

**Hawthorn Hill
Des Moines, Iowa**

FINANCIAL REPORT

June 30, 2021 and 2020

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Hawthorn Hill
Des Moines, Iowa

We have audited the accompanying financial statements of Hawthorn Hill (a nonprofit organization), which comprise the statements of financial position as of June 30, 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hawthorn Hill as of June 30, 2021 and 2020, 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.

Denman & Company, LLP
DENMAN & COMPANY, LLP

West Des Moines, Iowa
December 18, 2021

**Hawthorn Hill
STATEMENTS OF FINANCIAL POSITION**

	June 30	
ASSETS	2021	2020
CURRENT ASSETS		
Cash and cash equivalents	\$ 719,351	\$ 538,333
Certificates of deposit	131,385	40,450
Accounts receivable	16,018	9,964
Contributions receivable	3,918	8,923
Prepaid expenses	8,818	8,667
Total current assets	879,490	606,337
OTHER ASSETS		
Certificates of deposit	30,864	20,522
Investments	7,415	5,883
Property and equipment, net of accumulated depreciation	1,327,186	1,352,716
Total other assets	1,365,465	1,379,121
 Total assets	 \$2,244,955	 \$1,985,458
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 8,925	\$ 5,721
Accrued expenses	38,189	34,315
Deferred revenue	7,078	1,370
Client escrow	2,643	3,380
Tenant security deposits	11,550	12,800
Current portion of noncurrent liabilities	-	39,946
Total current liabilities	68,385	97,532
NONCURRENT LIABILITIES		
Paycheck Protection Program loan	-	104,017
Less current portion	-	(39,946)
Total noncurrent liabilities	-	64,071
Total liabilities	68,385	161,603
NET ASSETS		
Net assets without donor restrictions	2,169,759	1,817,720
Net assets with donor restrictions	6,811	6,135
Total net assets	2,176,570	1,823,855
 Total liabilities and net assets	 \$2,244,955	 \$1,985,458

See Notes to Financial Statements.

**Hawthorn Hill
STATEMENTS OF ACTIVITIES**

	<u>Year ended June 30, 2021</u>			<u>Year ended June 30, 2020</u>		
	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
REVENUES AND SUPPORT						
Contributions	\$ 830,336	\$ —	\$ 830,336	\$ 632,198	\$ —	\$ 632,198
Program fees	170,929	—	170,929	163,229	—	163,229
Special events	50,832	—	50,832	15,050	—	15,050
Investment income	2,337	676	3,013	4,612	—	4,612
Paycheck Protection Program loan forgiveness	104,017	—	104,017	—	—	—
Gain on sale of assets	32,322	—	32,322	—	—	—
Net assets released from restrictions	—	—	—	—	—	—
Total revenue and support	<u>1,190,773</u>	<u>676</u>	<u>1,191,449</u>	<u>815,089</u>	<u>—</u>	<u>815,089</u>
EXPENSES						
Program services						
New Direction Shelter	401,292	—	401,292	361,118	—	361,118
The Home Connection	342,156	—	342,156	365,737	—	365,737
Supporting services						
Management and general	39,677	—	39,677	56,995	—	56,995
Fundraising	55,609	—	55,609	62,646	—	62,646
Total expenses	<u>838,734</u>	<u>—</u>	<u>838,734</u>	<u>846,496</u>	<u>—</u>	<u>846,496</u>
CHANGE IN NET ASSETS	352,039	676	352,715	(31,407)	—	(31,407)
NET ASSETS, beginning	<u>1,817,720</u>	<u>6,135</u>	<u>1,823,855</u>	<u>1,849,127</u>	<u>6,135</u>	<u>1,855,262</u>
NET ASSETS, ending	<u>\$2,169,759</u>	<u>\$ 6,811</u>	<u>\$2,176,570</u>	<u>\$1,817,720</u>	<u>\$ 6,135</u>	<u>\$1,823,855</u>

See Notes to Financial Statements.

Hawthorn Hill
STATEMENTS OF FUNCTIONAL EXPENSES
Year ended June 30, 2021

	Program Services			Total
	New Direction Shelter	The Home Connection		
	Property Management	Case Management		
Salaries and benefits				
Salaries	\$ 229,710	\$ 68,021	\$ 63,714	\$ 131,735
Employee benefits	26,481	14,535	13,614	28,149
Payroll taxes	21,229	5,905	5,661	11,566
	<u>277,420</u>	<u>88,461</u>	<u>82,989</u>	<u>171,450</u>
Accounting	7,800	3,900	3,900	7,800
Client assistance	19,199	-	8,377	8,377
Consulting/management fee	-	-	2,852	2,852
Continuing education	1,020	-	180	180
Depreciation	23,294	75,968	-	75,968
Fundraising	-	-	-	-
Human resources	9,126	4,458	460	4,918
Information technology	355	92	-	92
Insurance	13,046	13,046	-	13,046
Interest	-	-	-	-
Maintenance	12,284	19,169	-	19,169
Office supplies	2,258	341	681	1,022
Other	3,134	4,610	-	4,610
Postage and shipping	205	433	-	433
Printing	668	-	668	668
Professional fees	4,912	13,195	-	13,195
Program supplies	7,899	-	1,539	1,539
Telephone	4,193	1,698	3,395	5,093
Transportation	188	2,088	977	3,065
Utilities	14,291	8,679	-	8,679
Totals	<u>\$ 401,292</u>	<u>\$ 236,137</u>	<u>\$ 106,019</u>	<u>\$ 342,156</u>

See Notes to Financial Statements.

Support Services

<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
\$ 16,815	\$ 37,429	\$ 415,689
2,506	5,107	62,243
<u>1,361</u>	<u>3,102</u>	<u>37,258</u>
20,682	45,638	515,190
3,900	—	19,500
—	—	27,576
—	390	3,242
—	—	1,200
—	—	99,262
—	—	—
3,735	—	17,779
112	717	1,276
4,594	—	30,686
—	—	—
—	—	31,453
1,086	—	4,366
58	—	7,802
306	1,865	2,809
—	5,458	6,794
2,771	—	20,878
—	1,480	10,918
878	—	10,164
1,555	61	4,869
<u>—</u>	<u>—</u>	<u>22,970</u>
<u>\$ 39,677</u>	<u>\$ 55,609</u>	<u>\$ 838,734</u>

Hawthorn Hill
STATEMENTS OF FUNCTIONAL EXPENSES (continued)
Year ended June 30, 2020

	Program Services			Total
	New Direction Shelter	The Home Connection		
	Property Management	Case Management		
Salaries and benefits				
Salaries	\$ 211,042	\$ 134,073	\$ 15,099	\$ 149,172
Employee benefits	19,136	33,045	1,844	34,889
Payroll taxes	21,304	13,098	1,384	14,482
	<u>251,482</u>	<u>180,216</u>	<u>18,327</u>	<u>198,543</u>
Accounting	7,560	3,780	3,780	7,560
Client assistance	19,646	-	55	55
Consulting/management fee	513	-	512	512
Continuing education	-	-	-	-
Depreciation	20,462	80,070	-	80,070
Fundraising	-	-	-	-
Human resources	9,178	5,691	625	6,316
Information technology	205	206	-	206
Insurance	12,170	12,170	-	12,170
Interest	-	2,402	-	2,402
Maintenance	10,713	26,846	-	26,846
Office supplies	1,306	155	311	466
Other	963	713	-	713
Postage and shipping	223	-	28	28
Printing	363	-	419	419
Professional fees	1,825	9,314	-	9,314
Program supplies	5,798	-	631	631
Telephone	3,283	1,394	2,789	4,183
Transportation	459	2,540	1,668	4,208
Utilities	14,969	11,095	-	11,095
Totals	<u>\$ 361,118</u>	<u>\$ 336,592</u>	<u>\$ 29,145</u>	<u>\$ 365,737</u>

See Notes to Financial Statements.

Support Services

<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
\$ 23,782	\$ 40,979	\$ 424,975
4,062	6,082	64,169
<u>2,164</u>	<u>3,761</u>	<u>41,711</u>
30,008	50,822	530,855
3,780	—	18,900
—	—	19,701
—	—	1,025
—	—	—
—	—	100,532
—	400	400
1,006	1,611	18,111
—	—	411
5,161	—	29,501
—	—	2,402
—	—	37,559
1,260	—	3,032
781	895	3,352
235	1,985	2,471
—	5,813	6,595
13,088	380	24,607
—	740	7,169
560	—	8,026
1,116	—	5,783
<u>—</u>	<u>—</u>	<u>26,064</u>
<u>\$ 56,995</u>	<u>\$ 62,646</u>	<u>\$ 846,496</u>

**Hawthorn Hill
STATEMENTS OF CASH FLOWS**

	<u>Year ended June 30</u>	
	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 352,715	\$ (31,407)
Adjustment to reconcile change in net assets to net cash provided by operating activities		
Depreciation	99,262	100,532
Realized and unrealized losses (gains) losses on investments, net	(1,666)	121
Paycheck Protection Program loan forgiveness	(104,017)	-
Gain on disposal of assets	(32,322)	-
Changes in operating assets and liabilities		
Accounts receivable	(6,054)	(5,558)
Contributions receivable	5,005	15,092
Prepaid expenses	(151)	612
Accounts payable	3,204	848
Accrued expenses	3,874	4,183
Deferred revenue	5,708	(1,050)
Client escrow	(737)	(4,070)
Tenant security deposits	(1,250)	2,300
Net cash provided by operating activities	<u>323,571</u>	<u>81,603</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Proceeds from sale of property	60,382	-
Purchase of certificates of deposit	(101,277)	(479)
Proceeds from sale of investments	250	270
Purchase of investments	(116)	(141)
Purchase of property and equipment	(101,792)	(11,234)
Net cash (used in) investment activities	<u>(142,553)</u>	<u>(11,584)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Paycheck Protection Program loan	-	104,017
Payments on note payable	-	(56,130)
Net cash provided by financing activities	<u>-</u>	<u>47,887</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	181,018	117,906
CASH AND CASH EQUIVALENTS		
Beginning	<u>538,333</u>	<u>420,427</u>
Ending	<u>\$ 719,351</u>	<u>\$ 538,333</u>
SCHEDULE OF NONCASH FINANCING ACTIVITIES		
Forgiveness of Paycheck Protection Program loan	<u>\$ 104,017</u>	<u>\$ -</u>
SUPPLEMENTAL DISCLOSURE OF CASH PAYMENTS		
Interest	<u>\$ -</u>	<u>\$ 2,402</u>

See Notes to Financial Statements.

Hawthorn Hill
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Hawthorn Hill (the "Organization") is organized as an Iowa Nonprofit Corporation. The Organization's mission is to establish and operate housing programs for homeless families with children, to provide services to assist families with children in achieving economic self-sufficiency, and to identify, investigate, educate and seek solutions to the root causes of homelessness areas.

Programs offered include an emergency shelter services for homeless families with children and supportive housing in the Des Moines, Iowa area.

Basis of Presentation

The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and are presented on the basis of net assets without donor restrictions and net assets with donor restrictions. Net assets with donor restrictions are created only by donor-imposed restrictions on their use. When a restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions. All other net assets, including board-designated or appropriated amounts, are net assets without donor restrictions and are reported as part of the net assets without donor restriction class.

Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management of the Organization to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash Equivalents

Cash equivalents include money market funds and all highly liquid investments with a maturity date of less than three months from the date of purchase. The Organization's cash balances that are maintained in bank accounts may exceed Federal Deposit Insurance Corporation limits from time to time. The Organization has not experienced any losses in such accounts and management believes that it is not exposed to any significant credit risk on cash.

Certificates of Deposit

The Organization has multiple certificates of deposit at local banks and are carried at cost, which approximates fair value. These certificates bear interest at rates from 0.05% to 1.50% and have maturity dates through February 2023.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Changes in the valuation allowance have not been material to the financial statements. The Organization has recorded an allowance for uncollectible receivables of \$-0-, as of June 30, 2021 and 2020.

Hawthorn Hill
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Pooled Cash and Investments

Cash includes \$536,561 and \$304,693 of pooled checking and money market funds held at the Community Foundation of Greater Des Moines (Community Foundation) for the years ended June 30, 2021 and 2020, respectively.

Investments consist of assets held at the Community Foundation that are carried at fair value and are reported with investments on the statements of financial position, with gains and losses resulting from market fluctuations recognized in the period in which the fluctuations occur. Investment income is reported as an increase or decrease in net assets without donor restrictions, unless the use of the assets is restricted by the donor and the restrictions have not been met in the reporting period in which the income was recognized.

Assets held by the Community Foundation under designated agency agreements consist of pooled cash held by and funds invested at the Community Foundation. The Organization holds a share of the pooled funds and not direct ownership of the underlying investments. The funds are subject to the policies and governing documents of the Community Foundation, including control over investment and asset management.

Property and Equipment and Depreciation

Property and equipment are stated at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as net assets without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Contributions of cash that must be used to acquire property and equipment and assets donated with explicit restrictions regarding their use are reported as restricted support.

The Organization reports expirations of donor restrictions and reclassifies net assets with donor restrictions to net assets without donor restrictions when the donated or acquired assets are placed into service as instructed by the donor. Depreciation is calculated using the straight-line method over the following estimated useful lives:

Furniture and equipment	5-20 years
Vehicles	5 years
Building and improvements	5-30 years

Client Escrow

The Organization retains a percentage of program fees for the benefit of clients. The fees are returned to the client upon successful completion of the program.

Net Assets

The Organization's net assets and changes therein are classified and reported as follows:

Without Donor Restrictions

Net assets that are not subject to donor-imposed restrictions or law.

With Donor Restrictions

Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Hawthorn Hill
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition

Program Fees

Program fees consist of rental fees for housing leased to participants of the Home Connection program, under year long leases that then convert to month to month agreements, with set rent payments. Revenue is recognized on a straight line basis over the term of the lease.

Public Support

Contributions are recognized as revenue when the donor makes a promise to give to the Organization which is, in substance, unconditional. Conditional promises to give are recognized only when the conditions on which they depend are substantially met. Unconditional contributions are recorded as with or without donor restrictions, depending on the existence and/or nature of any donor restrictions. An allowance for doubtful accounts is provided based upon management's judgment, including such factors as prior history and nature of the contribution.

Public support that is expected to be collected within one year is recorded at its net realizable value. Public support that is expected to be collected in future years is reported at fair value using present value techniques. The discount on those amounts is computed using an interest rate applicable in the year in which the contribution was received. All grants and contributions receivable as of June 30, 2021 and 2020 are anticipated to be collected in the following year and, therefore, no discount has been recorded.

Revenue from government and private grants are generally considered to be subject to conditions that must be met before the Organization is entitled to funding. The Organization recognizes revenue from grants and contracts when all material barriers have been overcome in order for the Organization to be entitled to the funding. Typically these barriers are overcome when qualifying expenditures have been incurred or defined outcomes have been achieved. Revenues from grants and contracts whose conditions have been met are recorded as grants and contributions receivable until funded by the grantor. Funding received prior to the conditions being met are recorded as refundable advances.

Contributed Goods and Services

Contributions of donated goods are recorded at their fair values in the period received. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. Numerous volunteers have donated significant amounts of time to the Organization. The value of these services has not been recorded to the financial statements as the criteria for recognition has not been met.

Contributed property and equipment are recorded at their estimated fair value at the date of the gift. Such donations are reported as unrestricted support unless the donor has restricted the donated asset for a specific purpose.

Functional Expense Allocations

The allocations of expenses shown on the statement of functional expenses were made first by direct allocation to program areas from supporting documentation. Salaries and directly related costs were assigned to program areas based on time reports. Other expenses such as utility costs and building repairs and maintenance were allocated using percentages determined to be the best representation of usage. Additional allocations, where possible, were prepared using estimates determined by management.

Hawthorn Hill
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Liquidity and Availability

The Organization's financial assets available within one year of the statement of financial position date for general expenditures are as follows:

	June 30	
	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 719,351	\$ 538,333
Certificates of deposit	131,385	40,450
Accounts receivable	16,018	9,964
Contributions receivable	<u>3,918</u>	<u>8,923</u>
Total	<u>\$ 870,672</u>	<u>\$ 597,670</u>

As part of the Organization's liquidity management, it has policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Organization invests cash in excess of immediate requirements in money market accounts and certificates of deposit. These accounts as well as a cash flow line of credit up to \$115,000 is available to draw upon in the event of an unanticipated liquidity need as of June 30, 2021.

Income Taxes

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income, if any, from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(1).

The Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. Management believes that the Organization is no longer subject to income tax examinations for years prior to 2018.

NOTE 2 CONTRIBUTIONS RECEIVABLE

Contributions receivable consist primarily of pledges as of the year ended June 30, 2021 and all are due within one year.

**Hawthorn Hill
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 INVESTMENT IN ASSETS HELD AT THE COMMUNITY FOUNDATION OF GREATER DES MOINES

Investment income consisted of the following:

	Year ended June 30	
	2021	2020
Interest and dividends	\$ 1,597	\$ 5,002
Realized gains	393	40
Change in unrealized gains (losses)	1,294	(161)
Investment fees	(271)	(269)
	\$ 3,013	\$ 4,612

The Organization follows the Fair Value Measurements and Disclosures Topic of the *FASB Accounting Standards Codification*, which establishes a framework for measuring fair value and expands disclosures about fair value measurement. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities, Level 1, and the lowest priority to unobservable inputs, Level 3. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are generally available indirect information, such as quoted prices for identical or similar assets or liabilities in active markets, or quoted prices for identical or similar assets or liabilities in markets that are not active. Level 3 inputs are the most subjective, are generally based on the management's own assumptions on how knowledgeable parties would price assets or liabilities, and are developed using the best information available in the circumstances. The Organization had no Level 1 or Level 2 investments at June 30, 2021 and 2020.

Following is a description of the valuation methodologies used for the Organizations' investments measured at fair value. There have been no changes in the methodologies used at June 30, 2021 and 2020:

Pooled investments – Pooled investments consist of assets held by the Community Foundation. Although the pooled funds include investments in equity, fixed income, real assets, and other marketable securities, the pool itself is not a publicly traded instrument. Management estimates the fair value of its pooled investments at the statement of financial position date based on its relative ownership investment in the pool. All funds held at the Community Foundation are measured using Level 3 inputs as provided by the Community Foundation as there is no direct ownership of the underlying investments. However, the underlying investments in the pooled funds by the Community Foundation using Level 1, Level 2, and Level 3 inputs and other investments using the net asset value.

The following tables set forth by level within the fair value hierarchy the Organization's investments at fair value as of June 30, 2021 and 2020. Classification within the fair value hierarchy table is based on the lowest level of any input that is significant to the fair value measurement. Level 3 inputs were only used when Level 1 or Level 2 inputs were not available.

June 30, 2021	Level 1	Level 2	Level 3	Total
Pooled investments	\$ —	\$ —	\$ 7,415	\$ 7,415
	Level 1	Level 2	Level 3	Total
Pooled investments	\$ —	\$ —	\$ 5,883	\$ 5,883

Hawthorn Hill
NOTES TO FINANCIAL STATEMENTS

**NOTE 3 INVESTMENT IN ASSETS HELD AT THE COMMUNITY FOUNDATION
OF GREATER DES MOINES (continued)**

The Organization recognizes transfers into and out of levels within the fair value hierarchy at the end of the reporting period. There were no transfers between levels in the years ended June 30, 2021 and 2020.

Investments measured at fair value on a reoccurring basis using significant unobservable inputs (Level 3 inputs)

	<u>Year ended June 30</u>	
	<u>2021</u>	<u>2020</u>
Pooled investments		
Beginning of year	\$ 5,883	\$ 6,133
Investment income (loss)	<u>1,532</u>	<u>(250)</u>
End of year	<u>\$ 7,415</u>	<u>\$ 5,883</u>

NOTE 4 PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>June 30</u>	
	<u>2021</u>	<u>2020</u>
Land	\$ 252,860	\$ 249,160
Building and improvements	2,405,507	2,459,763
Furniture and equipment	182,955	127,442
Vehicles	<u>45,128</u>	<u>45,128</u>
Total at cost	2,886,450	2,881,493
Accumulated depreciation	<u>(1,559,264)</u>	<u>(1,528,777)</u>
Total property and equipment	<u>\$1,327,186</u>	<u>\$1,352,716</u>

NOTE 5 ENDOWMENT FUNDS

The Organization's endowment consists primarily of investments of donor-restricted assets held in perpetuity to provide long term income for maintenance of the Organization.

Absent explicit donor stipulations to the contrary, the Board of Directors of the Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds. As a result of this interpretation, the Organization classifies as net assets with donor restrictions (a) the original value of the gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. In accordance with the standard of prudence prescribed by UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the various funds
- (2) The purposes of the donor-restricted endowment funds
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Organization
- (7) The Organization's investment policies

Hawthorn Hill
NOTES TO FINANCIAL STATEMENTS

NOTE 5 ENDOWMENT FUNDS (continued)

Investment Return Objectives, Risk Parameters and Strategies. The Organization has adopted investment and spending policies, approved by the Board of Directors, for endowment assets. Those policies attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return. The Organization expects its endowment assets, over time, to produce an average rate of return of approximately 5.2 to 8.2% annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund, investment assets and allocation between asset classes and strategies are managed to prevent exposing the fund to unacceptable levels of risk.

Spending Policy – Donor-restricted endowment. The Organization has a policy of appropriating for distribution up to 5% of the endowment's value at December 31 of the prior year for operating expenses. Net income in excess of distributions, administrative fees, and direct expenses are to remain in the fund. In establishing this policy, the Organization considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor restrictions, and the possible effects of inflation. Accordingly, over the long term, the Organization expects the current spending policy to allow its endowment funds to grow at an average rate of 1-2% above inflation annually. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return.

Changes in endowment net assets and net assets by type of fund were as follows:

	Year ended June 30	
	2021	2020
Net assets with donor restrictions, beginning of year	\$ 6,135	\$ 6,135
Investment income	676	—
Net assets with donor restrictions, end of year	\$ 6,811	\$ 6,135

NOTE 6 PAYCHECK PROTECTION PROGRAM LOAN

Through a loan agreement dated May 8, 2020, the Organization received loan proceeds of \$104,017 from a financial institution under the federal Paycheck Protection Program (PPP) administered by the Small Business Administration (SBA) and the United States Department of Treasury. The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (CARES Act), provides loans to qualifying business for amounts up to 2.5 times the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities as well as meets all other requirements as described in the CARES Act.

On April 8, 2021, the Organization received full forgiveness of the loan from the SBA and in accordance with ASC Topic 470, recorded as Paycheck Protection Program loan forgiveness in the accompanying statement of activities.

NOTE 7 LINE OF CREDIT

The Organization had a line of credit in the amount of \$115,000 with a local financial institution that matures November 4, 2021. The line of credit bears interest at a rate of 4.25% and may change annually based upon the prime rate. There was no balance outstanding at June 30, 2021 or 2020.

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NOTE 8 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions have the following donor-imposed restrictions:

	<u>Year ended June 30</u>	
	<u>2021</u>	<u>2020</u>
Endowment funds to be held in perpetuity	\$ <u>6,811</u>	\$ <u>6,135</u>

NOTE 9 RETIREMENT PLAN

The Organization has a defined contribution retirement plan which covers employees who have met specific eligibility requirements. Under the plan, the Organization is required to match employee contributions equal to a maximum of 3 percent of covered employee compensation. Total retirement plan cost was \$6,926 and \$8,055 for the years ended June 30, 2021 and 2020, respectively.

NOTE 10 RELATED PARTIES

The Organization participates in a management service organization through an affiliation with Bidwell Riverside Center, another nonprofit organization. The management service organization, BRC-HH, is the sole member of the Organization and the board members of BRC-HH also serve as board members for the Organization. Expenses incurred by BRC-HH related to providing management, administrative and fundraising services are shared among the Organization and Bidwell Riverside Center. Management service fees allocated to the Organization totaled \$122,464 and \$111,790 for the years ended June 30, 2021 and 2020, respectively, and is included in the salaries and benefits section of the statements of functional expenses. The affiliation can be terminated by either of the members at any time.

NOTE 11 CONCENTRATIONS AND CONTINGENCIES

The Organization is committed under various grants and agreements to restrict, for varying periods of time, the availability of certain properties to "Affordable Housing" or similar restrictive uses. In the event of default, funds received under the grants or agreements may be repayable to the granting organizations. Further, in the event of the sale of the properties, all or a portion of the proceeds of the sale may be repayable to the granting organizations. The amount of repayments under the grants and agreements has not been determined.

The COVID-19 pandemic resulted in significant disruptions to the Organization's operations beginning in March, 2020 and has resulted in economic uncertainties, including mandated closures or the reduction of operations for businesses in many industries. The Organization has reduced some of its operations in order to comply with government mandates and help slow the spread of the disease. The Organization anticipates the COVID-19 pandemic will continue to affect operations throughout much of the upcoming fiscal year, however, the impact that the pandemic will have on the Organization's operations, liquidity, and capital resources cannot be determined at this time.

NOTE 12 SUBSEQUENT EVENTS

The Organization has evaluated events and transactions occurring after June 30, 2021 for the potential items required to be recognized or disclosed in the financial statements. Subsequent events were evaluated through December 18, 2021, the date the financial statements were available to be issued. In July 2021 the Board authorized the sale of one of the properties in The Home Connection program. The carrying value of this property at June 30, 2021 was approximately \$32,000. In August 2021 the sale of this property was completed at a sales price of \$75,000, resulting in a gain of approximately \$36,700 to be recognized in the year ending June 30, 2022. Except for this sale, there were no other subsequent events required to be accrued or disclosed.