

HAWTHORNE VALLEY ASSOCIATION, INC.

AUDITED FINANCIAL STATEMENTS

As of and for the years ended August 31, 2021 and 2020

HAWTHORNE VALLEY ASSOCIATION, INC.

TABLE OF CONTENTS

	Page
Independent Auditor's Report	1
Financial Statements	
Statements of Financial Position	3
Statements of Activities	4
Statements of Functional Expenses	6
Statements of Cash Flows	8
Notes to the Financial Statements	10

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
of Hawthorne Valley Association, Inc.

We have audited the accompanying financial statements of Hawthorne Valley Association, Inc. (a non-profit organization), which comprise the statements of financial position as of August 31, 2021 and 2020, 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 audits 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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hawthorne Valley Association, Inc. as of August 31, 2021 and 2020, and the change 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.

UHY LLP

Hudson, New York
March 2, 2022

HAWTHORNE VALLEY ASSOCIATION, INC.
STATEMENTS OF FINANCIAL POSITION
August 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,683,793	\$ 1,437,295
Certificate of deposit	-	250,832
Investments, at cost	252,911	2,187
Investments, at fair value	501,951	-
Accounts receivable, net	368,250	444,689
Pledges receivable	-	25,000
Grants receivable	484,542	175,000
Other receivables	-	56,913
Inventories	664,609	677,196
Prepaid expenses	53,451	41,219
Total current assets	<u>4,009,507</u>	<u>3,110,331</u>
NONCURRENT ASSETS		
Land, buildings, and equipment, net	7,760,604	7,881,310
Investments, at fair value	187,735	141,309
Investments, at cost	18,832	18,832
Investment in unconsolidated subsidiary	666,759	806,273
Cash and cash equivalents - restricted for endowment	9,625	7,894
Total noncurrent assets	<u>8,643,555</u>	<u>8,855,618</u>
Total assets	<u>\$ 12,653,062</u>	<u>\$ 11,965,949</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 276,186	\$ 395,207
Accrued expenses and other liabilities	128,649	219,217
Payroll, sales tax and related payables	425,557	370,602
Deferred revenue	1,126,933	694,624
Due to related party, net	12,461	13,055
Current portion of long-term debt	165,288	1,671,926
Current portion of notes payable	406,000	640,116
Total current liabilities	<u>2,541,074</u>	<u>4,004,747</u>
NONCURRENT LIABILITIES		
Long-term debt, net	741,439	764,589
Notes payable, net	460,000	500,000
Deferred taxes	200,027	241,882
Total noncurrent liabilities	<u>1,401,466</u>	<u>1,506,471</u>
Total liabilities	<u>3,942,540</u>	<u>5,511,218</u>
NET ASSETS		
Without donor restrictions:		
Board designated-medical reserve	431,525	446,619
Undesignated	7,291,310	4,630,110
Total without donor restrictions	<u>7,722,835</u>	<u>5,076,729</u>
With donor restrictions	987,687	1,378,002
Total net assets	<u>8,710,522</u>	<u>6,454,731</u>
Total liabilities and net assets	<u>\$ 12,653,062</u>	<u>\$ 11,965,949</u>

See notes to financial statements.

HAWTHORNE VALLEY ASSOCIATION, INC.
STATEMENT OF ACTIVITIES
For the year ended August 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING ACTIVITIES			
REVENUE AND SUPPORT			
Product sales	\$ 11,114,924	\$ -	\$ 11,114,924
Tuition and fees, net of tuition discount of \$2,090,286	2,698,235	-	2,698,235
Contributions, donations, and grants	2,102,963	20,300	2,123,263
Guests and conference income	32,750	-	32,750
Fundraising events, net of expenses of \$70	31,842	-	31,842
Rentals	37,160	-	37,160
Consulting and other services	246,015	-	246,015
Other income	39,361	-	39,361
Total revenue and support before releases	<u>16,303,250</u>	<u>20,300</u>	<u>16,323,550</u>
Net assets released from restrictions	478,773	(478,773)	-
Total revenue and support	<u>16,782,023</u>	<u>(458,473)</u>	<u>16,323,550</u>
EXPENSES			
Programs:			
Education	2,453,329	-	2,453,329
Visiting schools and camps	135,548	-	135,548
Research and other	931,057	-	931,057
Management, general, and administrative	1,813,197	-	1,813,197
Fundraising	231,259	-	231,259
Store, farm and dairy operations	9,797,881	-	9,797,881
Total expenses from operations	<u>15,362,271</u>	<u>-</u>	<u>15,362,271</u>
Change in net assets from operating activities	<u>1,419,752</u>	<u>(458,473)</u>	<u>961,279</u>
NON-OPERATING ACTIVITIES			
Contributions and grants	-	20,000	20,000
Interest income	4,002	-	4,002
Forgiveness of paycheck protection program (PPP) loan	1,369,976	-	1,369,976
Loss on investment in equity method investment	(139,514)	-	(139,514)
Gain on sale of equipment	11,000	-	11,000
Investment return, net	-	39,158	39,158
Deferred tax benefit	41,855	-	41,855
Current tax expense	(250)	-	(250)
Interest expense	(51,715)	-	(51,715)
Reclassification	(9,000)	9,000	-
Change in net assets from non-operating activities	<u>1,226,354</u>	<u>68,158</u>	<u>1,294,512</u>
CHANGE IN NET ASSETS	2,646,106	(390,315)	2,255,791
NET ASSETS, Beginning of year	<u>5,076,729</u>	<u>1,378,002</u>	<u>6,454,731</u>
NET ASSETS, End of year	<u>\$ 7,722,835</u>	<u>\$ 987,687</u>	<u>\$ 8,710,522</u>

See notes to financial statements.

HAWTHORNE VALLEY ASSOCIATION, INC.
STATEMENT OF ACTIVITIES
For the year ended August 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING ACTIVITIES			
REVENUE AND SUPPORT			
Product sales	\$ 10,403,487	\$ -	\$ 10,403,487
Tuition and fees, net of tuition discount of \$2,248,933	2,504,327	-	2,504,327
Contributions, donations, and grants	1,717,742	320,367	2,038,109
Guests and conference income	176,309	-	176,309
Fundraising events, net of expenses of \$17,359	29,637	-	29,637
Rentals	27,036	-	27,036
Leased employees - Whitethorne	268,723	-	268,723
Consulting and other services	443,219	-	443,219
Other income	131,298	-	131,298
Total revenue and support before releases	<u>15,701,778</u>	<u>320,367</u>	<u>16,022,145</u>
Net assets released from restrictions	445,861	(445,861)	-
Total revenue and support	<u>16,147,639</u>	<u>(125,494)</u>	<u>16,022,145</u>
EXPENSES			
Programs:			
Education	2,813,299	-	2,813,299
Visiting schools and camps	349,077	-	349,077
Research and other	995,501	-	995,501
Management, general, and administrative	1,778,558	-	1,778,558
Fundraising	246,094	-	246,094
Store, farm and dairy operations	9,415,099	-	9,415,099
Total expenses from operations	<u>15,597,628</u>	<u>-</u>	<u>15,597,628</u>
Change in net assets from operating activities	<u>550,011</u>	<u>(125,494)</u>	<u>424,517</u>
NON-OPERATING ACTIVITIES			
Contributions and grants	-	75,000	75,000
Interest income	851	-	851
Loss on investment in subsidiary	(595,652)	-	(595,652)
Investment return, net	-	28,198	28,198
Deferred tax benefit	107,687	-	107,687
Current tax expense	(358)	-	(358)
Interest expense	(100,328)	-	(100,328)
Reclassifications	(5,921)	5,921	-
Change in net assets from non-operating activities	<u>(593,721)</u>	<u>109,119</u>	<u>(484,602)</u>
CHANGE IN NET ASSETS	<u>(43,710)</u>	<u>(16,375)</u>	<u>(60,085)</u>
NET ASSETS, Beginning of year	<u>5,120,439</u>	<u>1,394,377</u>	<u>6,514,816</u>
NET ASSETS, End of year	<u>\$ 5,076,729</u>	<u>\$ 1,378,002</u>	<u>\$ 6,454,731</u>

See notes to financial statements.

HAWTHORNE VALLEY ASSOCIATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended August 31, 2021

	Programs				Support Services		Business Enterprises	
	Education	Visiting Schools and Camps	Research and Other	Total Program	Management and General	Fundraising	Store, Farm and Dairy Operations	Total
Salaries	\$ 1,514,136	\$ 58,561	\$ 464,754	\$ 2,037,451	\$ 1,082,177	\$ 191,541	\$ 2,132,446	\$ 5,443,615
Employee benefits and payroll taxes	268,744	10,394	82,489	361,627	207,170	33,997	378,488	981,282
Non-employee compensation	59,540	269	973	60,782	41,880	-	160,659	263,321
Cost of products	-	-	28,013	28,013	-	-	5,510,156	5,538,169
Repairs and maintenance	108,301	3,270	7,328	118,899	10,662	-	187,146	316,707
Utilities	31,712	7,998	8,244	47,954	6,900	-	108,097	162,951
Telephone	975	15	1,628	2,618	9,426	-	4,602	16,646
Insurance	98,614	19,194	6,099	123,907	20,803	-	117,149	261,859
Legal and accounting	-	-	-	-	62,569	-	-	62,569
Other professional services	-	120	-	120	-	-	-	120
Depreciation	120,322	23,712	49,171	193,205	25,301	-	247,552	466,058
Supplies	117,218	10,584	27,782	155,584	8,639	2,482	443,673	610,378
Vehicle repairs, fuel, and rentals	319	372	939	1,630	-	-	76,593	78,223
Rent	66,987	140	479	67,606	-	-	72,716	140,322
Consulting and subcontracted services	-	-	110,546	110,546	-	-	-	110,546
Information technology	-	-	-	-	131,847	-	-	131,847
Travel	-	-	11,920	11,920	54	-	6,441	18,415
Training and conferences	11,106	849	170	12,125	5,998	-	3,921	22,044
Dues and fees	21,483	70	240	21,793	39,476	-	227,672	288,941
Grants and donations	-	-	107,770	107,770	-	-	84,087	191,857
Advertising and promotion	-	-	-	-	82,753	-	-	82,753
Photocopy and publications	-	-	22,512	22,512	23,757	3,239	-	49,508
School trips	1,303	-	-	1,303	-	-	-	1,303
Bad debt	32,569	-	-	32,569	-	-	450	33,019
Other	-	-	-	-	53,785	-	36,033	89,818
Subtotal	2,453,329	135,548	931,057	3,519,934	1,813,197	231,259	9,797,881	15,362,271
Fundraising events	-	-	-	-	-	70	-	70
Interest	5,508	4,665	214	10,387	-	-	41,328	51,715
Taxes	-	-	-	-	-	-	250	250
Subtotal	5,508	4,665	214	10,387	-	70	41,578	52,035
Total expenses	\$ 2,458,837	\$ 140,213	\$ 931,271	\$ 3,530,321	\$ 1,813,197	\$ 231,329	\$ 9,839,459	\$ 15,414,306

See notes to financial statements.

HAWTHORNE VALLEY ASSOCIATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended August 31, 2020

	Programs				Support Services		Business Enterprises	
	Education	Visiting Schools and Camps	Research and Other	Total Program	Management and General	Fundraising	Store, Farm and Dairy Operations	Total
Salaries	\$ 1,765,386	\$ 208,563	\$ 540,977	\$ 2,514,926	\$ 1,031,523	\$ 199,949	\$ 2,167,269	\$ 5,913,667
Employee benefits and payroll taxes	348,664	41,191	106,843	496,698	203,582	39,490	428,036	1,167,806
Non-employee compensation	142,176	745	8,790	151,711	68,762	-	214,541	435,014
Cost of products	-	-	-	-	-	-	5,274,611	5,274,611
Repairs and maintenance	63,179	9,897	2,522	75,598	6,373	-	103,644	185,615
Utilities	38,467	11,303	3,859	53,629	6,577	-	90,394	150,600
Telephone	2,744	543	1,931	5,218	12,689	-	4,471	22,378
Insurance	84,233	20,754	12,780	117,767	18,391	-	115,306	251,464
Legal and accounting	-	-	6,446	6,446	66,244	-	-	72,690
Other professional services	-	2,475	457	2,932	-	-	-	2,932
Depreciation	126,014	25,331	51,273	202,618	27,416	-	245,301	475,335
Supplies	85,760	22,370	18,159	126,289	11,420	4,895	364,686	507,290
Vehicle repairs, fuel, and rentals	10,571	588	1,994	13,153	-	-	71,882	85,035
Rent	23,859	1,846	687	26,392	-	-	84,709	111,101
Consulting and subcontracted services	3,100	-	116,990	120,090	-	-	-	120,090
Information technology	-	-	-	-	130,581	-	-	130,581
Travel	-	404	17,150	17,554	7,144	-	6,798	31,496
Training and conferences	10,308	-	680	10,988	2,583	-	8,672	22,243
Dues and fees	12,870	-	470	13,340	33,815	-	191,954	239,109
Grants and donations	-	-	34,262	34,262	7,801	-	10,411	52,474
Advertising and promotion	-	-	-	-	83,466	-	-	83,466
Photocopy and publications	-	-	17,468	17,468	23,228	1,760	-	42,456
School trips	57,824	-	-	57,824	-	-	-	57,824
Boarding	1,600	-	-	1,600	-	-	-	1,600
Bad debt	20,116	1,200	50,000	71,316	-	-	1,506	72,822
Other	16,428	1,867	1,763	20,058	36,963	-	30,908	87,929
Subtotal	<u>2,813,299</u>	<u>349,077</u>	<u>995,501</u>	<u>4,157,877</u>	<u>1,778,558</u>	<u>246,094</u>	<u>9,415,099</u>	<u>15,597,628</u>
Fundraising events	-	-	-	-	-	17,359	-	17,359
Interest	17,614	6,012	509	24,135	-	-	76,193	100,328
Taxes	-	-	-	-	-	-	358	358
Subtotal	<u>17,614</u>	<u>6,012</u>	<u>509</u>	<u>24,135</u>	<u>-</u>	<u>17,359</u>	<u>76,551</u>	<u>118,045</u>
Total expenses	<u>\$ 2,830,913</u>	<u>\$ 355,089</u>	<u>\$ 996,010</u>	<u>\$ 4,182,012</u>	<u>\$ 1,778,558</u>	<u>\$ 263,453</u>	<u>\$ 9,491,650</u>	<u>\$ 15,715,673</u>

See notes to financial statements.

HAWTHORNE VALLEY ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS
For the years ended August 31, 2021 and 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 2,255,791	\$ (60,085)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Contributions restricted for acquisition of land, buildings, and equipment	(20,000)	(75,000)
Depreciation	466,058	475,335
Forgiveness of PPP loan	(1,369,976)	-
Forgiveness of note payable recorded as a contribution	(200,000)	-
Loss on investment in equity method investment	139,514	-
Loss on investment in subsidiary	-	595,652
Gain on sale of equipment	(11,000)	-
Bad debt provision	33,019	72,822
Realized gain on sale of investments	(1,261)	(90,834)
Unrealized (gain) loss on investments	(31,410)	59,230
Deferred taxes	(41,855)	(107,687)
Changes in Assets/Liabilities:		
Accounts receivable	43,420	(175,575)
Pledges receivable	25,000	75,000
Grants receivable	(309,542)	(5,000)
Other receivables	56,913	(56,913)
Inventories	12,587	(59,823)
Prepaid expenses	(12,232)	20,285
Accounts payable	(108,714)	(55,296)
Accrued expenses and other liabilities	(90,568)	54,877
Payroll, sales tax and related payables	54,955	(7,181)
Due to related party, net	(594)	4,180
Deferred revenue	432,309	5,410
Net cash provided by operating activities	1,322,414	669,397
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of land, building and equipment	(362,672)	(453,706)
Proceeds from sale of equipment	18,013	-
Maturity of certificate of deposit	250,832	-
Purchase of certificate of deposit	-	(250,832)
Purchases of investments	(807,363)	(450,767)
Proceeds from sales of investments	40,933	1,054,156
Net cash used for investing activities	(860,257)	(101,149)

See notes to financial statements.

HAWTHORNE VALLEY ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS (CONTINUED)
For the years ended August 31, 2021 and 2020

	2021	2020
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from lines of credit	-	458,000
Payments on lines of credit	-	(982,000)
Proceeds from loans and notes payable	-	1,444,976
Payments on loans and notes payable	(233,928)	(475,077)
Contributions restricted for acquisition of land, buildings, and equipment	20,000	75,000
Net cash (used for) provided by financing activities	(213,928)	520,899
NET INCREASE IN CASH AND CASH EQUIVALENTS	248,229	1,089,147
CASH AND CASH EQUIVALENTS, Beginning of year	1,445,189	356,042
CASH AND CASH EQUIVALENTS, End of year	\$ 1,693,418	\$ 1,445,189
RECONCILIATION OF TOTAL CASH AND CASH EQUIVALENTS		
Cash and cash equivalents	\$ 1,683,793	\$ 1,437,295
Cash and cash equivalents - restricted for endowment	9,625	7,894
	\$ 1,693,418	\$ 1,445,189
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for:		
Interest	\$ 59,414	\$ 107,062
Income taxes	\$ 250	\$ 250
Non-cash activities:		
Donated investments	\$ -	\$ 4,784
Fixed assets in accounts payable	\$ -	\$ 10,307
Tax receivable and deferred tax items	\$ -	\$ 358

See notes to financial statements.

HAWTHORNE VALLEY ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
August 31, 2021 and 2020

NOTE 1 – NATURE OF OPERATIONS & SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Hawthorne Valley Association, Inc. (“HVA” or the “Association”) is a non-profit organization engaged in the establishment and maintenance of a rural institution that affords recreational, vocational and educational opportunities and aids students in developing practical trades and skills. The instruction is based upon the pedagogical principles and methods of Rudolf Steiner (or Waldorf Schools).

The program activities of HVA include:

- *Education* – this program is comprised of the following sub-programs:
 - School: consists of the operation of a Waldorf school for Pre-K through 12th grade that utilizes the methods of Rudolf Steiner and the Earth Program, which is an alternative full day program offering hands-on discovery learning in a small, mixed age setting;
 - Alkion Center for Adult Education: Grounded in the path of inner development outlined by Rudolf Steiner, educational offerings to adults at the center strive to awaken the individual to the working of the spirit in human beings, nature, and society;
 - Place Corps: A residential gap year program that cultivates a calling to know, love and serve our places.
- *Visiting Schools and Camps* – this program offers intern and counselor positions to young adults who work with students from urban and suburban schools, from 3rd grade to 12th grade, who come to farm during the school year and work with the animals alongside HVA’s farmers.
- *Research and Other* – this program is comprised of the following sub-programs:
 - Institute for Mindful Agriculture: Re-shape of agricultural theory and practice, creating strong connections from the people to their sustenance and a world where food is grown in active dialogue;
 - Center for Social Research: Strives to promote social health by supporting freedom and choice in cultural life, equality and democracy in political life, and associative cooperation in economic life;
 - Walking the Dog Theater: Creates events that inspire, entertain, and build community while engaging children, youth, and adults in their own creative potential;
 - Farmscape Ecology: A participatory research and outreach program that fosters compassion for the ecological and cultural landscape of Columbia County, New York;
 - Free Columbia: An art and social change initiative that creates independent and accessible educational and artistic opportunities through art courses, exhibitions, lectures, and more;
 - Adonis: Publishes and distributes books on phenomenological science, poetry, essays, and a selection of translated works;
 - Long Table Harvest: Gleans produce from area farms for distribution to food pantries;
 - Light Forms: an Art Center offering public presentations, exhibitions, installations, workshops, and performances, an artist-in-residence program, publications, and a small gift shop.

HAWTHORNE VALLEY ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
August 31, 2021 and 2020

NOTE 1 – NATURE OF OPERATIONS & SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Research and Other (Continued)

During the year ended August 31, 2020, the Institute for Mindful Agriculture and Free Columbia programs became their own separate entities unaffiliated with the Association. During the year ended August 31, 2021, the Long Table Harvest program became its own separate entity unaffiliated with the Association.

The business enterprises of HVA include:

- *Store, Farm and Dairy Operations* – The Association operates an organic/natural foods and grocery store that is open to the public along with a biodynamic farm and dairy operation at its location in Ghent, NY. In addition, the Association operated the Rolling Grocer 19 in Hudson, NY, a retail grocery initiative using tiered pricing to address food accessibility for people at all income levels, through the month ended June 30, 2021. Starting July 2021, the Rolling Grocer operations were taken over by another local farm. Turose, a gift and school supply store, is also operated by the Organization at their main campus in Ghent, NY.

Basis of Accounting:

The financial statements of the Association have been prepared on the accrual basis of accounting, in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP). Under this method of accounting, revenue is recognized when earned and when the amounts and timing of the revenue can be reasonably estimated. Expenses are recognized when they are incurred.

Financial Statement Presentation:

The financial statements are presented in accordance with the Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) 958, Not-for-Profit Entities.

Under the provisions of ASC 958, net assets and revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Association and changes therein are classified as follows:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed stipulations and may be expended for any purpose in performing the primary objectives of the Association. The Association's board may designate assets without restrictions for specific operational purposes from time to time.

Net assets with donor restrictions – Net assets subject to stipulations by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Association or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Revenues are reported as increases in net assets without restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without restrictions unless their use is restricted by explicit donor stipulation or by law.

HAWTHORNE VALLEY ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
August 31, 2021 and 2020

NOTE 1 – NATURE OF OPERATIONS & SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Contributions:

Unconditional contributions are recognized when pledged and recorded as support with or without restriction, depending on the existence and/or nature of any donor-imposed restrictions. Conditional promises to give are recognized when the conditions on which they depend are substantially met. As of August 31, 2020, the Association had a conditional grant from a foundation for \$350,000, which was received in full during the year ended August 31, 2021. Gifts of cash and other assets are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets.

When a restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as support without donor restrictions. Donations of property and equipment are recorded as support at their estimated fair value at the date of donation.

Contributions restricted for the acquisition of land, buildings, and equipment are reported as net assets without restriction upon acquisition of the assets and the assets are placed in service.

No amounts have been reflected in the financial statements for donated services because the criteria for recognition under (FASB) Accounting Standards Codification (ASC) 958-605 have not been satisfied. The Association pays for services requiring specific expertise.

The accounting standards update issued by FASB “Not-for-Profit Entities: Classification of the Sale of Donated Financial Assets in the Statement of Cash Flows” requires not-for-profit entities to classify cash receipts without restriction from the sale of donated financial assets that were nearly immediately converted into cash as cash inflows from operating activities. Cash receipts in which the donor restricts the use of contributed resources to long-term purposes should be classified as cash flows from financing activities.

Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles 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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes:

Hawthorne Valley Association, Inc. is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC). However, income from certain activities not directly related to the Association’s tax-exempt purpose is subject to taxation as unrelated business income.

HAWTHORNE VALLEY ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
August 31, 2021 and 2020

NOTE 1 – NATURE OF OPERATIONS & SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Income Taxes (Continued):

The Association utilizes the method of accounting for income taxes set forth in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740 *Income Taxes*. Deferred income tax assets and liabilities are computed annually for differences between the financial statements and the tax basis of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable or refundable for the period plus or minus the change in deferred tax assets and liabilities.

The Association has evaluated any uncertain tax positions and related income tax contingencies and determined uncertain positions, if any, are not material to the financial statements, according to FASB ASC 740-10. Penalties and interest assessed by income taxing authorities are included in operating expenses, if incurred. None of the Association's returns are currently under examination.

Cash and Cash Equivalents:

For purposes of the statement of cash flows, cash and cash equivalents include cash in banks, money market accounts, and highly liquid investments with maturities of three months or less at the time of acquisition. Cash and cash equivalents representing investment funds are included in investments.

Inventories:

Inventories of HVA consist of primarily finished goods comprised of food/store items, books, and supplies and are stated at the lower of cost or net realizable value, with cost determined on a first-in, first-out basis.

Investments Accounted for Using the Equity Method:

Investments accounted for using the equity method include investments in Whitethorne. Whitethorne is a modern fermentation and packing facility in Hudson, New York. As of August 31, 2021 and 2020, the Association owned 5.18% or 16,332.08 and 7.68% or 16,332.08 of the Class A-2 units, respectively, of Whitethorne. In addition, for both years ended August 31, 2021 and 2020, the Association owned 100% or 71,210.99 of the Class B units of Whitethorne. As a result, the Association's net membership interest in Whitethorne as of the years ended August 31, 2021 and 2020 was 22.64% and 32.72%, respectively. The total assets, liabilities, and members' equity for Whitethorne as of and for the year ended August 31, 2021 were \$2,758,901, \$1,561,168, and \$1,197,733, respectively. The total assets, liabilities, and members' equity for Whitethorne as of and for the year ended August 31, 2020 were \$2,660,064, \$1,936,067, and \$723,997, respectively.

When the Association demonstrates significant influence over the investee, the equity method of accounting is applied. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. As of August 31, 2021 and 2020, 2 out of the 7 members of Whitethorne's board of managers are designated for management of the Association, with one of those positions unfilled as of the year ended August 31, 2021. This position was filled as of the year ended August 31, 2020.

HAWTHORNE VALLEY ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
August 31, 2021 and 2020

NOTE 1 – NATURE OF OPERATIONS & SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Investments Accounted for Using the Equity Method (Continued):

The operating results and assets and liabilities of investees are incorporated in these financial statements using the equity method of accounting. Under the equity method, an investment in an entity is initially recognized in the statement of financial position at cost and adjusted thereafter to recognize the Association's share of profit or loss and other comprehensive income of the entity as well as the distribution received, if any.

When necessary, the entire carrying amount of the investment is tested for impairment as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. The new cost basis cannot subsequently be written up to a higher value as a result of increases in fair value. The Association will apply the equity method of accounting to the new cost basis by recording the share of subsequent income or loss of the investee. Any impairment loss recognized forms part of the carrying amount of the investment (new cost basis). An impairment loss is recognized if deemed to be an other than temporary impairment (OTTI).

The Association discontinues the use of the equity method from the date when the Association ceases to have significant influence over an entity. When the Company retains an interest in the former entity, the Association measures the retained interest at fair value at that date. The difference between the carrying amount of the entity at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the investee is included in the determination of the gain or loss on disposal of the investee.

When an entity transacts with an investee, profits and losses resulting from the transactions with the investee are recognized in the Association's financial statements only to the extent of interests in the investee that are not owned by the Company.

Investments:

Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values based upon quoted market prices in the statement of financial position. Unrealized gains and losses, if any, are included in the change in net assets.

Nonmarketable securities include alternative investments such as a private foundation (RSF) and a retailer, which are recorded at cost in the absence of readily determinable public market values. The fair value of cost method investments is not estimated if there are no identified events or changes in circumstances that may have a significant adverse effect on the fair value of the investments. Management has determined that it is not practical to estimate the fair value of these investments. In accordance with FASB ASC 958-325 "Investments – Other", investments without readily determinable fair values are recorded at cost when purchased, or estimated fair value if contributed. In subsequent periods, these investments are to be recorded at the lower of cost or market value.

If it is determined that the investment's fair value is below cost, the Association must evaluate whether the investment has been impaired. If it is determined that an other than temporary impairment loss has occurred, the carrying value of the investment should be written down to the estimated fair value. Once the investment is written down, the new value becomes the new cost basis and is not to be written back up for subsequent increases in estimated fair value.

HAWTHORNE VALLEY ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
August 31, 2021 and 2020

NOTE 1 – NATURE OF OPERATIONS & SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Investments (Continued):

Investment returns (including realized and unrealized gains and losses on investments, interest and dividends, net of related investment management fees) is included in the statement of activities as increases or decreases in net assets without restriction unless donor or law restricts the income or loss. The Association's RSF investment currently earns 1% interest and can be liquidated without penalty on a quarterly basis.

Investments are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with these securities and the level of uncertainty related to changes in their value, it is at least reasonably possible that changes in risks in the near term would materially affect account balances and the amounts reported in the statement of financial position and the statement of activities.

Net appreciation (depreciation) in the fair value of investments, which consists of the realized gains or losses and the unrealized appreciation (depreciation) on those investments, is presented in the statement of activities as net assets with restriction, as those investments relate to the restricted endowment. Realized gains (losses) are presented net of investment fees. The average cost method is primarily used to determine the basis for computing realized gains or losses.

Fair Value Measurement:

Financial Accounting Standards Board (FASB) ASC 820-10 "Fair Value Measurements" defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. FASB ASC 820-10 does not require any new fair value measurements but applies to other GAAP accounting pronouncements that use fair value as a relevant measurement attribute. See Note 3 for disclosures required by FASB ASC 820-10.

Investments are measured at fair value on a recurring basis. In accordance with FASB ASC 820-10, fair value measurements are identified as Level 1, Level 2, or Level 3. Level 1 fair value is based on quoted prices in active markets for identical assets/liabilities. Level 2 fair value is based on significant other observable inputs. Level 3 fair value is based on significant unobservable inputs. There are no Level 2 or Level 3 inputs for the years ended August 31, 2021 and 2020.

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

- Certificates of deposit are recorded at their carrying value, which approximates fair value.
- Mutual fund investments are invested in short-term bonds traded on active markets, which are recorded at their fair value.
- Equity securities investments are principally valued at the regular trading session closing price on the exchange market in which such securities are principally traded, using the market approach.
- Fixed income securities are recorded at their quoted market prices and are considered to be traded in an active market due to the high level of daily trading volume.

The Association believes its valuation methods are appropriate and consistent with other market participants. The use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

HAWTHORNE VALLEY ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
August 31, 2021 and 2020

NOTE 1 – NATURE OF OPERATIONS & SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Land, Buildings, Equipment and Depreciation:

Property assets are those assets used in the operations of the Association. They are recorded at cost, or if donated, at the estimated fair market value at the date of donation. Depreciation is recorded using the straight-line method at various rates calculated to allocate the cost of the respective items over their useful lives.

Revenue Recognition:

Tuition and fees revenue is earned over the academic year as services are provided. Sales of merchandise are recorded at the point of sale and collection is probable.

Deferred income and other deferred amounts consist of deferred tuition, deferred program deposits and other unearned revenue items. Deferred tuition as of August 31, 2021 represents payments received during the year then ended for the Fall 2021 through Spring 2022 school year. Deferred tuition as of August 31, 2020 represents payments received during the year then ended for the Fall 2020 through Spring 2021 school year. Amounts will be recognized as tuition revenues over the school year pro rata when earned. Program deposits are payments received for programs, which will take place at a future date. Amounts will be recognized as revenue when the programs take place.

Certain revenue is earned on cost reimbursable type contracts as services are provided and expenses are incurred to carry out the objectives of the related contractual arrangements. Cost reimbursable contract revenue is recognized only to the extent the contract allows for the related costs incurred by the Association and cannot exceed the maximum amount allowed for under the contract.

Funds advanced to the Association prior to the earnings process are deferred in the accompanying statement of financial position. Revenue earned in excess of payments received from the government agency is accrued when necessary. As of August 31, 2021 and 2020, no amounts have been deferred related to government contracts.

Concentrations of Credit Risk:

Financial instruments that potentially expose the Association to concentrations of credit risk consist principally of cash and cash equivalents and accounts receivable. Cash is maintained at Federal Deposit Insurance Corporation (FDIC) insured financial institutions. The Association has not experienced any losses on its cash. As of August 31, 2021, the Association's cash balances at financial institutions exceeded FDIC insurance limits by approximately \$1,172,000. The Association does not believe it is exposed to any significant credit risk on cash and cash equivalents. Based on management's review of the strength of the financial institutions management feels the risk of loss on its cash balances are minimal.

The Association had \$9,625 and \$7,894 restricted for endowment classified as long-term at August 31, 2021 and 2020, respectively.

The Association extends credit to its students on an annual basis. Collateral is not required. Management bills the student two months prior to the opening of each school year. Generally, if tuition for the preceding school term has not been fully paid, the student is denied matriculation. Annually, management reviews uncollectible receivables on an individual basis in its ongoing review of its allowance for doubtful accounts. Management considers factors such as payment history, financial background of parents, family challenges, and expected future ability to pay in determining the specific allowance.

HAWTHORNE VALLEY ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
August 31, 2021 and 2020

NOTE 1 – NATURE OF OPERATIONS & SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Concentration and Credit Risks (Continued):

Receivables will be written off by management after all collection efforts are exhausted and future attendance is unlikely. Management feels based on this process that the allowance is adequate to cover future losses.

The Association reviews all outstanding pledges as of the end of the fiscal year for collectability. Reserves are established when management has determined that collection is not probable taking into account payment history and conversations with the donors.

Endowments:

In July 2006, the Uniform Law Commission (ULC) approved the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as a modernized version of the Uniform Management of Institutional Funds Act of 1972 (UMIFA), the model act, in which most states and the District of Columbia have based their primary laws governing the investment and management of donor-restricted endowment funds by not-for-profit organizations. New York State adopted its version of UPMIFA in September 2010. FASB ASC 958-205 "Endowments of Not-for-Profit Organizations" provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of UPMIFA. This standard also improved disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds), whether or not the organization is subject to UPMIFA.

Advertising Costs:

Advertising costs are generally expensed as incurred. Advertising and promotional expense was \$82,753 and \$83,466 for the years ended August 31, 2021 and 2020, respectively.

Functional Expenses:

The costs of providing program and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs, including employee benefits and payroll taxes, repairs and maintenance, utilities, telephone, insurance, and depreciation are allocated by management using an allocation methodology based on estimated time worked by personnel in each category. Management believes these allocations have been made on a reasonable basis. All other expenses are reported to each program and support function based on actual expenses incurred.

Measure of Operations:

The statement of activities reports all changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consist of those items attributable to the Association's ongoing activities. Non-operating activities are limited to resources that generate return from investments, endowment contributions, financing costs, and other activities considered to be of a more unusual or nonrecurring nature.

Risks and Uncertainties:

On March 11, 2020, the World Health Organization declared COVID-19 a pandemic.

The School re-opened in September 2020 as scheduled, with COVID precautions in place. Outside tents were put up for use as classrooms, as long as the weather permitted.

HAWTHORNE VALLEY ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
August 31, 2021 and 2020

NOTE 1 – NATURE OF OPERATIONS & SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Risk and Uncertainties (Continued):

In April 2020, the Association received a loan in the amount of \$1,369,976 from its bank through the Small Business Administration's (SBA) Paycheck Protection Program (PPP). This loan allowed to Association to retain a full workforce. See Note 8 for further discussion on this loan. In June 2021, the loan, including principal and interest, was forgiven and considered repaid in full. The balance has been recorded as forgiveness of paycheck protection program (PPP) loan on the statement of activities for the year ended August 31, 2021.

According to the rules of the SBA, the Association is required to retain PPP loan documentation for six years after the date the loan is forgiven or repaid in full, and permit authorized representatives of the SBA, including representatives of its Office of Inspector General, to access such files upon request. Should the SBA conduct such a review and reject all or some of the Association's judgments pertaining to satisfying PPP loan eligibility or forgiveness conditions, the Association may be required to adjust previously reported amounts and disclosures in the financial statements.

As the pandemic continues to persist, the disease could have an adverse material effect on the Association's activities, results of operations, financial condition, and cash flow.

Subsequent Events:

Subsequent events have been evaluated through March 2, 2022, which is the date the financial statements were available to be issued.

NOTE 2 – ACCOUNTS RECEIVABLE

Accounts receivable are comprised of the following as of August 31:

	<u>2021</u>	<u>2020</u>
Accounts receivable	\$ 445,250	\$ 504,689
Allowance for doubtful accounts	(77,000)	(60,000)
Net accounts receivable	<u>\$ 368,250</u>	<u>\$ 444,689</u>

Accounts receivable are reported net of provisions for doubtful accounts.

Other receivables as of August 31, 2020 represented amounts due back from the government for reimbursement of self-insurance unemployment expenses as authorized by the CARES Act.

NOTE 3 – INVESTMENTS

Investments are comprised of the following as of August 31, 2021:

	<u>Cost</u>	<u>Unrealized Gain</u>	<u>Fair Value</u>	<u>FASB ASC 820-10 Measurements</u>
Mutual funds	\$ 536,336	\$ 2,436	\$ 538,772	Level 1
Equity securities	100,180	50,734	150,914	Level 1
Rudolf Steiner Foundation (RSF)	252,911	-	252,911	N/A - Cost
Retailer	18,832	-	18,832	N/A - Cost
	<u>\$ 908,259</u>	<u>\$ 53,170</u>	<u>\$ 961,429</u>	

HAWTHORNE VALLEY ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
August 31, 2021 and 2020

NOTE 3 – INVESTMENTS (Continued)

Investments are comprised of the following as of August 31, 2020:

	Cost	Unrealized Gain	Fair Value	FASB ASC 820-10 Measurements
Mutual funds	\$ 32,299	\$ 313	\$ 32,612	Level 1
Equity securities	87,250	21,447	108,697	Level 1
Rudolf Steiner Foundation (RSF)	2,187	-	2,187	N/A - Cost
Retailer	18,832	-	18,832	N/A - Cost
	<u>\$ 140,568</u>	<u>\$ 21,760</u>	<u>\$ 162,328</u>	

During the years ended August 31, 2021 and 2020, the Association recognized an unrealized gain (loss) of \$31,410 and (\$59,230), respectively.

The Retailers investment had no activity during the year ended August 31, 2020 as a result of the investee changing its taxable entity status to a Subchapter T organization with the IRS. In the year in which the organization changes its taxable status to a Subchapter T organization, no allocations of income are made to investors.

The following is a summary of activity reflected in the Association's financial statements during the years ended August 31, 2021 and 2020 for RSF investment recorded at cost:

	RSF
Balance at August 31, 2019	\$ 2,168
Interest income earned	19
Balance at August 31, 2020	2,187
Purchases	250,189
Interest income earned	535
Balance at August 31, 2021	<u>\$ 252,911</u>

NOTE 4 – CERTIFICATES OF DEPOSIT

Certificates of deposit are recorded at carrying value, which approximates fair value, and are considered to be Level 1 fair value measurement type assets. The Association had \$250,832 invested in a certificate of deposit held with a financial institution as of August 31, 2020. The certificate of deposit had a term of six months and matured October 28, 2020 earning interest at a rate of 1.00%. Proceeds were reinvested into the RSF Social Finance investment.

NOTE 5 – INVENTORIES

Inventories are comprised of the following as of August 31:

	2021	2020
Dairy	\$ 180,120	\$ 167,677
Store	402,404	402,202
Turose (school store)	71,358	73,266
Rolling Grocer	-	24,506
Sauerkraut	10,727	9,545
Total Inventories	<u>\$ 664,609</u>	<u>\$ 677,196</u>

HAWTHORNE VALLEY ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
August 31, 2021 and 2020

NOTE 5 – INVENTORIES (Continued)

As of August 31, 2021 and 2020, the Dairy inventory is comprised of \$52,049 and \$38,075 of finished products, \$123,405 and \$122,646 of packaging materials, and \$4,666 and \$6,956, respectively of raw materials; the Store, Turose, Rolling Grocer and Sauerkraut inventories are comprised entirely of finished products.

NOTE 6 – LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, equipment and accumulated depreciation are comprised of the following as of August 31:

	<u>2021</u>	<u>2020</u>
Land	\$ 619,275	\$ 619,275
Construction-in-process	195,598	27,013
Building and improvements	12,622,159	12,586,165
Furniture and fixtures	663,802	663,798
Equipment	2,581,229	2,500,714
Vehicles	257,492	257,492
	<u>16,939,555</u>	<u>16,654,457</u>
Accumulated depreciation	<u>(9,178,951)</u>	<u>(8,773,147)</u>
	<u>\$ 7,760,604</u>	<u>\$ 7,881,310</u>

Depreciation expense was \$466,058 and \$475,335 for the years ended August 31, 2021 and 2020, respectively.

Construction-in-process consists of the following as of August 31:

	<u>2021</u>	<u>2020</u>
Greenhouse	\$ 82,665	\$ 18,602
Future building	8,411	8,411
Future fence work	4,550	-
Water project equipment	18,100	-
Vegetable wash room	3,699	-
Checkout renovation	29,736	-
Refrigeration and bakery	26,337	-
Warehouse updates	7,000	-
School pavilion	15,100	-
	<u>\$ 195,598</u>	<u>\$ 27,013</u>

HAWTHORNE VALLEY ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
August 31, 2021 and 2020

NOTE 7 – NOTES PAYABLE

Notes payable to individuals are comprised of \$866,000 and \$1,140,116 as of August 31, 2021 and 2020, respectively, which were received from various local individuals, foundations, and other entities. Notes payable to individuals are unsecured notes with various interest rates (2.00% to 3.00%) and maturity dates due between 2022 and 2025.

As of August 31, 2021, the aggregate minimum annual maturities of notes payable are as follows:

2022	\$	406,000
2023		370,000
2024		50,000
2025		40,000
	\$	<u>866,000</u>

During the year ended August 31, 2021, \$200,000 of note principal was forgiven by the lender and recorded as a forgiveness of debt contribution on the statement of activities.

NOTE 8 – LONG-TERM DEBT

Long-term debt is comprised of the following as of August 31:

	2021	2020
NOVO Foundation - Note payable, maturing June 2027 (a)	\$ 750,000	\$ 874,407
Bank of Greene County - Note payable, maturing June 2024 (b)	12,848	16,960
The Bank of Greene County - Note Payable, maturing February 2031(c)	96,499	104,434
USDA - Note Payable, maturing September 2025 (d)	22,500	27,819
The Bank of Greene County - Note Payable, maturing December 2022 (e)	24,880	42,919
Key Bank National Association - Note payable, maturing April 2022 (f)	-	1,369,976
Total debts	<u>906,727</u>	<u>2,436,515</u>
Less: current maturities of long-term debt	165,288	1,671,926
Total long-term debt, net of current maturities	<u>\$ 741,439</u>	<u>\$ 764,589</u>

- a. The NOVO Foundation loan, which was amended during the year ended August 31, 2021, is collateralized by the Association's real property in the towns of Hillsdale, Austerlitz and Ghent in Columbia County, New York. The loan requires quarterly payments of principal and interest of \$38,317 through May 2027 with one final payment of principal and interest of \$21,630 to be made in June 2027. The interest rate for the loan is fixed at 3.5% per annum.
- b. The Bank of Greene County note payable is collateralized by the bale wrapper that was purchased with the proceeds from the note. The note payable requires monthly payments of \$406 for the life of the note through June 2024. The interest rate is fixed at 4.99% per annum.
- c. The Bank of Greene County note payable is collateralized by real property. The note payable requires monthly payments of \$1,045 for the life of the note through February 2031. The interest rate on the loan is fixed at 4.50% per annum.

HAWTHORNE VALLEY ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
August 31, 2021 and 2020

NOTE 8 – LONG-TERM DEBT (Continued)

- d. United States Department of Agriculture note is collateralized by a building and equipment located at the property on Schnackenberg Road in Ghent, NY. The note payable requires annual payments of principal and interest of \$5,945 over the 7-year life of the note to commence on the anniversary date of the note payable, which was September 17, 2017. Interest rate for the note is 2.25% per annum.
- e. Bank of Greene County note is collateralized by first lien on the vehicle purchased with the note proceeds. The note payable requires monthly payments of principal and interest of \$1,610 to begin on January 1, 2018 and continue until the note's maturity date of December 1, 2022. Interest on the note is fixed at 4.24% per annum.
- f. The Association received a \$1,369,976 PPP (the "Program) Loan from Key Bank during the year ended August 31, 2020 under the SBA in response to the CARES Act. The loan was forgiven in full by the SBA in June 2021.

At August 31, 2021, the aggregate minimum annual maturities of long-term debt are as follows:

2022	\$	165,288
2023		158,425
2024		156,732
2025		158,214
2026		116,657
Thereafter		151,411
Total	\$	<u>906,727</u>

The Association has the following lines of credit available at August 31, 2021:

<u>Bank</u>	<u>Amount of Line</u>	<u>Unused</u>	<u>Interest Rate</u>	<u>Collateral</u>	<u>Maturity</u>
Bank of Greene County	\$ 500,000	\$ 500,000	Prime + 1%	All assets	4/1/2022
Sandy River Charitable Foundation (SRCF)	250,000	250,000	5%	None	3/31/2023
Key Bank	175,000	175,000	Prime + 1%	None	N/A
Bank of Greene County	30,000	30,000	Prime + 2%	All assets	4/1/2022

As of the year ended August 31, 2020, these same lines of credit were available to the Association. No balances were outstanding on these lines of credit as of August 31, 2020.

NOTE 9 – EMPLOYEE BENEFITS PLAN

Retirement Plan:

HVA contributes to the "Hawthorne Valley Association Retirement Plan" a tax deferred annuity plan defined under Code Section 403(b) (1) of the Internal Revenue Code. HVA has the option of making matching contributions. The contributions are discretionary and the amount of any matching contributions can be determined separately for each division of HVA. During the years ended August 31, 2021 and 2020, HVA contributed \$87,728 and \$83,941, respectively, which were a payable at each year-end.

HAWTHORNE VALLEY ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
August 31, 2021 and 2020

NOTE 9 – EMPLOYEE BENEFITS PLAN (Continued)

Medical Plan:

HVA has a partially self-insured health insurance program that covers all eligible employees. The plan is liable up to \$6,650 per year per covered person, \$13,300 per family. A third-party insurance policy covers all claims above these limits. The medical plan is funded by contributions from the various departments within HVA. The medical plan expense, including insurance claims paid, for the years ended August 31, 2021 and 2020 was \$538,172 and \$600,123, respectively.

Dental and Life Plan:

HVA has a dental plan and life insurance for all eligible employees. Life insurance coverage is for \$50,000. Total dental and life insurance premiums for the years ended August 31, 2021 and 2020 was \$72,857 and \$78,280, respectively.

NOTE 10 – OPERATING LEASES

HVA has various operating leases including two operating leases for office equipment, four building leases and one operating lease for a vehicle. The vehicle lease expense for 2021 and 2020 was \$21,894 and \$22,186, respectively, and is included as a component of “vehicle repairs, fuel and rentals” on the statement of functional expenses. Rent expense for 2021 and 2020 related to other operating leases totaled \$140,323 and \$111,100, respectively.

Future lease commitments are as follows:

2022	\$	41,320
2023		15,220
2024		14,920
	\$	<u>71,460</u>

NOTE 11 – NET ASSETS - MEDICAL RESERVES

The following shows the activity for the medical reserve for the years ended August 31:

Inflows:	2021	2020
Inter-departmental premiums received	\$ 617,739	\$ 701,478
Total inflows	<u>617,739</u>	<u>701,478</u>
Outflows:		
Medical plan expenses	445,783	512,443
Self insurance claims paid	92,389	87,681
Dental plan expenses	72,857	78,280
Administrative costs	21,804	19,901
Total outflows	<u>632,833</u>	<u>698,305</u>
Total changes in net assets	(15,094)	3,173
Beginning medical reserve net assets for unpaid claims	<u>446,619</u>	<u>443,446</u>
Ending medical reserve net assets for unpaid claims	<u>\$ 431,525</u>	<u>\$ 446,619</u>

HAWTHORNE VALLEY ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
August 31, 2021 and 2020

NOTE 12 – NET ASSET WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist for the following purposes as of August 31:

	<u>2021</u>	<u>2020</u>
Subject to expenditure for specified purpose:		
Farm	\$ 95,000	\$ 75,000
Education	32,720	87,841
Research and Other	62,607	265,958
	<u>190,327</u>	<u>428,799</u>
Subject to the passage of time:		
Pledges and grants receivable	-	200,000
Subject to the Association's spending policy and appropriation:		
Unspent endowment earnings	123,948	75,791
Donor restricted endowments (subject to spending policy and appropriations, net of accumulated earnings of \$123,948 and \$75,791, respectively):		
Investment in perpetuity	673,412	673,412
Total net assets with donor restriction	<u>\$ 987,687</u>	<u>\$ 1,378,002</u>

Releases from Donor Restricted Net Assets for the year ended August 31, are as follows:

	<u>2021</u>	<u>2020</u>
Subject to expenditure for specified purpose:		
Education	\$ 11,371	\$ 3,275
Research and Other	267,402	272,586
Subject to the passage of time:		
Pledges and grants receivable	200,000	170,000
Total releases from restrictions	<u>\$ 478,773</u>	<u>\$ 445,861</u>

NOTE 13 – NET ASSETS WITH DONOR RESTRICTIONS—ENDOWMENT FUNDS

The Association's endowment consists of one fund held with an institutional investment company. The endowment includes donor-restricted endowment funds which are classified and reported based on the existence or absence of donor-imposed restrictions. The Board of Trustees of the Association has interpreted the New York State Prudent Management of Institutional Funds Act ("NYSPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Association classifies as net assets with donor restrictions (a) the original value of gifts donated to permanent endowment, and (b) the original value of subsequent gifts to the permanent endowment. With the adoption of NYSPMIFA during 2010, investment returned (dividends and interest, realized and unrealized appreciation or depreciation) net or related investment management fees on the endowment fund investments are classified as net assets with donor restrictions. If the Board of Trustees decides that operating cash flows are sufficient to cover the annual scholarships and tuition assistance, earnings are generally reinvested. Periodically, the Board of Trustees will appropriate a portion of the accumulated earnings for expenditure based on the Association's spending policy. To the extent the fair value of endowment assets is lower than the original corpus (historic dollar amount) of the gifts permanently restricted, the Association does not spend annual investment return. The Association reinvests realized earnings until the realized earnings accumulate to a reasonable amount above the original historic dollar amount. To the extent endowments are "underwater", unrestricted net assets are adjusted for such unrealized and realized investment return annually.

HAWTHORNE VALLEY ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
August 31, 2021 and 2020

NOTE 13 – NET ASSETS WIT DONOR RESTRICTIONS – ENDOWMENT FUNDS (Continued)

Return Objectives and Risk Parameters

The Association’s Board of Trustees has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to supplement annual third-party contributions and maintain the purchasing power of the endowment assets. Under this policy, as approved by the investment committee, the endowment assets are invested in a manner that is intended to produce results that compare to the price and yield results of the S&P 500 while assuming a moderate level of investment risk. The Association expects its endowment fund, over time, to provide an average rate of return sufficient to cover the Organization’s spending plan over the long-term.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Association 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 Association targets a diversified asset allocation that provides a mixture of equity-based and fixed income investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Association has a policy of reinvesting dividends and interest income earned on an annual basis as long as unrestricted donations received for support and the School’s operating cash flows are sufficient to cover annual financial aid awarded. Earnings are also reinvested to the extent investments are below their historic dollar amounts. The Association’s investment committee reviews the fair market value of endowment investments plus reinvested unspent income in relationship to the funds historic dollar amount to further ensure investment growth. In establishing this policy, the Association considers the long-term expected return on its endowment. Accordingly, over the long-term, the Association expects the current spending policy to allow its endowment to grow. This is consistent with the Association’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.

Endowment composition by type of fund as of August 31, 2021 is:

	<u>With Donor Restriction</u>
Donor-Restricted Endowment Funds:	
Original donor-restricted gift amounts and amounts required to be maintained in perpetuity by donor	\$ 673,412
Accumulated investment gains	123,948
Total donor-restricted endowment funds	<u>\$ 797,360</u>

HAWTHORNE VALLEY ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
August 31, 2021 and 2020

NOTE 13 – NET ASSETS WITH DONOR RESTRICTIONS – ENDOWMENT FUNDS (Continued)

Endowment composition by type of fund as of August 31, 2020 is:

	<u>With Donor Restriction</u>
Donor-Restricted Endowment Funds:	
Original donor-restricted gift amounts and amounts required to be maintain in perpetuity by donor	\$ 673,412
Accumulated investment gains	<u>75,791</u>
Total donor-restricted endowment funds	<u><u>\$ 749,203</u></u>

Change in endowment net assets for the years ended August 31, 2021 and 2020 is as follows:

	<u>With Donor Restriction</u>
Beginning balance, September 1, 2020	\$ 715,084
Investment returns, net	28,198
Reclassifications into the endowment	<u>5,921</u>
Beginning balance, August 31, 2020	749,203
Investment returns, net	39,157
Reclassifications into the endowment	<u>9,000</u>
Ending balance, August 31, 2021	<u><u>\$ 797,360</u></u>

On February 1, 2020, the Board resolved to provide a \$600,000 loan from the main Association department to the School department. The funds for this loan were provided from the endowment. The inter-department loan accrues interest at a fixed rate of 1.5% per annum and matures on February 1, 2033. The loan will accrue interest only for the first 2 years of the loan, at which point the School will begin to make 10 annual payments of principal and interest of \$65,060 to the Association until maturity.

During the years ended August 31, 2021 and 2020, interest of \$9,000 and \$5,921, respectively, was paid on the loan. The interest was classified as a reclassification from net assets without donor restrictions to net assets with donor restrictions – endowment in accordance with the agreement.

Endowment fund balance is comprised of the following as of August, 31:

	<u>2021</u>	<u>2020</u>
Investments	\$ 187,735	\$ 141,309
Inter-department loan	600,000	600,000
Cash and cash equivalents - restricted for endowment	<u>9,625</u>	<u>7,894</u>
	<u><u>\$ 797,360</u></u>	<u><u>\$ 749,203</u></u>

NOTE 14 – BUSINESS ENTERPRISES

During the years ended August 31, 2021 and 2020, the Association was involved with several different business activities considered to be unrelated to its not-for-profit mission. These activities consist of the operations related to an on-site farm, creamery, greenmarket, bakery, and store. The income generated from these activities net of related expenses is subject to income taxes per the Internal Revenue Code at the applicable corporate income tax rate for the fiscal year.

HAWTHORNE VALLEY ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
August 31, 2021 and 2020

NOTE 15 – RELATED PARTY

Because the Association possesses the highest ownership stake in and retains a position of significant influence over Whitethorne, transactions between the two entities are considered to be related party activity. In addition to the ownership and significant influence aspects, the Association is a guarantor of all the debts of Whitethorne.

The following reflects balances each party owes to the other as of August 31:

	2021	2020
Amounts owed to the Association by Whitethorne	\$ -	\$ 67
Amounts owed to Whitethorne by the Association	<u>12,461</u>	<u>13,122</u>
Due to related party, net	<u>\$ 12,461</u>	<u>\$ 13,055</u>

The Association includes its share of Whitethorne’s operating losses in nonoperating activities on the statement of activities as losses from equity investments. The Association recognized a net loss of \$139,514 and \$338,244 as result of its ownership interest in Whitethorne for the years ended August 31, 2021 and 2020, respectively. In addition, due to the decrease in unit value of Class A shares for Whitethorne, an OTTI loss of \$257,428 was recognized for the year ended August 31, 2020.

During the year ended August 31, 2020, the Association recognized \$283,723 resulting from reimbursements from Whitethorne for the Association’s payment of payroll for Whitethorne leased employees.

NOTE 16 – LIQUIDITY

The Association’s financial assets available within one year of August 31, 2021 for general expenditure are as follows:

Current financial assets at year-end:	
Cash and cash equivalents	\$ 1,683,793
Investments, at cost	252,911
Investments, at fair value	501,951
Accounts receivable, net	368,250
Grants receivable	<u>484,542</u>
Total financial assets	<u>3,291,447</u>
Less: Amounts unavailable for general expenditures within one year, due to:	
Restricted by donors with purpose restrictions	<u>(95,327)</u>
Financial assets available to meet cash needs for general expenditure within one year	<u>\$ 3,196,120</u>

The Association’s financial assets have been reduced by amounts not available for general use because of donor-imposed restrictions within one year of August 31, 2021.

The Association’s endowment funds consist of donor-restricted endowments. Earnings on the donor-restricted endowments are available for the Association’s use, but are subject to the Association’s spending and investment policies.

HAWTHORNE VALLEY ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
August 31, 2021 and 2020

NOTE 16 – LIQUIDITY (Continued)

As part of the Association’s liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, during the year ended August 31, 2021, the Association was able to refinance a note payable to the 2027 fiscal year.

In addition to the financial assets shown above, the Association also has several lines of credit with available balances that it can draw upon for financing purposes should the need arise. See Note 8 for a description of these lines of credit and the amount of unused funds on each available line of credit as of August 31, 2021.

NOTE 17 – INCOME TAXES

The components of income tax expense were as follows for the year ended August 31,:

	<u>2021</u>	<u>2020</u>
Current:		
Federal	\$ -	\$ 278
State	250	80
	<u>250</u>	<u>358</u>
Deferred:		
Federal	29,299	(75,381)
State	12,556	(32,306)
	<u>41,855</u>	<u>(107,687)</u>
Total benefit	<u>\$ 42,105</u>	<u>\$ (107,329)</u>

The Association had gross deferred tax assets (liabilities) as of August 31,:

	<u>2021</u>	<u>2020</u>
Taxes from investment in subsidiary	\$ (200,027)	\$ (241,882)
Net operating losses	<u>39,622</u>	<u>239,508</u>
Less valuation allowance	<u>(39,622)</u>	<u>(239,508)</u>
Net deferred tax liability	<u>\$ (200,027)</u>	<u>\$ (241,882)</u>

The Association had Federal and New York State net operating loss carryforwards of approximately \$39,622 as of August 31, 2021, related to its Store, Farm, Bakery, Greenmarket and Dairy operations and Whitethorne investment, which have been fully reserved for in the Association’s valuation allowance. These net operating loss carryforwards are set to expire in the years ending August 31, 2038 to August 31, 2040. The Association plans to make consistent estimated payment on the taxes it owes from the Store, Farm, Bakery, and Greenmarket sales it earns throughout the year.

HAWTHORNE VALLEY ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
August 31, 2021 and 2020

NOTE 18 – ALKION

The following table presents the balances for the Alkion program for the years ended August 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash and cash equivalents	\$ 55,951	\$ 58,624
Accounts receivable	22,734	24,962
Property and equipment, net	1,120	2,240
Total assets	<u>\$ 79,805</u>	<u>\$ 85,826</u>
LIABILITIES		
Deferred revenue	\$ 17,599	\$ 5,200
Total liabilities	<u>17,599</u>	<u>5,200</u>
NET ASSETS		
Net assets without donor restrictions	62,206	80,626
Total net assets	<u>62,206</u>	<u>80,626</u>
Total liabilities and net assets	<u>\$ 79,805</u>	<u>\$ 85,826</u>
REVENUES		
Tuition and fees, net	\$ 93,972	\$ 109,094
Donations	21,485	46,170
Other	1,460	3,148
Total revenues	<u>116,917</u>	<u>158,412</u>
EXPENSES		
Salaries and wages	82,853	77,570
Payroll taxes	6,254	5,906
Employee benefits	2,679	2,772
Non-employee compensation	7,331	5,668
General and administrative	18,096	36,350
Supplies	1,642	3,661
Marketing	1,505	2,556
Utilities	643	1,252
Repairs and maintenance	-	1,107
Postage	-	16
Dues and subscriptions	2,527	968
Travel	-	314
Conferences and meetings	140	657
Depreciation	1,120	1,120
Bad debt	10,547	-
Total expenses	<u>135,337</u>	<u>139,917</u>
Net (loss) income	<u>\$ (18,420)</u>	<u>\$ 18,495</u>