

**HAWTHORNE VALLEY ASSOCIATION, INC.**

**AUDITED FINANCIAL STATEMENTS**

As of and for the years ended August 31, 2022 and 2021

**HAWTHORNE VALLEY ASSOCIATION, INC.**

**TABLE OF CONTENTS**

	<b>Page</b>
<b>Independent Auditor's Report</b>	1
<b>Financial Statements</b>	
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.

### *Opinion*

We have audited the financial statements of Hawthorne Valley Association, Inc. (a non-profit organization), which comprise the statements of financial position as of August 31, 2022 and 2021, and 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 present fairly, in all material respects, the financial position of Hawthorne Valley Association, Inc. as of August 31, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### *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 Hawthorne Valley Association, Inc. and to meet our other ethical requirements, in accordance with the relevant ethical requirements relating to our audits. We believe that the 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 these 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 Hawthorne Valley Association, Inc.'s ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

### ***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. 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 audits.
- 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 Hawthorne Valley Association, Inc.'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 Hawthorne Valley Association, Inc.'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.

*UHY LLP*

Hudson, New York  
March 29, 2023

**HAWTHORNE VALLEY ASSOCIATION, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**August 31, 2022 and 2021**

	2022	2021
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,512,142	\$ 1,683,793
Investments, at cost	253,712	252,911
Investments, at fair value	496,076	501,951
Accounts receivable, net	217,217	368,250
Note receivable	2,122	-
Grants receivable	400,000	484,542
Inventories	652,511	664,609
Prepaid expenses	202,317	53,451
Total current assets	3,736,097	4,009,507
<b>NONCURRENT ASSETS</b>		
Land, buildings, and equipment, net	8,295,626	7,760,604
Note receivable, net of current portion	21,171	-
Investments, at fair value	154,736	187,735
Investments, at cost	12,563	18,832
Investment, equity method	506,444	666,759
Deposits	3,900	-
Cash and cash equivalents - restricted for endowment	542	9,625
Total noncurrent assets	8,994,982	8,643,555
Total assets	\$ 12,731,079	\$ 12,653,062
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 529,607	\$ 276,186
Accrued expenses and other liabilities	83,761	128,649
Payroll, sales tax and related payables	494,101	425,557
Deferred revenue	1,130,426	1,126,933
Due to related party, net	6,462	12,461
Current portion of long-term debt	147,515	165,288
Current portion of notes payable	241,000	406,000
Total current liabilities	2,632,872	2,541,074
<b>NONCURRENT LIABILITIES</b>		
Long-term debt, net	579,044	741,439
Notes payable, net	585,000	460,000
Deferred taxes	151,933	200,027
Total noncurrent liabilities	1,315,977	1,401,466
Total liabilities	3,948,849	3,942,540
<b>NET ASSETS</b>		
Without donor restrictions:		
Board designated-medical reserve	331,398	431,525
Undesignated	7,078,560	7,291,310
Total without donor restrictions	7,409,958	7,722,835
With donor restrictions	1,372,272	987,687
Total net assets	8,782,230	8,710,522
Total liabilities and net assets	\$ 12,731,079	\$ 12,653,062

**HAWTHORNE VALLEY ASSOCIATION, INC.**  
**STATEMENT OF ACTIVITIES**  
For the year ended August 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
<b>OPERATING ACTIVITIES</b>			
<b>REVENUE AND SUPPORT</b>			
Product sales, net	\$ 10,041,988	\$ -	\$ 10,041,988
Tuition and fees, net of tuition discount of \$2,670,360	3,434,727	-	3,434,727
Contributions, donations, and grants	849,844	524,167	1,374,011
Guests and conference income	493,369	-	493,369
Fundraising events	8,523	-	8,523
Rentals	25,091	-	25,091
Consulting and other services	387,511	-	387,511
Other income	97,639	-	97,639
Total revenue and support before releases	<u>15,338,692</u>	<u>524,167</u>	<u>15,862,859</u>
Net assets released from restrictions	2,500	(2,500)	-
Total revenue and support	<u>15,341,192</u>	<u>521,667</u>	<u>15,862,859</u>
<b>EXPENSES</b>			
Programs:			
Education	3,176,417	-	3,176,417
Visiting schools and camps	465,418	-	465,418
Research and other	750,784	-	750,784
Management, general, and administrative	2,136,162	-	2,136,162
Fundraising	221,666	-	221,666
Store, farm and dairy operations	9,009,535	-	9,009,535
Total expenses from operations	<u>15,759,982</u>	<u>-</u>	<u>15,759,982</u>
Change in net assets from operating activities	<u>(418,790)</u>	<u>521,667</u>	<u>102,877</u>
<b>NON-OPERATING ACTIVITIES</b>			
Contributions and grants	179,519	-	179,519
Interest income	7,100	-	7,100
Loss on equity method investment	(170,315)	-	(170,315)
Investment income (loss), net	(6,372)	(42,082)	(48,454)
Deferred tax benefit	48,094	-	48,094
Current tax expense	(492)	-	(492)
Interest expense	(46,621)	-	(46,621)
Net assets released from restrictions	95,000	(95,000)	-
Change in net assets from non-operating activities	<u>105,913</u>	<u>(137,082)</u>	<u>(31,169)</u>
<b>CHANGE IN NET ASSETS</b>	<u>(312,877)</u>	<u>384,585</u>	<u>71,708</u>
<b>NET ASSETS, Beginning of year</b>	<u>7,722,835</u>	<u>987,687</u>	<u>8,710,522</u>
<b>NET ASSETS, End of year</b>	<u>\$ 7,409,958</u>	<u>\$ 1,372,272</u>	<u>\$ 8,782,230</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
<b>OPERATING ACTIVITIES</b>			
<b>REVENUE AND SUPPORT</b>			
Product sales, net	\$ 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>
<b>EXPENSES</b>			
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>
<b>NON-OPERATING ACTIVITIES</b>			
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 income, net	-	39,158	39,158
Deferred tax benefit	41,855	-	41,855
Current tax expense	(250)	-	(250)
Interest expense	(51,715)	-	(51,715)
Reclassifications	(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>
<b>CHANGE IN NET ASSETS</b>	<u>2,646,106</u>	<u>(390,315)</u>	<u>2,255,791</u>
<b>NET ASSETS, Beginning of year</b>	<u>5,076,729</u>	<u>1,378,002</u>	<u>6,454,731</u>
<b>NET ASSETS, End of year</b>	<u>\$ 7,722,835</u>	<u>\$ 987,687</u>	<u>\$ 8,710,522</u>

**HAWTHORNE VALLEY ASSOCIATION, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**For the year ended August 31, 2022**

	Programs			Support Services		Business Enterprises		Total
	Education	Visiting Schools and Camps	Research and Other	Total Program	Management and General	Fundraising	Store, Farm and Dairy Operations	
Salaries	\$ 1,962,690	\$ 227,373	\$ 377,952	\$ 2,568,015	\$ 1,161,642	\$ 169,763	\$ 2,078,078	\$ 5,977,486
Employee benefits and payroll taxes	410,696	47,578	79,087	537,361	243,075	35,521	434,841	1,250,798
Non-employee contractors	85,705	1,319	887	87,911	2,997	-	160,097	251,005
Cost of products	-	-	55,889	55,889	-	-	4,793,193	4,849,082
Repairs and maintenance	70,530	50,889	2,276	123,695	126,858	-	173,390	423,943
Utilities	48,418	11,995	10,665	71,078	28,476	133	155,427	255,114
Insurance	109,468	24,201	4,644	138,313	18,513	-	120,993	277,819
Legal and accounting	7,726	-	-	7,726	87,888	-	2,357	97,971
Depreciation	67,262	15,475	2,947	85,684	269,526	-	229,348	584,558
Supplies	105,562	65,538	13,136	184,236	22,399	2,950	410,920	620,505
Vehicle repairs, fuel, and rentals	-	21	-	21	8,202	-	100,463	108,686
Rent	52,567	1,700	-	54,267	13	-	61,910	116,190
Consulting and subcontracted services	-	-	159,417	159,417	-	-	-	159,417
Information technology	31,784	-	11,654	43,438	87,077	7,943	14,515	152,973
Travel	41	637	7,140	7,818	83	-	4,656	12,557
Training and conferences	8,096	1,440	355	9,891	7,553	428	1,651	19,523
Dues and fees	47,610	7,947	1,189	56,746	15,116	1,130	199,871	272,863
Grants and donations	-	-	-	-	8,678	-	503	9,181
Advertising and promotion	39,766	6,818	7,289	53,873	7,473	2,677	26,930	90,953
Photocopy and publications	15,079	2,449	13,605	31,133	3,170	1,131	2,933	38,367
School trips	81,392	-	-	81,392	-	-	-	81,392
Other	32,025	38	2,652	34,715	37,423	-	37,459	109,597
Subtotal	3,176,417	465,418	750,784	4,392,619	2,136,162	221,666	9,009,535	15,759,982
Interest	4,700	6,523	-	11,223	6,003	-	29,395	46,621
Taxes	-	-	-	-	-	-	492	492
Subtotal	4,700	6,523	-	11,223	6,003	-	29,887	47,113
Total expenses	\$ 3,181,117	\$ 471,941	\$ 750,784	\$ 4,403,842	\$ 2,142,165	\$ 221,666	\$ 9,039,422	\$ 15,807,095

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		Total
	Education	Visiting Schools and Camps	Research and Other	Total Program	Management and General	Fundraising	Store, Farm and Dairy Operations		
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 contractors	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	-	120	-	120	62,569	-	-	62,569	
Other professional services	120,322	23,712	49,171	193,205	25,301	-	247,552	466,058	
Depreciation	117,218	10,584	27,782	155,584	8,639	2,482	443,673	610,378	
Supplies	319	372	939	1,630	-	-	76,593	78,223	
Vehicle repairs, fuel, and rentals	66,987	140	479	67,606	-	-	72,716	140,322	
Rent	-	-	110,546	110,546	-	-	-	110,546	
Consulting and subcontracted services	-	-	-	-	131,847	-	-	131,847	
Information technology	-	-	11,920	11,920	54	-	6,441	18,415	
Travel	-	-	170	12,125	5,998	-	3,921	22,044	
Training and conferences	11,106	849	240	21,793	39,476	-	227,672	288,941	
Dues and fees	21,483	70	107,770	107,770	-	-	84,087	191,857	
Grants and donations	-	-	-	-	82,753	-	-	82,753	
Advertising and promotion	-	-	22,512	22,512	23,757	3,239	-	49,508	
Photocopy and publications	1,303	-	-	1,303	-	-	450	1,303	
School trips	32,569	-	-	32,569	-	-	36,033	89,818	
Bad debt	-	-	-	-	53,785	-	-	53,785	
Other	2,453,329	135,548	931,057	3,519,934	1,813,197	231,259	9,797,881	15,362,271	
Subtotal	-	-	-	-	-	70	-	70	
Fundraising events	-	-	-	-	-	-	41,328	51,715	
Interest	5,508	4,665	214	10,387	-	-	250	250	
Taxes	-	-	-	-	-	-	-	-	
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	

**HAWTHORNE VALLEY ASSOCIATION, INC.**  
**STATEMENTS OF CASH FLOWS**  
For the years ended August 31, 2022 and 2021

	2022	2021
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 71,708	\$ 2,255,791
Adjustments to reconcile change in net assets to net cash from operating activities:		
Contributions restricted for acquisition of land, buildings, and equipment	(169,519)	(20,000)
Grant proceeds restricted for capital raise in equity method investment	(10,000)	-
Depreciation	584,558	466,058
Forgiveness of PPP loan	-	(1,369,976)
Forgiveness of note payable recorded as a contribution	-	(200,000)
Loss on investment in equity method investment	170,315	139,514
Gain on sale of equipment	-	(11,000)
Bad debt provision	-	33,019
Realized gain on sale of investments	(2,629)	(1,261)
Unrealized loss (gain) on investments	61,599	(31,410)
Deferred taxes	(48,094)	(41,855)
Changes in Assets/Liabilities:		
Accounts receivable	151,033	43,420
Pledges receivable	-	25,000
Grants receivable	84,542	(309,542)
Other receivables	-	56,913
Inventories	12,098	12,587
Prepaid expenses	(148,866)	(12,232)
Deposits	(3,900)	-
Accounts payable	253,421	(108,714)
Accrued expenses and other liabilities	(44,888)	(90,568)
Payroll, sales tax and related payables	68,544	54,955
Due to related party, net	(5,999)	(594)
Deferred revenue	3,493	432,309
Net cash provided by operating activities	1,027,416	1,322,414
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of land, building and equipment	(1,119,580)	(362,672)
Proceeds from sale of equipment	-	18,013
Maturity of certificate of deposit	-	250,832
Purchases of investments	(63,071)	(807,363)
Proceeds from sales of investments	48,443	40,933
Payment to unconsolidated subsidiary	(10,000)	-
Net cash used for investing activities	(1,144,208)	(860,257)

See notes to financial statements.

HAWTHORNE VALLEY ASSOCIATION, INC.  
 STATEMENTS OF CASH FLOWS (CONTINUED)  
 For the years ended August 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from note receivable	1,707	-
Payment made to fund note receivable	(25,000)	-
Payments on loans and notes payable	(220,168)	(233,928)
Contributions restricted for acquisition of land, buildings, and equipment	169,519	20,000
Grants restricted for investment in unconsolidated subsidiary	10,000	-
Net cash used for financing activities	<u>(63,942)</u>	<u>(213,928)</u>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	(180,734)	248,229
<b>CASH AND CASH EQUIVALENTS, Beginning of year</b>	<u>1,693,418</u>	<u>1,445,189</u>
<b>CASH AND CASH EQUIVALENTS, End of year</b>	<u><u>\$ 1,512,684</u></u>	<u><u>\$ 1,693,418</u></u>
<b>RECONCILIATION OF TOTAL CASH AND CASH EQUIVALENTS</b>		
Cash and cash equivalents	\$ 1,512,142	\$ 1,683,793
Cash and cash equivalents - restricted for endowment	542	9,625
	<u><u>\$ 1,512,684</u></u>	<u><u>\$ 1,693,418</u></u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Cash paid for:		
Interest	<u><u>\$ 63,218</u></u>	<u><u>\$ 59,414</u></u>
Income taxes	<u><u>\$ 492</u></u>	<u><u>\$ 250</u></u>

HAWTHORNE VALLEY ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
August 31, 2022 and 2021

NOTE 1 – NATURE OF OPERATIONS

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 12<sup>th</sup> 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 3<sup>rd</sup> grade to 12<sup>th</sup> 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:
  - 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;
  - Adonis: Publishes and distributes books on phenomenological science, poetry, essays, and a selection of translated works;
  - Light Forms: an Art Center offering public presentations, exhibitions, installations, workshops, and performances, an artist-in-residence program, publications, and a small gift shop.

During 2023, the Adonis program became its own separate entity unaffiliated with the Association.

During 2021, the Long Table Harvest program became its own separate entity unaffiliated with the Association.

**HAWTHORNE VALLEY ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**August 31, 2022 and 2021**

**NOTE 1 – NATURE OF OPERATIONS (Continued)**

*Research and Other (Continued)*

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.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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.

Grants and 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. 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.

HAWTHORNE VALLEY ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
August 31, 2022 and 2021

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Grants and Contributions (Continued):

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.

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.

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.

The Association utilizes the method of accounting for income taxes set forth in FASB 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.

**HAWTHORNE VALLEY ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**August 31, 2022 and 2021**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Income Taxes (Continued):

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 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, 2022 and 2021, the Association owned 14.61% or 72,297.15 and 5.18% or 71,211.00 of the Class A units, respectively, of Whitethorne. In addition, for both years ended August 31, 2022 and 2021, the Association owned 100% or 16,332.08 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, 2022 and 2021 was 21.85% and 22.64%, respectively. The total assets, liabilities, and members' equity for Whitethorne as of and for the year ended August 31, 2022 were \$3,079,934, \$1,602,256, and \$1,477,678 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.

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, 2022 and 2021, 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, 2022 and 2021.

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.

HAWTHORNE VALLEY ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
August 31, 2022 and 2021

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments Accounted for Using the Equity Method (Continued):

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 (Rudolf Steiner 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.

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.

HAWTHORNE VALLEY ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
August 31, 2022 and 2021

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments (Continued):

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.

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.

The following is a description of the valuation methodologies used for assets measured at 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.

Land, Buildings, Equipment and Depreciation:

Property assets are those assets used in the operations and 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:

The Association recognizes revenue from exchange transactions, including tuition and related fees, as it is earned based on the comprehensive revenue recognition model in accordance with FASB ASC 606, "Revenue from Contracts with Customers." Under ASC 606, tuition and related fees are reported net on the statement of activities. For the years ended August 31, 2022 and 2021, the Association recognized \$6,105,087 and \$4,788,521 of gross student tuition and fees, respectively. For the years ended August 31, 2022 and 2021, the Association awarded \$2,670,360 and \$2,090,286 of scholarships and other financial awards, respectively.

**HAWTHORNE VALLEY ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**August 31, 2022 and 2021**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Revenue Recognition (Continued):

Deferred income and other deferred amounts consist of deferred tuition, deferred program deposits and other unearned revenue items. Deferred tuition as of August 31, 2022 represents payments received during the year then ended for the Fall 2022 through Spring 2023 school year. Deferred tuition as of August 31, 2021 represents payments received during the year then ended for the Fall 2021 through Spring 2022 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.

Revenues from product sales, net of discounts, are recorded when products are delivered, title passes to customers, and collection is likely to occur. Title passes to customers at the point of sale for all retail purchases. Arrangements with customers contain one performance obligation to provide a distinct set of products. Performance obligations are satisfied simultaneously as the Association exchanges products for customer payment.

The Association also generates revenue by providing consulting services to other not-for-profit and agricultural entities in the local area. These consulting services are governed by a fee for service contract or arrangement with each customer that specifies applicable hourly billing rates or balances due from the customer for the services performed.

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, 2022, the Association's cash balances at financial institutions exceeded FDIC insurance limits by approximately \$1,086,000. 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 they believe the risk of loss on its cash balances are minimal.

The Association had \$542 and \$9,625 restricted for endowment classified as long-term at August 31, 2022 and 2021, respectively.

Amounts billed to students that have not been collected that also meet the conditions for unconditional right to payment are presented as accounts receivable. The Organization reports accounts receivable related to tuition and fees at their estimated transaction prices, inclusive of adjustments for variable consideration, based on the amounts expected to be collected from payers. The Organization writes off accounts receivable once it has exhausted its collection efforts and deems an account to be uncollectible. Subsequent to the adoption of ASC 606, an allowance for doubtful accounts is established only as a result of an adverse change in the student's ability to pay outstanding billings. 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.

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.

**HAWTHORNE VALLEY ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**August 31, 2022 and 2021**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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 \$90,953 and \$82,753 for the years ended August 31, 2022 and 2021, 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:

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). 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.

**HAWTHORNE VALLEY ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**August 31, 2022 and 2021**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Subsequent Events:

Subsequent events have been evaluated through March 29, 2023, which is the date the financial statements were available to be issued.

**NOTE 3 – ACCOUNTS RECEIVABLE**

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

	<u>2022</u>	<u>2021</u>
Accounts receivable	\$ 294,217	\$ 445,250
Allowance for doubtful accounts	(77,000)	(77,000)
Net accounts receivable	<u>\$ 217,217</u>	<u>\$ 368,250</u>

Accounts receivable are reported net of provisions for doubtful accounts.

**NOTE 4 – INVESTMENTS**

Investments are comprised of the following as of August 31, 2022:

	<u>Cost</u>	<u>Unrealized Gain (Loss)</u>	<u>Fair Value</u>	<u>FASB ASC 820-10 Measurements</u>
Mutual funds	\$ 506,267	\$ (10,191)	\$ 496,076	Level 1
Equity securities	119,884	2,669	122,553	Level 1
Fixed income	33,207	(1,024)	32,183	Level 1
Rudolf Steiner Foundation (RSF)	253,712	-	253,712	N/A - Cost
Retailer	12,563	-	12,563	N/A - Cost
	<u>\$ 925,633</u>	<u>\$ (8,546)</u>	<u>\$ 917,087</u>	

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>	

During the years ended August 31, 2022 and 2021, the Association recognized an unrealized (loss) gain of (\$61,599) and \$31,410, respectively.

**HAWTHORNE VALLEY ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**August 31, 2022 and 2021**

**NOTE 4 – INVESTMENTS (Continued)**

The following is a summary of activity reflected in the Association's financial statements during the years ended August 31, 2022 and 2021 for RSF investment recorded at cost:

	RSF
Balance at September 1, 2020	\$ 2,187
Purchases	250,189
Interest income earned	535
Balance at August 31, 2021	252,911
Interest income earned	801
Balance at August 31, 2022	<u>\$ 253,712</u>

**NOTE 5 – INVENTORIES**

Inventories are comprised of the following as of August 31:

	2022	2021
Dairy	\$ 166,701	\$ 180,120
Store	413,752	402,404
Turose (school store)	62,074	71,358
Sauerkraut	9,984	10,727
Total Inventories	<u>\$ 652,511</u>	<u>\$ 664,609</u>

As of August 31, 2022 and 2021, the Dairy inventory is comprised of \$55,076 and \$52,049 of finished products, \$105,015 and \$123,405 of packaging materials, and \$6,610 and \$4,666, respectively of raw materials; the Store, Turose, 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:

	2022	2021	Useful Lives
Land	\$ 619,275	\$ 619,275	N/A
Construction-in-process	58,730	195,598	N/A
Building and improvements	13,701,426	12,622,159	5 to 40 Years
Furniture and fixtures	169,658	663,802	5 to 7 Years
Equipment	1,759,623	2,581,229	3 to 10 Years
Vehicles	181,130	257,492	2 to 5 Years
	<u>16,489,842</u>	<u>16,939,555</u>	
Accumulated depreciation	<u>(8,194,216)</u>	<u>(9,178,951)</u>	
	<u>\$ 8,295,626</u>	<u>\$ 7,760,604</u>	

**HAWTHORNE VALLEY ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**August 31, 2022 and 2021**

**NOTE 6 – LAND, BUILDINGS, AND EQUIPMENT (Continued)**

Depreciation expense was \$584,558 and \$466,058 for the years ended August 31, 2022 and 2021, respectively.

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

	<u>2022</u>	<u>2021</u>
Greenhouse	\$ -	\$ 82,665
Future building	-	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
Creamery renovations	9,360	-
Store checkout renovations	49,370	-
	<u>\$ 58,730</u>	<u>\$ 195,598</u>

**NOTE 7 – NOTES PAYABLE**

Notes payable to individuals are comprised of \$826,000 and \$866,000 as of August 31, 2022 and 2021, 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 2023 and 2027.

As of August 31, 2022, the aggregate minimum annual maturities of notes payable are as follows:

2023	\$ 241,000
2024	445,000
2025	50,000
2026	40,000
2027	50,000
	<u>\$ 826,000</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.

**HAWTHORNE VALLEY ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**August 31, 2022 and 2021**

**NOTE 8 – LONG-TERM DEBT**

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

	2022	2021
NOVO Foundation - Note payable, maturing June 2027 (a)	\$ 621,306	\$ 750,000
Bank of Greene County - Note payable, maturing June 2024 (b)	-	12,848
The Bank of Greene County - Note Payable, maturing February 2031(c)	88,190	96,499
USDA - Note Payable, maturing September 2025 (d)	17,063	22,500
The Bank of Greene County - Note Payable, maturing December 2022 (e)	-	24,880
Total debts	<u>726,559</u>	<u>906,727</u>
Less: current maturities of long-term debt	147,515	165,288
Total long-term debt, net of current maturities	<u>\$ 579,044</u>	<u>\$ 741,439</u>

- a. The NOVO Foundation loan, which was amended in 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 3.50% per annum.
- b. The Bank of Greene County note payable was collateralized by the bale wrapper that was purchased with the proceeds from the note. The note payable required monthly payments of \$406 for the life of the note. The interest rate was fixed at 4.99% per annum. This note payable was paid in full in 2022.
- c. The Bank of Greene County note payable is collateralized by real property. The note payable requires monthly payments of \$1,045 through February 2031. The interest rate on the loan is fixed at 4.50% per annum.
- 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. The interest rate for the note is 2.25% per annum.
- e. Bank of Greene County note was collateralized by first lien on the vehicle purchased with the note proceeds. The note payable required monthly payments of principal and interest of \$1,610 starting on January 1, 2018. Interest on the note was fixed at 4.24% per annum. This note payable was paid in full in 2022.

At August 31, 2022, the aggregate minimum annual maturities of long-term debt are as follows:

2023	\$ 147,515
2024	152,761
2025	158,215
2026	157,911
2027	69,673
Thereafter	40,484
Total	<u>\$ 726,559</u>

**HAWTHORNE VALLEY ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**August 31, 2022 and 2021**

**NOTE 8 – LONG-TERM DEBT (Continued)**

The Association has the following lines of credit available at August 31, 2022:

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

As of the year ended August 31, 2021, these same lines of credit were available to the Association. No balances were outstanding on these lines of credit as of August 31, 2021.

**NOTE 9 – EMPLOYEE BENEFITS PLAN**

Retirement Plan:

HVA sponsors "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, 2022 and 2021, HVA contributed \$135,979 and \$87,728, respectively, which were a payable at each year-end.

Medical Plan:

HVA has a partially self-insured health insurance program that covers all eligible employees. The plan is liable for up to \$7,050 per year per covered person, \$14,100 per family. The Association pays 100% of the claims up to \$6,000 after the employee reaches a deductible \$500 single and \$1,200 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. HVA also covers 70% of any employee out-of-pocket costs in excess of \$500 deductible up to \$5,000 and 100% of employee out-of-pocket costs from \$5,000 to \$7,050. The medical plan expense, including insurance claims paid, for the years ended August 31, 2022 and 2021 was \$644,588 and \$538,172, respectively.

Dental and Life Plan:

HVA has a dental plan and life insurance plan for all eligible employees. Life insurance coverage is for \$50,000. Total dental and life insurance premiums for the years ended August 31, 2022 and 2021 was \$99,756 and \$72,857, respectively.

**NOTE 10 – OPERATING LEASES**

HVA has various operating leases including two leases for office equipment, four building leases and one operating lease for a vehicle. The vehicle lease is leased on a month-to-month basis. The vehicle lease expense for 2022 and 2021 was \$21,383 and \$21,894, respectively, and is included as a component of "vehicle repairs, fuel and rentals" on the statement of functional expenses. The property leases and equipment leases run through September 2024 and have monthly payments ranging from \$120 to \$2,050 per month. Two of the property leases are set to expire in June 2023 and September 2023, respectively. Rent expense for 2022 and 2021 related to other operating leases totaled \$105,390 and \$140,323, respectively.

**HAWTHORNE VALLEY ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**August 31, 2022 and 2021**

**NOTE 10 – OPERATING LEASES (Continued)**

Future lease commitments are as follows:

2023	\$ 49,520
2024	30,670
	<u>\$ 80,190</u>

**NOTE 11 – NET ASSETS - MEDICAL RESERVES**

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

	2022	2021
Inflows:		
Inter-departmental premiums received	\$ 666,199	\$ 617,739
Total inflows	<u>666,199</u>	<u>617,739</u>
Outflows:		
Medical plan expenses	548,033	445,783
Self insurance claims paid	96,555	92,389
Dental plan expenses	99,756	72,857
Administrative costs	21,982	21,804
Total outflows	<u>766,326</u>	<u>632,833</u>
Total changes in net assets	(100,127)	(15,094)
Beginning medical reserve net assets for unpaid claims	<u>431,525</u>	<u>446,619</u>
Ending medical reserve net assets for unpaid claims	<u>\$ 331,398</u>	<u>\$ 431,525</u>

**NOTE 12 – NET ASSET WITH DONOR RESTRICTIONS**

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

	2022	2021
<b>Subject to the passage of time</b>	\$ 400,000	\$ -
<b>Subject to expenditure for specified purpose:</b>		
Farm	-	95,000
Education	40,284	32,720
Research	133,090	23,957
Other	43,620	38,650
	<u>616,994</u>	<u>190,327</u>
<b>Subject to the Association's spending policy and appropriation:</b>		
Unspent endowment earnings	81,866	123,948
<b>Donor restricted endowments (subject to spending policy and appropriations, net of accumulated earnings of \$81,886 and \$123,948, respectively):</b>		
Investment in perpetuity	673,412	673,412
Total net assets with donor restriction	<u>\$ 1,372,272</u>	<u>\$ 987,687</u>

**HAWTHORNE VALLEY ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**August 31, 2022 and 2021**

**NOTE 12 – NET ASSET WITH DONOR RESTRICTIONS (Continued)**

Releases from donor restricted net assets for the year ended August 31, are as follows:

	2022	2021
<b>Subject to expenditure for specified purpose:</b>		
Farm	\$ 95,000	\$ -
Education	2,500	11,371
Research	-	158,612
Other	-	108,790
<b>Subject to the passage of time:</b>		
Pledges and grants receivable	-	200,000
Total releases from restrictions	\$ 97,500	\$ 478,773

**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.

*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.

HAWTHORNE VALLEY ASSOCIATION, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 August 31, 2022 and 2021

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

*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, 2022 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	81,866
Total donor-restricted endowment funds	<u>\$ 755,278</u>

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

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

Change in endowment net assets for the years ended August 31, 2022 and 2021 is as follows:

	<u>With Donor Restriction</u>
Beginning balance, September 1, 2020	\$ 749,203
Investment returns, net	39,157
Reclassifications into the endowment	9,000
Beginning balance, August 31, 2021	<u>797,360</u>
Investment loss, net	(42,082)
Ending balance, August 31, 2022	<u>\$ 755,278</u>

**HAWTHORNE VALLEY ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**August 31, 2022 and 2021**

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

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 accrued interest only for the first 2 years of the loan and will begin to make 10 annual payments of principal and interest of \$65,060 to the Association thereafter until maturity.

During the year ended August 31, 2021, interest of \$9,000 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. The School did not make any payments to the Association related to the loan principal or interest during the year ended August 31, 2022. The School paid the second \$9,000 interest-only payment at the time the first principal and interest payment is due in February 2023.

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

	<u>2022</u>	<u>2021</u>
Investments	\$ 154,736	\$ 187,735
Inter-department loan	600,000	600,000
Cash and cash equivalents - restricted for endowment	542	9,625
	<u>\$ 755,278</u>	<u>\$ 797,360</u>

**NOTE 14 – BUSINESS ENTERPRISES AND UNRELATED BUSINESS INCOME TAXES**

During the years ended August 31, 2022 and 2021, 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.

For the year ended August 31, 2022, these business activities operated with a net loss and therefore no income taxes were assessed for the year. For the year ended August 31, 2021, the Association utilized \$91,375 of existing net operating losses carried forward to date to cover taxable income.

**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:

	<u>2022</u>	<u>2021</u>
Amounts owed to Whitethorne by the Association	\$ 6,462	\$ 12,461

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 net losses of \$170,315 and \$139,514 as result of its ownership interest in Whitethorne for the years ended August 31, 2022 and 2021, respectively.

**HAWTHORNE VALLEY ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**August 31, 2022 and 2021**

**NOTE 15 – RELATED PARTY (Continued)**

The Association also provides consulting and other services to entities affiliated with its board members. During the years ended August 31, 2022 and 2021, the Association recorded \$11,013 and \$700 of consulting and other income, respectively, for services rendered to entities affiliated with board members.

On December 11, 2021, the Association entered into a note receivable arrangement with one of its employees for a \$25,000 mortgage note the Association provided to the employee. The note has a maturity date of December 11, 2031, and is to be received in monthly installments of \$230 of principal and interest from the employee through maturity, with interest charged at 2.00% per annum. The balance still owed on the note was \$23,293 as of August 31, 2022, with the Association receiving \$1,707 of cash receipts on the note during the year ended August 31, 2022.

The following shows the future cash receipts expected from the note receivable through maturity:

2023	\$	2,122
2024		2,362
2025		2,208
2026		2,458
2027		2,509
Thereafter		11,634
	\$	<u>23,293</u>

**NOTE 16 – LIQUIDITY**

The Association's financial assets available within one year of August 31, 2022 for general expenditure are as follows:

Current financial assets at year-end:	
Cash and cash equivalents	\$ 1,512,142
Investments, at cost	253,712
Investments, at fair value	496,076
Accounts receivable, net	217,217
Note receivable	2,122
Grants receivable	400,000
Total financial assets	<u>2,881,269</u>
Less: Amounts unavailable for general expenditures within one year, due to:	
Restricted by donors with purpose restrictions	<u>(216,994)</u>
Financial assets available to meet cash needs for general expenditure within one year	<u>\$ 2,664,275</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, 2022.

**HAWTHORNE VALLEY ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**August 31, 2022 and 2021**

**NOTE 16 – LIQUIDITY (Continued)**

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.

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, 2022.

**NOTE 17 – INCOME TAXES**

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

	<u>2022</u>	<u>2021</u>
Current:		
Federal	\$ -	\$ -
State	250	250
	<u>250</u>	<u>250</u>
Deferred:		
Federal	33,666	29,299
State	14,428	12,556
	<u>48,094</u>	<u>41,855</u>
Total benefit	<u>\$ 48,344</u>	<u>\$ 42,105</u>

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

	<u>2022</u>	<u>2021</u>
Taxes from investment in subsidiary	\$ (151,933)	\$ (200,027)
Net operating losses	<u>304,063</u>	<u>39,622</u>
Less valuation allowance	<u>(304,063)</u>	<u>(39,622)</u>
Net deferred tax liability	<u>\$ (151,933)</u>	<u>\$ (200,027)</u>

The Association had Federal and New York State net operating loss carryforwards of approximately \$304,063 and \$39,622 as of August 31, 2022 and 2021, respectively, 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, 2022 and 2021

NOTE 18 – ALKION

The following table presents the balances for the Alkion program for the years ended August 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
ASSETS		
Cash and cash equivalents	\$ 21,261	\$ 55,951
Accounts receivable	17,777	22,734
Property and equipment, net	-	1,120
Total assets	<u>\$ 39,038</u>	<u>\$ 79,805</u>
LIABILITIES		
Deferred revenue	\$ 500	\$ 17,599
Total liabilities	<u>500</u>	<u>17,599</u>
NET ASSETS		
Net assets without donor restrictions	<u>38,538</u>	<u>62,206</u>
Total net assets	<u>38,538</u>	<u>62,206</u>
Total liabilities and net assets	<u>\$ 39,038</u>	<u>\$ 79,805</u>
REVENUES		
Tuition and fees, net	\$ 77,089	\$ 93,972
Donations	22,783	21,485
Other	13,733	1,460
Total revenues	<u>113,605</u>	<u>116,917</u>
EXPENSES		
Salaries and wages	90,984	82,853
Payroll taxes	6,841	6,254
Employee benefits	2,691	2,679
Non-employee compensation	7,010	7,331
General and administrative	17,292	18,096
Supplies	3,051	1,642
Marketing	3,080	1,505
Utilities	-	643
Dues and subscriptions	5,074	2,527
Conferences and meetings	130	140
Depreciation	1,120	1,120
Bad debt	-	10,547
Total expenses	<u>137,273</u>	<u>135,337</u>
Net loss	<u>\$ (23,668)</u>	<u>\$ (18,420)</u>