTHORNE SOCIAL SERVICE ASSOCIATION, INC

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE 7 FAIR VALUE MEASUREMENTS - continued

The following is a description of the valuation methodologies used for assets measured at fair value:

Money market funds: Valued at the net asset value ("NAV") of share held at year-end, as reported by each fund.

Registered equity securities: Valued at the closing price of the active market in which the security is traded.

Corporate and government bonds: Valued at the quoted market price for similar securities, which approximates fair value.

Mutual funds: Valued at the net asset value ("NAV") of share held at year-end.

Exchange-traded funds: Valued at listed closing price of shares held at year-end.

Assets measured at fair value as of December 31, 2021 and 2020 are summarized as follows:

	2021			
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market funds	\$ 45,294	\$ -	\$ 45,294	\$ -
Equity securities:				
Common stock	981,015	981,015	-	-
REIT	27,704	27,704	-	-
Fixed income:				
Corporate bonds	106,982	-	106,982	-
Government bonds	502,589	-	502,589	-
Mutual funds:				
Stock funds	1,230,728	1,230,728	-	-
Bond funds	941,457	941,457	-	-
Closed-end fund	52,051	52,051	-	-
Exchange-traded funds:				
Equity funds	2,397,835	2,397,835	-	-
Fixed income funds	82,330	82,330	-	-
Other funds	-	-	-	-
Total Assets	<u>\$ 6,367,985</u>	<u>\$ 5,713,120</u>	<u>\$ 654,865</u>	<u>\$ -</u>

HAWTHORNE SOCIAL SERVICE ASSOCIATION, INC

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE 7 FAIR VALUE MEASUREMENTS - continued

	2020			
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market funds	\$ 110,500	\$ -	\$ 110,500	\$ -
Equity securities:				
Common stock	878,097	878,097	-	-
REIT	28,030	28,030	-	-
Fixed income:				
Corporate bonds	219,521	-	219,521	-
Government bonds	257,659	-	257,659	-
Mutual funds:				
Stock funds	1,072,118	1,072,118	-	-
Bond funds	713,060	713,060	-	-
Closed-end fund	-	-	-	-
Exchange-traded funds:				
Equity funds	2,288,526	2,288,526	-	-
Fixed income funds	-	-	-	-
Other funds	57,953	57,953	-	-
Total Assets	<u>\$ 5,625,464</u>	<u>\$ 5,037,784</u>	<u>\$ 587,680</u>	<u>\$ -</u>

NOTE 8 LILLY ENDOWMENT FUND

The Organization's endowment consists of donor-restricted contributions from Lilly Endowment to provide long-term organizational and operational sustainability. As required by accounting principles generally accepted in the United States of America ("GAAP"), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors has interpreted the State Prudent Management of Institutional Funds Act ("SPMIFA") 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 Foundation retains in perpetuity (a) the original value of initial and subsequent gift amounts (including promises to give at fair value) 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 Foundation in a manner consistent with the standard of prudence prescribed by SPMIFA. The Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation

HAWTHORNE SOCIAL SERVICE ASSOCIATION, INC

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE 8 LILLY ENDOWMENT FUND - continued

- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Organization
- (7) The investment policies of the Organization

As of December 31, 2021 and 2020, the Organization had the following endowment net asset composition by type of fund:

	<u>With Donor Restrictions</u>
<u>December 31, 2021</u>	
Donor-restricted endowment funds:	
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ 4,730,000
Accumulated investment gains (losses)	<u>1,637,985</u>
	<u>\$ 6,367,985</u>
<u>December 31, 2020</u>	
Donor-restricted endowment funds:	
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ 4,730,000
Accumulated investment gains (losses)	<u>895,464</u>
	<u>\$ 5,625,464</u>

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law ("underwater endowments"). We have interpreted SPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. There were no such deficiencies as of December 31, 2021 and 2020.

Investment and Spending Policies

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding for programs and operational sustainability supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. The Organization expects its endowment funds, over time, to provide an average rate of return of at least 3 percent annually. Actual returns in any given year may vary from this amount.

HAWTHORNE SOCIAL SERVICE ASSOCIATION, INC

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE 8 LILLY ENDOWMENT FUND - continued

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on income-based investments to achieve its long-term return objectives within prudent risk constraints.

The Organization has a policy of appropriating for distribution each year 2-4% of the endowment funds. The amount available for appropriation for the following fiscal year shall be calculated by applying the policy spending rate to the average of the previous twelve (12) quarter-end endowment market values as of June 30 each year. This spending formula will not take effect until the portfolio has twelve (12) quarters of performance available to calculate the above spending policy. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Changes in Endowment net assets as of December 31, 2021 and 2020 are as follows:

	<u>With Donor Restrictions</u>
Endowment net assets, January 1, 2020	\$ 5,230,056
Investment income	116,402
Net depreciation, realized and unrealized	<u>478,974</u>
Total investment return	<u>595,376</u>
Appropriation of endowment assets for expenditure	<u>(199,968)</u>
Endowment net assets, December 31, 2020	<u>5,625,464</u>
Investment income	192,763
Net depreciation, realized and unrealized	<u>703,910</u>
Total investment return	<u>896,673</u>
Appropriation of endowment assets for expenditure	<u>(154,152)</u>
Endowment net assets, December 31, 2021	<u>\$ 6,367,985</u>

HAWTHORNE SOCIAL SERVICE ASSOCIATION, INC

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE 9 LINE OF CREDIT

The Organization has a line of credit with PNC with a maximum debt facility of \$100,000 available through September 27, 2022. Amounts borrowed are secured by a commercial security agreement securing all assets of the Organization. There were no borrowings on the line of credit in 2021 or 2020. Interest is assessed at the highest Prime Rate as published in the "Money Rates" section of The Wall Street Journal. The effective rate at December 31, 2021 and 2020 was 3.25%.

NOTE 10 PENSION PLAN

The Organization has established a 403(b) tax-deferred annuity plan for its employees. Employees can make pretax contributions in addition to any discretionary payments made by the Organization. For the years ended December 31, 2021 and 2020, the Organization made no contributions to the plan.

NOTE 11 OPERATING LEASES

The Organization is obligated under an operating lease for two copiers with a monthly payment of \$732 through June 2024.

Future minimum lease payments under this obligation is as follows:

2022	\$	8,784
2023		8,784
2024		4,392
Thereafter		-
	\$	<u>21,960</u>

Total operating lease payments for the years ended December 31, 2021 and 2020 were \$12,576 and \$10,016, respectively.

HAWTHORNE SOCIAL SERVICE ASSOCIATION, INC

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE 12 NET ASSETS

Net assets consist of the following:

	<u>2021</u>	<u>2020</u>
Without donor restrictions:	\$ 6,401,725	\$ 5,265,180
With donor restrictions:		
Purpose restrictions:		
Homeless prevention services	\$ 559,941	\$ 408,853
Youth programs	111,968	158,000
Technology	3,000	-
Facility maintenance	62,000	-
Lilly Endowment fund	1,641,495	898,214
Perpetual in nature:		
Lilly Endowment fund	<u>4,730,000</u>	<u>4,730,000</u>
Total with donor restrictions	<u>\$ 7,108,404</u>	<u>\$ 6,195,067</u>

NOTE 13 PAYCHECK PROTECTION PROGRAM

In March 2020, Congress established the Paycheck Protection Program ("PPP") to provide relief to small businesses during the coronavirus pandemic ("COVID-19") as part of the Coronavirus Aid, Relief, and Economic Security ("CARES") Act. The legislation authorized the Treasury to use the Small Business Administration's ("SBA's") 7(a) small business lending program to fund forgivable loans that qualifying businesses could spend to cover payroll, mortgage interest, rent, and utilities during the "Covered Period" defined as the 8-week period starting on the date the PPP loan proceeds are received. Upon meeting certain criteria as specified in the PPP program, the loans are eligible for partial or total forgiveness.

On June 5, 2020, the PPP Flexibility Act of 2020 (the "Act") was signed into law, giving borrowers flexibility with certain criteria under the PPP program including extension of the Covered Period to 24 weeks from 8 weeks, reduction to 60% of the payroll costs requirements (previously 75%), extension of the payment deferral period, extension of the full-time equivalent ("FTE") restoration deadline to December 31, 2020, and safe harbor provisions to remove the FTE reduction in forgiveness under limited circumstances.

In June 2020, the AICPA issued Technical Question and Answer ("TQA") 3200.18, Borrower Accounting for a Forgivable Loan Received Under the Small Business Administration Paycheck Protection Program. The TQA addresses accounting for nongovernmental entities that are not Not-For-Profits, i.e. business entities, that believe the PPP loan represents, in substance, a grant that is expected to be forgiven, it may account for the loan as a deferred income liability.

HAWTHORNE SOCIAL SERVICE ASSOCIATION, INC

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE 13 PAYCHECK PROTECTION PROGRAM - continued

The TQA further states that if such an entity expects to meet the PPP's eligibility criteria and concludes that the PPP loan represents in substance, a grant that is expected to be forgiven, it may account for such PPP loans in accordance with FASB ASC 958-605 as a conditional contribution.

The Organization applied for and received proceeds of \$162,900 through the PPP program on April 29, 2020, prior to the enactment of the Act. The loan was fully forgiven on July 7, 2021 and the proceeds were recorded as grant revenue as of December 31, 2020.