



**HAWTHORNE SOCIAL SERVICE
ASSOCIATION, INC**

FINANCIAL REPORT

December 31, 2016

Hawthorne  **the of the Community**

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Hawthorne Social Service Association, Inc. which comprise the statements of financial position as of December 31, 2016 and 2015, 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 of 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 reasonable basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT - continued

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hawthorne Social Service Association, Inc. as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Pile CPAs

Indianapolis, Indiana
March 21, 2017

HAWTHORNE SOCIAL SERVICE ASSOCIATION, INC

STATEMENTS OF FINANCIAL POSITION

Years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash and cash equivalents	\$ 70,860	\$ 81,177
Accounts receivable, less allowance for doubtful accounts - 2016: \$2,698 ; 2015: \$3,252	9,162	9,277
Grants receivable	128,523	2,110,553
Contracts receivable	41,813	112,482
Pledges receivable, current portion	-	22,958
Prepaid expense	<u>2,553</u>	<u>4,094</u>
TOTAL CURRENT ASSETS	<u>252,911</u>	<u>2,340,541</u>
<u>INVESTMENTS</u> , at fair value	<u>4,999,943</u>	<u>502,958</u>
<u>PROPERTY AND EQUIPMENT</u>		
Land	2,500	2,500
Building	4,310,829	573,385
Building improvements	755,940	1,059,060
Furniture and equipment	96,741	97,384
Autos/trucks	52,786	61,786
Other equipment	111,057	52,879
Land improvements	74,196	-
Houses, less valuation allowance - 2016 and 2015: \$90,000	121,341	121,341
Construction in progress	<u>-</u>	<u>1,447,664</u>
	5,525,390	3,415,999
Less accumulated depreciation	<u>1,295,431</u>	<u>1,428,058</u>
	<u>4,229,959</u>	<u>1,987,941</u>
TOTAL ASSETS	<u>\$ 9,482,813</u>	<u>\$ 4,831,440</u>

See Notes to Financial Statements.

HAWTHORNE SOCIAL SERVICE ASSOCIATION, INC

STATEMENTS OF FINANCIAL POSITION - continued
Years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Capital lease obligations - current portion	\$ -	\$ 4,751
Accounts payable	29,450	89,124
Construction payable	-	455,136
Accrued expenses	<u>32,894</u>	<u>32,848</u>
TOTAL CURRENT LIABILITIES	<u>62,344</u>	<u>581,859</u>
 <u>LONG-TERM LIABILITIES</u>		
Capital lease obligations, less current portion	<u>-</u>	<u>3,607</u>
 <u>NET ASSETS</u>		
Unrestricted	4,157,566	2,056,193
Temporarily restricted	532,903	2,189,781
Permanently restricted	<u>4,730,000</u>	<u>-</u>
TOTAL NET ASSETS	<u>9,420,469</u>	<u>4,245,974</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 9,482,813</u>	 <u>\$ 4,831,440</u>

See Notes to Financial Statements.

HAWTHORNE SOCIAL SERVICE ASSOCIATION, INC

STATEMENTS OF ACTIVITIES

Year ended December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>SUPPORT AND REVENUE</u>				
Direct public support:				
Contributions	\$ 54,459	\$ -	\$ -	\$ 54,459
Capital campaign - contributions and grants	-	235,388	-	235,388
Grants and awards	176,600	672,512	4,730,000	5,579,112
Fundraising-special events	13,850	-	-	13,850
Gift-in-kind contributions	6,550	-	-	6,550
	<u>251,459</u>	<u>907,900</u>	<u>4,730,000</u>	<u>5,889,359</u>
Indirect public support:				
United Way Community Funding	119,352	119,343	-	238,695
	<u>119,352</u>	<u>119,343</u>	<u>-</u>	<u>238,695</u>
Fees from contracts	311,521	-	-	311,521
Program service fees	120,708	-	-	120,708
Dividend and interest income	12,165	-	-	12,165
Realized gain (loss) on investments	(18,362)	-	-	(18,362)
Unrealized gain (loss) on investments	24,062	-	-	24,062
Other revenue	19,495	-	-	19,495
Gain (loss) on asset disposal	(68,677)	-	-	(68,677)
	<u>400,912</u>	<u>-</u>	<u>-</u>	<u>400,912</u>
				-
SUPPORT AND REVENUE BEFORE RELEASE FROM RESTRICTIONS	771,723	1,027,243	4,730,000	6,528,966
Release from restrictions	<u>2,684,121</u>	<u>(2,684,121)</u>	<u>-</u>	<u>-</u>
TOTAL SUPPORT AND REVENUE	<u>3,455,844</u>	<u>(1,656,878)</u>	<u>4,730,000</u>	<u>6,528,966</u>
<u>EXPENSES</u>				
Program services	1,276,687	-	-	1,276,687
Supporting activities	77,784	-	-	77,784
	<u>1,354,471</u>	<u>-</u>	<u>-</u>	<u>1,354,471</u>
TOTAL EXPENSES	<u>1,354,471</u>	<u>-</u>	<u>-</u>	<u>1,354,471</u>
CHANGE IN NET ASSETS	2,101,373	(1,656,878)	4,730,000	5,174,495
<u>NET ASSETS</u>				
Beginning of year	<u>2,056,193</u>	<u>2,189,781</u>	<u>-</u>	<u>4,245,974</u>
End of year	<u>\$ 4,157,566</u>	<u>\$ 532,903</u>	<u>\$ 4,730,000</u>	<u>\$9,420,469</u>

See Notes to Financial Statements.

HAWTHORNE SOCIAL SERVICE ASSOCIATION, INC

STATEMENTS OF ACTIVITIES - continued

Year ended December 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>SUPPORT AND REVENUE</u>				
Direct public support:				
Contributions	\$ 43,203	\$ -	\$ -	\$ 43,203
Capital campaign - contributions and grants	-	2,060,397	-	2,060,397
Grants and awards	-	349,780	-	349,780
Fundraising-special events	4,010	-	-	4,010
Gift-in-kind contributions	25,245	-	-	25,245
	<u>72,458</u>	<u>2,410,177</u>	<u>-</u>	<u>2,482,635</u>
Indirect public support:				
United Way Community Funding	115,732	115,728	-	231,460
Fees from contracts	393,820	-	-	393,820
Program service fees	111,491	-	-	111,491
Dividend and interest income	33,923	-	-	33,923
Realized gain (loss) on investments	(17,127)	-	-	(17,127)
Unrealized gain (loss) on investments	(4,552)	-	-	(4,552)
Other revenue	19,380	-	-	19,380
Gain (loss) on asset disposal	(436)	-	-	(436)
	<u>536,499</u>	<u>-</u>	<u>-</u>	<u>536,499</u>
SUPPORT AND REVENUE BEFORE RELEASE FROM RESTRICTIONS	724,689	2,525,905	-	3,250,594
Release from restrictions	<u>1,017,472</u>	<u>(1,017,472)</u>	<u>-</u>	<u>-</u>
TOTAL SUPPORT AND REVENUE	<u>1,742,161</u>	<u>1,508,433</u>	<u>-</u>	<u>3,250,594</u>
<u>EXPENSES</u>				
Program services	1,202,468	-	-	1,202,468
Supporting activities	73,707	-	-	73,707
TOTAL EXPENSES	<u>1,276,175</u>	<u>-</u>	<u>-</u>	<u>1,276,175</u>
CHANGE IN NET ASSETS	465,986	1,508,433	-	1,974,419
<u>NET ASSETS</u>				
Beginning of year	<u>1,590,207</u>	<u>681,348</u>	<u>-</u>	<u>2,271,555</u>
End of year	<u>\$ 2,056,193</u>	<u>\$ 2,189,781</u>	<u>\$ -</u>	<u>\$ 4,245,974</u>

See Notes to Financial Statements.

HAWTHORNE SOCIAL SERVICE ASSOCIATION, INC

STATEMENTS OF FUNCTIONAL EXPENSES

Year ended December 31, 2016

	Program Services						Supporting Activities				Total
	School Age Child Care	Homeless Prevention Services	Youth General Social Development	Early Childhood	Senior Citizens Services	Economic Develop- ment	Total Program	Mgmt and General	Fund- Raising	Total Supporting	
Salaries and wages	\$ 195,768	\$ 279,254	\$ 19,892	\$ 173,488	\$ 64,911	\$ 4,865	\$ 738,178	\$ 6,221	\$ 7,519	\$ 13,740	\$ 751,918
Employee benefits	1,743	425	183	1,020	764	-	4,135	804	-	804	4,939
Payroll taxes	15,325	21,671	1,529	14,557	4,446	386	57,914	397	-	397	58,311
Legal and professional	5,600	17,293	3,055	6,175	1,701	-	33,824	4,864	11,000	15,864	49,688
Office supplies	30,154	2,109	325	24,896	9,702	-	67,186	461	4,817	5,278	72,464
Telephone	8,839	7,361	3,999	3,768	3,601	-	27,568	7,453	2,060	9,513	37,081
Postage and shipping	85	185	51	162	38	-	521	705	-	705	1,226
Occupancy-rental, utilities	19,277	33,611	8,067	15,056	4,820	99	80,930	3,391	-	3,391	84,321
Occupancy-routine upkeep	4,559	5,606	2,375	5,104	1,785	-	19,429	2,504	-	2,504	21,933
Occupancy-repairs	3,160	5,473	2,007	12,360	1,480	-	24,480	1,752	-	1,752	26,232
Conferences and meetings	2,133	6,850	86	502	65	-	9,636	4,257	-	4,257	13,893
Printing and publications	47	390	28	57	21	-	543	95	-	95	638
Travel and transportation	7,201	792	1,875	632	5,068	-	15,568	-	-	-	15,568
Contributions, dues, and awards	1,608	605	86	438	736	-	3,473	1,043	-	1,043	4,516
Rental/maintenance	2,112	3,797	1,462	2,443	2,152	-	11,966	2,987	-	2,987	14,953
Activity fees and charges	4,862	-	600	120	112	-	5,694	-	-	-	5,694
Interest expense	105	135	105	105	25	-	475	25	-	25	500
Other insurance	1,665	2,697	1,064	1,611	412	14	7,463	899	-	899	8,362
Specific assistance	-	34,764	-	-	-	-	34,764	-	-	-	34,764
Other expenses	3,804	1,412	79	942	75	5,360	11,672	3,383	5,543	8,926	20,598
Depreciation	49,586	32,035	18,502	17,762	3,383	-	121,268	5,604	-	5,604	126,872
	<u>\$ 357,633</u>	<u>\$ 456,465</u>	<u>\$ 65,370</u>	<u>\$ 281,198</u>	<u>\$ 105,297</u>	<u>\$ 10,724</u>	<u>\$ 1,276,687</u>	<u>\$ 46,845</u>	<u>\$ 30,939</u>	<u>\$ 77,784</u>	<u>\$ 1,354,471</u>

See Notes to Financial Statements.

HAWTHORNE SOCIAL SERVICE ASSOCIATION, INC

STATEMENTS OF FUNCTIONAL EXPENSES - continued

Year ended December 31, 2015

	Program Services						Supporting Activities				Total
	School Age Child Care	Homeless Prevention Services	Youth General Social Development	Early Childhood	Senior Citizens Services	Economic Develop- ment	Total Program	Mgmt and General	Fund- Raising	Total Supporting	
Salaries and wages	\$ 169,623	\$ 285,946	\$ 19,113	\$ 175,009	\$ 53,792	\$ 11,530	\$ 715,013	\$ 1,253	\$ 7,623	\$ 8,876	\$ 723,889
Employee benefits	1,767	1,106	(84)	824	775	-	4,388	587	-	587	4,975
Payroll taxes	15,431	19,385	1,495	13,611	4,380	859	55,161	83	583	666	55,827
Legal and professional	9,711	67,099	2,941	4,991	1,584	-	86,326	5,038	8,694	13,732	100,058
Office supplies	35,157	1,813	123	19,186	9,698	-	65,977	252	4,744	4,996	70,973
Telephone	6,878	7,012	2,988	5,797	2,938	-	25,613	3,928	-	3,928	29,541
Postage and shipping	327	49	32	68	52	-	528	251	196	447	975
Occupancy-rental, utilities	13,711	23,095	8,009	11,773	2,513	328	59,429	3,209	-	3,209	62,638
Occupancy-routine upkeep	6,109	2,486	1,770	3,726	2,241	-	16,332	2,175	-	2,175	18,507
Occupancy-repairs	1,453	971	794	1,754	716	-	5,688	1,029	-	1,029	6,717
Conferences and meetings	1,021	4,033	42	628	87	-	5,811	1,334	3,445	4,779	10,590
Printing and publications	157	327	35	73	56	-	648	7	-	7	655
Travel and transportation	7,749	469	1,657	-	3,506	-	13,381	143	-	143	13,524
Contributions, dues, and awards	382	813	46	1,970	129	-	3,340	173	-	173	3,513
Rental/maintenance	1,985	1,601	379	3,450	2,105	-	9,520	3,453	-	3,453	12,973
Activity fees and charges	4,992	-	-	257	146	-	5,395	-	-	-	5,395
Interest expense	352	452	352	352	82	-	1,590	158	-	158	1,748
Other insurance	1,389	2,008	885	1,350	357	-	5,989	816	-	816	6,805
Specific assistance	-	43,382	-	-	-	-	43,382	-	-	-	43,382
Other expenses	2,858	6,210	155	2,224	66	4,332	15,845	6,397	14,813	21,210	37,055
Depreciation	13,951	17,937	13,951	13,951	3,322	-	63,112	3,323	-	3,323	66,435
	<u>\$ 295,003</u>	<u>\$ 486,194</u>	<u>\$ 54,683</u>	<u>\$ 260,994</u>	<u>\$ 88,545</u>	<u>\$ 17,049</u>	<u>\$ 1,202,468</u>	<u>\$ 33,609</u>	<u>\$ 40,098</u>	<u>\$ 73,707</u>	<u>\$ 1,276,175</u>

See Notes to Financial Statements.

HAWTHORNE SOCIAL SERVICE ASSOCIATION, INC

STATEMENTS OF CASH FLOWS

Years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Change in net assets	\$ 5,174,495	\$ 1,974,419
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	126,872	66,435
Donated property and equipment	(6,550)	(13,500)
Realized and unrealized (gain) loss	(5,700)	21,679
(Gain) loss on disposal of fixed assets	68,677	436
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	115	901
Grants and contracts receivable	2,052,699	(1,961,673)
Prepaid expenses	1,541	1,843
Increase (decrease) in:		
Accounts payable	(59,674)	61,388
Construction payable	(455,136)	455,136
Accrued payroll and taxes	46	489
Net cash provided by (used in) operating activities	6,897,385	607,553
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Proceeds from sale of investments	456,000	608,500
Purchase of investments	(4,947,285)	(33,833)
Proceeds from sale of property and equipment	500	-
Purchases of property and equipment	(2,437,985)	(1,208,516)
Net cash provided by (used in) investing activities	(6,928,770)	(633,849)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Pledges receivable restricted for building campaign	22,958	16,200
Payments on line of credit	-	(25,000)
Principal payments on capital lease obligations	(1,890)	(4,062)
Net cash provided by (used in) financing activities	21,068	(12,862)
Increase (decrease) in cash and cash equivalents	(10,317)	(39,158)
<u>CASH AND CASH EQUIVALENTS</u>		
Beginning of year	81,177	120,335
End of year	\$ 70,860	\$ 81,177

See Notes to Financial Statements.

HAWTHORNE SOCIAL SERVICE ASSOCIATION, INC

STATEMENTS OF CASH FLOWS - continued

Years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<u>SUPPLEMENTAL DISCLOSURES</u>		
<u>OF CASH FLOW INFORMATION</u>		
Gift-in-kind contributions	\$ <u>6,550</u>	\$ <u>25,245</u>
Cash payments for interest	\$ <u>500</u>	\$ <u>1,748</u>

See Notes to Financial Statements.

HAWTHORNE SOCIAL SERVICE ASSOCIATION, INC

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE 1 NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

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

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

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

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

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

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

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

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

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

HAWTHORNE SOCIAL SERVICE ASSOCIATION, INC

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE 1 NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES- continued

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

A. Basis of Accounting

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

These financial statements have been prepared to focus on the entity as a whole and to present transactions according to the existence, or absence of, donor-imposed restrictions in conformity with accounting principles generally accepted in the United States of America. This has been done by classification of transactions and balances into three categories of net assets: unrestricted net assets which have no donor-imposed restrictions, temporarily restricted net assets which have donor-imposed restrictions that will expire in the future, and permanently restricted net assets which have donor-imposed restrictions which do not expire.

B. Cash and Cash Equivalents

HSSA's cash and cash equivalents consist of checking and money market savings accounts. HSSA maintains checking and savings balances at commercial banks.

C. Concentration of Risks

HSSA maintains its cash balances with two financial institutions. The demand deposit accounts are partially insured by the Federal Deposit Insurance Corporation. The balances, at times, may exceed federally insured limits.

Approximately 4% and 7% of HSSA's total revenue was from United Way for general operating support in 2016 and 2015, respectively. In addition to general operating support, the United Way also provides other support for various HSSA programs. Refer to Note 7 for the detail of United Way operating support. In 2015, HSSA received directly and indirectly approximately \$1,990,000 from the United Way for their capital campaign. This makes up approximately 61% of HSSA's total revenue for 2015.

In 2016, HSSA received \$5,000,000 from the Lilly Endowment to establish and endowment and fund capacity building (Note 11). This makes up approximately 77% of HSSA's total revenue in 2016.

Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term could materially affect the amounts reported in HSSA's financial statements.

D. Accounts Receivable

HSSA follows the allowance method for accounting for uncollectible accounts. Management established an allowance for bad debts for the years ended December 31, 2016 and 2015, in the amount of \$2,698 and \$3,252, respectively.

HAWTHORNE SOCIAL SERVICE ASSOCIATION, INC

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE 1 NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES- continued

D. Accounts Receivable - continued

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

E. Grants and Contracts Receivable

Grants and contracts receivable include reimbursements and unconditional promises to give, and are reported at net realizable value. All amounts are expected to be collected within one year, and none are considered uncollectible as of the years ended December 31, 2016 and 2015.

F. Pledges Receivable

Pledges receivable represent promises to give which have been made by donors but have not yet been received by HSSA. Pledges receivable are considered impaired if full payments will not be received in accordance with the contractual terms. All amounts are expected to be collected within the next year, and none are considered uncollectible as of the years ended December 31, 2016 and 2015.

G. Investments

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

H. Property and Equipment

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

When necessary, a valuation allowance is used to reduce the carrying value of properties held for future use to their estimated realizable value. HSSA has determined and provided for a valuation allowance of \$90,000 as of December 31, 2016 and 2015.

Depreciation in the amount of \$126,872 and \$66,435 has been allocated to program services and supporting activities in the statements of activities for the years ended December 31, 2016 and 2015, respectively.

I. Support and Revenues

Revenue funded by contracts and fees are recognized as HSSA performs the contracted services. Grants and other support revenues are recognized when contributions are made, which may be when cash is received, unconditional promises or pledges are made or ownership of assets is transferred to HSSA. Grant expenditures are subject to audit and acceptance by the granting agency, and adjustments could be required as a result of such audit.

HAWTHORNE SOCIAL SERVICE ASSOCIATION, INC

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE 1 NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES- continued

I. Support and Revenues - continued

HSSA reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated amounts. When a stipulated time restriction ends or purpose restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restriction.

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

J. Gift-in-Kind Contributions

In addition to receiving cash contributions, HSSA received in-kind contributions totaling \$6,550 and \$25,245 for the years ending December 31, 2016 and 2015, respectively, which are reported as contributions in the statements of activities.

K. Functional Expenses

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

L. Tax Status

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

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

M. Use of Estimates

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

HAWTHORNE SOCIAL SERVICE ASSOCIATION, INC

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE 1 NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES- continued

N. Evaluation of Subsequent Events

HSSA has evaluated subsequent events through March 21, 2017, which is the date the financial statements were available to be issued.

NOTE 2 FAIR VALUE MEASUREMENTS

HSSA utilizes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

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

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

While HSSA believes its valuation methods are appropriate and consistent with the other market participants, the use of different methodologies or assumptions to determining the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

During the years ended December 31, 2016 and 2015, there were no changes to HSSA's valuation techniques that had, or are expected to have, a material impact on its financial position or results of operations.

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

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

HAWTHORNE SOCIAL SERVICE ASSOCIATION, INC

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE 2 FAIR VALUE MEASUREMENTS - continued

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

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

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

Assets measured at fair value as of December 31, 2016 and 2015 are summarized as follows:

	2016			
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money Market Funds	\$ 4,969,485	\$ -	\$ 4,969,485	\$ -
Equity Securities	12,863	12,863	-	-
Corporate Bonds	-	-	-	-
Mutual Fund - Fixed Income	17,595	17,595	-	-
Total Assets	<u>\$ 4,999,943</u>	<u>\$ 30,458</u>	<u>\$ 4,969,485</u>	<u>\$ -</u>

	2015			
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money Market Funds	\$ 33,756	\$ -	\$ 33,756	\$ -
Equity Securities	12,300	12,300	-	-
Corporate Bonds	29,000	-	29,000	-
Mutual Fund - Fixed Income	427,902	427,902	-	-
Total Assets	<u>\$ 502,958</u>	<u>\$ 440,202</u>	<u>\$ 62,756</u>	<u>\$ -</u>

Management evaluated the significance of transfers between levels based upon the nature of the financial instruments and size of the transfer relative to total assets. For the years ended December 31, 2016 and 2015, there were no significant transfers in or out of Levels 1, 2 or 3.

NOTE 3 INVESTMENTS

Investments are composed of the following:

	<u>2016</u>	<u>2015</u>
Money Market Funds	\$ 4,969,485	\$ 33,756
Equity Securities	12,863	12,300
Mutual Fund	17,595	427,902
Corporate Bonds	-	29,000
	<u>\$ 4,999,943</u>	<u>\$ 502,958</u>

HAWTHORNE SOCIAL SERVICE ASSOCIATION, INC

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE 3 INVESTMENTS - continued

Net return on investments is as follows:

	<u>2016</u>	<u>2015</u>
Investment income	\$ 12,042	\$ 33,833
Realized gain (loss)	(18,362)	(17,127)
Unrealized gain (loss)	24,062	(4,552)
	<u>\$ 17,742</u>	<u>\$ 12,154</u>

NOTE 4 LINE OF CREDIT

HSSA has a line of credit with PNC with a maximum debt facility of \$100,000 available through September 27, 2017. Amounts borrowed are secured by a commercial security agreement securing all assets of HSSA. There were no borrowings on the line of credit in 2016 or 2015. Interest is assessed at the highest Prime Rate as published in the "Money Rates" section of The Wall Street Journal. The effective rate at December 31, 2016 and 2015 was 3.75% and 3.5%, respectively.

NOTE 5 CAPITAL LEASE OBLIGATIONS

At December 31, 2016 and 2015, capital lease obligations consisted of the following:

	<u>2016</u>	<u>2015</u>
Canon Solutions America - Equipment lease with monthly lease payments of \$478 through August 2017.	\$ -	\$ 8,358
Less current portion	-	4,751
Long-term portion	<u>\$ -</u>	<u>\$ 3,607</u>

The net book value of leased property as of December 31, 2016 and 2015, is classified as follows:

	<u>2016</u>	<u>2015</u>
Equipment	\$ -	\$ 19,752
Less accumulated depreciation	-	13,497
	<u>\$ -</u>	<u>\$ 6,255</u>

HSSA returned the copier back to Canon Solutions America in May 2016.

HAWTHORNE SOCIAL SERVICE ASSOCIATION, INC

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE 6 OPERATING LEASES

HSSA is obligated under an operating lease for two copiers with a monthly payment of \$825 through May 2021.

Future minimum lease payments under this obligation is as follows:

2017	\$	9,900
2018		9,900
2019		9,900
2020		9,900
2021		4,125
Thereafter		-
	\$	<u>43,725</u>

Total operating lease payments for the years ended December 31, 2016 and 2015 were \$10,184 and 7,854, respectively.

NOTE 7 FUNCTIONAL ALLOCATION OF UNITED WAY SUPPORT

Operating support from United Way for years ended December 31, 2016 and 2015, was allocated to the following program services and supporting activities:

	<u>2016</u>	<u>2015</u>
Indirect public support from United Way:		
Community Impact Fund	\$ <u>238,695</u>	\$ <u>231,460</u>
Program Allocation:		
Program services:		
School age child care	\$ 7,280	\$ 58,183
Homeless prevention services	5,612	77,970
Youth general social development	22,746	16,572
Early Childhood	132,121	11,940
Senior citizens services	44,611	32,779
	<u>212,370</u>	<u>197,444</u>
Support activities:		
Management and general	26,325	34,016
	<u>\$ 238,695</u>	<u>\$ 231,460</u>

HAWTHORNE SOCIAL SERVICE ASSOCIATION, INC

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE 8 PENSION PLAN

HSSA has established a 403(b) tax-deferred annuity plan for its employees. Employees can make pretax contributions in addition to any discretionary payments made by HSSA. For the years ended December 31, 2016 and 2015, HSSA made no contributions to the plan.

NOTE 9 CAPITAL CAMPAIGN

In 2014, HSSA started a \$3.5 million capital campaign to renovate and expand the building. The current facility is almost 40 years old with significant electrical, HVAC, roofing, technology and plumbing issues. The project will improve and add youth classrooms, update the existing gymnasium, create a new and large multi-purpose room, update restrooms and support facilities, replace the existing roof and building systems, and consolidate the administrative offices.

HSSA raised approximately \$3.8 million for the capital project that was completed on June 3, 2016. United Way was a significant funder of the project, providing approximately 40% of the total funding.

NOTE 10 NET ASSETS

Net assets consist of the following:

	<u>2016</u>	<u>2015</u>
Unrestricted:		
Undesignated	\$ 4,157,566	\$ 1,957,365
Designated by the Board for building fund	-	98,828
Total unrestricted	<u>\$ 4,157,566</u>	<u>\$ 2,056,193</u>
Temporarily restricted:		
Purpose restrictions:		
Senior citizens services	\$ 25,000	\$ -
Early educational programming	8,000	27,084
Homeless prevention services	114,180	48,540
Building fund	-	1,992,321
Lilly Endowment fund	270,000	
Time restrictions:		
United Way operating grant	115,723	121,836
Total temporarily restricted	<u>\$ 532,903</u>	<u>\$ 2,189,781</u>
Permanently restricted:		
Lilly Endowment fund	<u>\$ 4,730,000</u>	<u>\$ -</u>
Total permanently restricted	<u>\$ 4,730,000</u>	<u>\$ -</u>

HAWTHORNE SOCIAL SERVICE ASSOCIATION, INC

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE 11 LILLY ENDOWMENT FUND

In December 2016, HSSA received a grant of \$5,000,000 from Lilly Endowment (the "Endowment") to establish an endowment and fund capacity building. \$4,730,000 of the grant funds awarded by the Endowment shall be maintained and managed as a permanently restricted, donor-designated endowment.

The grant agreement has provided detailed spending guidelines if the grant fund balance equals or is less than the historic dollar value of the grant or the grant fund balance is greater than the historic value of the grant on the annual valuation date. HSSA is in the process of developing and implementing investment and spending policies to provide a long-term organizational and operational sustainability.