

Hawthorn Hill  
INDEPENDENT AUDITOR'S REPORT  
AND  
FINANCIAL STATEMENTS  
Years ended June 30, 2018 and 2017

## CONTENTS

|  | <u>Page</u> |
|--|-------------|
| INDEPENDENT AUDITOR'S REPORT   | 1           |
| FINANCIAL STATEMENTS   |             |
| Statements of Financial Position - June 30, 2018 and 2017              | 2           |
| Statements of Activities - Years ended June 30, 2018 and 2017          | 3-4         |
| Statements of Functional Expenses - Years ended June 30, 2018 and 2017 | 5-6         |
| Statements of Cash Flows - Years ended June 30, 2018 and 2017          | 7           |
| Notes to Financial Statements  | 8-15        |

**DONALD W. CROGHAN, CPA**  
A Professional Corporation



The CPA. Never Underestimate The Value.

Member  
American Institute of CPAs  
Iowa Society of CPAs

**INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Hawthorn Hill  
Des Moines, Iowa

I have audited the accompanying financial statements of Hawthorn Hill (a nonprofit 501(c)(3) organization) which comprise the statements of financial position as of June 30, 2018 and 2017 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***

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

***Opinion***

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hawthorn Hill as of June 30, 2018 and 2017 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.

*Donald W. Croghan CPA, P.C.*

Donald W. Croghan, CPA, PC  
Knoxville, IA 50138  
November 2, 2018

Hawthorn Hill  
**STATEMENTS OF FINANCIAL POSITION**  
June 30, 2018 and 2017

|  | 2018                | 2017                |
|--|---------------------|---------------------|
| <b>ASSETS</b>  |                     |                     |
| Cash and cash equivalents  | \$ 18,986           | \$ 6,004            |
| Investment in assets held at the Community Foundation<br>of Greater Des Moines | 444,943             | 375,421             |
| Certificates of deposit  | 50,363              | 60,270              |
| Government grants receivable   | -                   | 8,868               |
| Promises to give   | -                   | 7,425               |
| Prepaid expenses   | 8,000               | 8,804               |
| Total current assets   | 522,292             | 466,792             |
| <b>Other Assets</b>  |                     |                     |
| Certificate of deposit   | 10,004              | -                   |
| Beneficial interests   | 6,135               | 5,940               |
| Property and equipment, net of accumulated depreciation                        | 1,517,160           | 1,545,937           |
| Total other assets   | 1,533,299           | 1,551,877           |
| <b>TOTAL ASSETS</b>  | <b>\$ 2,055,591</b> | <b>\$ 2,018,669</b> |
| <b>LIABILITIES AND NET ASSETS</b>  |                     |                     |
| <b>Current Liabilities</b>   |                     |                     |
| Accounts payable   | \$ 8,519            | \$ 7,387            |
| Accrued expenses   | 20,498              | 15,043              |
| Client escrow  | 13,318              | 12,094              |
| Tenant security deposits   | 12,802              | 12,051              |
| Current portion of long term liabilities                                       | 5,300               | 3,625               |
| Total current liabilities  | 60,437              | 50,200              |
| <b>Long Term Liabilities</b>   |                     |                     |
| Notes payable  | 61,441              | 65,802              |
| Less current portion   | ( 5,300)            | ( 3,625)            |
| Total long-term liabilities  | 56,141              | 62,177              |
| Total liabilities  | 116,578             | 112,377             |
| <b>Net assets</b>  |                     |                     |
| Unrestricted   | 1,932,878           | 1,882,927           |
| Temporarily restricted net assets  | 1,035               | 18,265              |
| Permanently restricted net assets  | 5,100               | 5,100               |
| Total net assets   | 1,939,013           | 1,906,292           |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>  | <b>\$ 2,055,591</b> | <b>\$ 2,018,669</b> |

See notes to financial statements

Hawthorn Hill  
**STATEMENT OF ACTIVITIES**  
Year ended June 30, 2018

|                                       | Unrestricted        | Temporarily<br>Restricted | Permanently<br>Restricted | Total               |
|---------------------------------------|---------------------|---------------------------|---------------------------|---------------------|
| Operating revenues and support        |                     |                           |                           |                     |
| Contributions                         | \$ 336,723          | \$ -                      | \$ -                      | \$ 336,723          |
| Iowa Annual Conference                | 12,250              | -                         | -                         | 12,250              |
| United Way                            | 90,000              | -                         | -                         | 90,000              |
| Government operating grants           | 139,923             | -                         | -                         | 139,923             |
| Program fees                          | 135,294             | -                         | -                         | 135,294             |
| Special events                        | 40,165              | -                         | -                         | 40,165              |
| Contracts                             | 27,000              | -                         | -                         | 27,000              |
| Investment return                     | 4,091               | 195                       | -                         | 4,286               |
| Other income                          | 232                 | -                         | -                         | 232                 |
| Gain on sale of assets                | 33,017              | -                         | -                         | 33,017              |
| Net assets released from restrictions | 17,425              | ( 17,425)                 | -                         | -                   |
| Total operating revenues and support  | <u>836,120</u>      | <u>( 17,230)</u>          | <u>-</u>                  | <u>818,890</u>      |
| Expenses                              |                     |                           |                           |                     |
| Program services                      |                     |                           |                           |                     |
| New Directions Shelter                | 301,562             | -                         | -                         | 301,562             |
| The Home Connection                   | 300,732             | -                         | -                         | 300,732             |
| Support services                      |                     |                           |                           |                     |
| Management and general                | 141,149             | -                         | -                         | 141,149             |
| Fund raising                          | 42,726              | -                         | -                         | 42,726              |
| Total operating expenses              | <u>786,169</u>      | <u>-</u>                  | <u>-</u>                  | <u>786,169</u>      |
| Change in net assets                  | 49,951              | ( 17,230)                 | -                         | 32,721              |
| Net assets June 30, 2017              | 1,882,927           | 18,265                    | 5,100                     | 1,906,292           |
| Net assets June 30, 2018              | <u>\$ 1,932,878</u> | <u>\$ 1,035</u>           | <u>\$ 5,100</u>           | <u>\$ 1,939,013</u> |

See notes to financial statements

Hawthorn Hill  
**STATEMENT OF ACTIVITIES**  
Year ended June 30, 2017

|                                       | <u>Unrestricted</u> | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>        |
|---------------------------------------|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Operating revenues and support        |                     |                                   |                                   |                     |
| Contributions                         | \$ 305,155          | \$ 10,000                         | \$ -                              | \$ 315,155          |
| Iowa Annual Conference                | 10,675              | 7,425                             | -                                 | 18,100              |
| United Way                            | 88,601              | -                                 | -                                 | 88,601              |
| Government operating grants           | 150,603             | -                                 | -                                 | 150,603             |
| Program fees                          | 126,244             | -                                 | -                                 | 126,244             |
| Contracts                             | 51,000              | -                                 | -                                 | 51,000              |
| Investment return                     | 1,621               | 645                               | -                                 | 2,266               |
| Other income                          | 4,695               | -                                 | -                                 | 4,695               |
| Net assets released from restrictions | 39,250              | ( 39,250 )                        | -                                 | -                   |
| Total operating revenues and support  | <u>777,844</u>      | <u>( 21,180 )</u>                 | <u>-</u>                          | <u>756,664</u>      |
| Expenses                              |                     |                                   |                                   |                     |
| Program services                      |                     |                                   |                                   |                     |
| New Directions Shelter                | 313,404             | -                                 | -                                 | 313,404             |
| The Home Connection                   | 327,679             | -                                 | -                                 | 327,679             |
| Support services                      |                     |                                   |                                   |                     |
| Management and general                | 104,963             | -                                 | -                                 | 104,963             |
| Fund raising                          | 25,597              | -                                 | -                                 | 25,597              |
| Total operating expenses              | <u>771,643</u>      | <u>-</u>                          | <u>-</u>                          | <u>771,643</u>      |
| Change in net assets                  | 6,201               | ( 21,180 )                        | -                                 | ( 14,979 )          |
| Net assets June 30, 2016              | 1,876,726           | 39,445                            | 5,100                             | 1,921,271           |
| Net assets June 30, 2017              | <u>\$ 1,882,927</u> | <u>\$ 18,265</u>                  | <u>\$ 5,100</u>                   | <u>\$ 1,906,292</u> |

See notes to financial statements

Hawthorn Hill  
**STATEMENT OF FUNCTIONAL EXPENSES**  
Year ended June 30, 2018

|  | Program Services       |                     |                 | Support Services       |              |            |
|--|------------------------|---------------------|-----------------|------------------------|--------------|------------|
|  | New Directions Shelter | The Home Connection |                 | Management and General | Fund Raising | Total      |
|  |                        | Property Management | Case Management |                        |              |            |
| Salaries and benefits                      |                        |                     |                 |                        |              |            |
| Salaries                                   | \$ 204,723             | \$ 57,859           | \$ 65,696       | \$ 123,555             | \$ 20,384    | \$ 405,209 |
| Employee benefits                          | 11,009                 | 13,257              | 13,258          | 26,515                 | 4,214        | 51,475     |
| Payroll taxes                              | 16,158                 | 3,513               | 7,131           | 10,644                 | 1,765        | 33,077     |
|  | 231,890                | 74,629              | 86,085          | 160,714                | 26,363       | 489,761    |
| Accounting                                 | 14                     | -                   | -               | -                      | 20,672       | 20,686     |
| Consulting/management fundraising services | 360                    | -                   | 788             | 788                    | 17,020       | 19,298     |
| Client assistance                          | 1,203                  | -                   | -               | -                      | -            | 1,203      |
| Office supplies                            | 677                    | 414                 | 840             | 1,254                  | 2,188        | 5,919      |
| Telephone                                  | 2,959                  | 1,273               | 2,586           | 3,859                  | 840          | 7,658      |
| Postage                                    | 214                    | 22                  | -               | 22                     | 573          | 3,072      |
| Maintenance                                | 12,633                 | 14,613              | 4,872           | 19,485                 | -            | 32,118     |
| Utilities                                  | 15,518                 | 11,476              | -               | 11,476                 | -            | 26,994     |
| Depreciation                               | 19,404                 | 70,519              | -               | 70,519                 | -            | 89,923     |
| Printing                                   | 418                    | 2,882               | 418             | 418                    | 300          | 7,138      |
| Transportation                             | 607                    | -                   | 2,233           | 5,115                  | 2,191        | 7,913      |
| Continuing education                       | 729                    | -                   | 698             | 698                    | 117          | 1,544      |
| Food and supplies                          | 4,300                  | -                   | 376             | 376                    | -            | 4,676      |
| Interest                                   | -                      | 2,748               | -               | 2,748                  | -            | 2,748      |
| Insurance                                  | 8,841                  | 13,262              | -               | 13,262                 | 9,473        | 31,576     |
| Professional fees                          | -                      | -                   | -               | -                      | 7,650        | 7,650      |
| Other                                      | 1,795                  | 7,914               | 2,084           | 9,998                  | 9,331        | 26,292     |
| Totals                                     | \$ 301,562             | \$ 199,752          | \$ 100,980      | \$ 300,732             | \$ 141,149   | \$ 786,169 |
|  |                        |                     |                 |                        | \$ 42,726    | \$ 42,726  |

See Notes to Financial Statements.

Hawthorn Hill  
**STATEMENT OF FUNCTIONAL EXPENSES**  
Year ended June 30, 2017

|                       | Program Services       |                     |                 | Support Services       |              |            |
|-----------------------|------------------------|---------------------|-----------------|------------------------|--------------|------------|
|                       | New Directions Shelter | The Home Connection |                 | Management and General | Fund Raising | Total      |
|                       |                        | Property Management | Case Management |                        |              |            |
| Salaries and benefits |                        |                     |                 |                        |              |            |
| Salaries              | \$ 213,878             | \$ 57,859           | \$ 97,165       | \$ 155,024             | \$ 13,454    | \$ 409,690 |
| Employee benefits     | 14,497                 | 12,200              | 12,200          | 24,400                 | 2,100        | 46,667     |
| Payroll taxes         | 19,058                 | 4,582               | 9,303           | 13,885                 | 1,201        | 36,606     |
|                       | 247,433                | 74,641              | 118,668         | 193,309                | 16,756       | 492,964    |
| Accounting            | 16                     | -                   | -               | -                      | -            | 21,084     |
| Consulting            | -                      | -                   | 68              | 68                     | 840          | 17,807     |
| Client assistance     | 6,652                  | -                   | 50              | 50                     | -            | 6,702      |
| Office supplies       | 724                    | 56                  | 114             | 170                    | 360          | 2,357      |
| Telephone             | 2,881                  | 1,231               | 2,499           | 3,730                  | -            | 7,451      |
| Postage               | 206                    | 6                   | -               | 6                      | 2,297        | 3,410      |
| Maintenance           | 7,413                  | 12,508              | 4,169           | 16,677                 | -            | 24,090     |
| Utilities             | 13,197                 | 10,776              | -               | 10,776                 | -            | 23,973     |
| Depreciation          | 19,063                 | 69,601              | -               | 69,601                 | -            | 88,664     |
| Printing              | 90                     | -                   | 90              | 90                     | 5,345        | 6,858      |
| Transportation        | 1,656                  | 5,080               | 2,424           | 7,504                  | -            | 11,829     |
| Continuing education  | 615                    | -                   | 15              | 15                     | -            | 949        |
| Food and supplies     | 3,178                  | -                   | 521             | 521                    | -            | 3,699      |
| Interest              | -                      | 2,913               | -               | 2,913                  | -            | 2,913      |
| Insurance             | 9,321                  | 13,983              | -               | 13,983                 | -            | 33,292     |
| Professional fees     | -                      | -                   | -               | -                      | -            | 7,680      |
| Other                 | 959                    | 7,800               | 466             | 8,266                  | -            | 15,905     |
| Totals                | \$ 313,404             | \$ 198,595          | \$ 129,084      | \$ 327,679             | \$ 25,597    | \$ 771,643 |

See Notes to Financial Statements.



Hawthorn Hill  
**STATEMENTS OF CASH FLOWS**  
Year ended June 30, 2018 and 2017

|  | 2018        | 2017          |
|--|-------------|---------------|
| Cash flows from operating activities   |             |               |
| Change in net assets   | \$ 32,721   | \$ ( 14,979 ) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities |             |               |
| Depreciation   | 89,923      | 88,664        |
| Gain on sale of assets   | ( 33,017 )  | -             |
| Net investment gains restricted for endowment  | ( 195 )     | ( 395 )       |
| (Increase) decrease in:  |             |               |
| Government grants receivable   | 7,425       | ( 6,769 )     |
| Other receivables  | 8,868       | 1,375         |
| Prepaid expenses   | 804         | 1,175         |
| Increase (decrease) in:  |             |               |
| Accounts payable and accrued liabilities   | 6,587       | ( 10,996 )    |
| Client escrow  | 1,224       | ( 209 )       |
| Tenant security deposits   | 751         | 1,200         |
| Net cash provided by operating activities  | 115,091     | 59,066        |
| <br>Cash flows from investing activities   |             |               |
| Purchase of funds held by others   | ( 69,522 )  | ( 72,508 )    |
| Proceeds from sale of property   | 84,668      | -             |
| Purchase of certificates of deposit  | ( 96 )      | ( 38 )        |
| Purchase of property and equipment   | ( 112,798 ) | ( 40,564 )    |
| Net cash used in investing activities  | ( 97,748 )  | ( 113,110 )   |
| <br>Cash flows from financing activities   |             |               |
| Payments on note payable   | ( 4,361 )   | ( 7,060 )     |
| Net cash used in financing activities  | ( 4,361 )   | ( 7,060 )     |
| <br>Net (decrease) increase in cash and cash equivalents                                   | 12,982      | ( 61,104 )    |
| <br>Cash and cash equivalents at beginning of year   | 6,004       | 67,108        |
| Cash and cash equivalents at end of year   | \$ 18,986   | \$ 6,004      |
| <br>Cash paid during the year for interest:  | \$ 2,748    | \$ 2,913      |

See notes to financial statements

Hawthorn Hill  
**NOTES TO FINANCIAL STATEMENTS**

**Note 1 Organization and Significant Accounting Policies**

Organization

Hawthorn Hill (the "Organization") is organized as an Iowa Nonprofit Corporation. The Organization is organized to perform the following activities.

- To establish and operate housing programs for homeless families with children
- To provide services to assist families with children in achieving economic self-sufficiency
- To identify, investigate, educate and seek solutions to the root causes of homelessness areas

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

Basis of Accounting

The financial statements of Hawthorn Hill have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

Financial Statement Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB). Under FASB ASC 958; the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets are those assets which are neither temporarily or permanently restricted by donor-imposed stipulations and represent the portion of expendable assets available for support of Organization operations.

Temporarily restricted net assets represent contributions or other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled by actions of the Organization pursuant to those stipulations.

Permanently restricted net assets represent contributions or other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization.

Concentrations

The Organization maintains cash balances at two financial institutions located in Des Moines, Iowa which may exceed federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Income Taxes

The Organization is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 422.34 of the Iowa Code and is not a private foundation under section 509(a) of the Internal Revenue Code.

Hawthorn Hill  
NOTES TO FINANCIAL STATEMENTS

**Note 1 Organization and Significant Accounting Policies (continued)**

Income Taxes (continued)

Management is unaware of any uncertain tax positions at June 30, 2018 and 2017 and interest and penalties associated with income tax matters would be presented as components of income tax expense. There are no interest or penalty changes in 2018 or 2017.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles 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

Cash and Cash Equivalents

Cash and cash equivalents include amounts in bank demand deposits.

Certificates of Deposit

Certificates of deposit include all certificates of deposit and are carried at cost which approximates fair value. The certificates of deposit earn interest at rates of .25% to .50% and have maturity dates through July, 2019.

Investment in Assets held at the Community Foundation of Greater Des Moines

The Organization invests funds at the Community Foundation of Greater Des Moines (CFGDM). The investment represents the Organization's interest in a pooled money market fund held by the CFGDM. The Organization reports its interest in these funds at the fair value, which is determined and provided by the CFGDM, as a component of unrestricted net assets. Changes in the fair value of the underlying funds are reported as unrestricted changes in investment return.

Beneficial Interests

Certain donors have contributed funds to the CFGDM through donor-designated funds where the Organization is the designated beneficiary. The Organization reports its interest in these funds at the fair value which is determined and provided by the CFGDM as a component of permanently restricted net assets. Income released to the Organization from the funds is calculated as a percentage of the balance each year, and is reported as unrestricted net assets. Increases in the fair value of the underlying funds through additional donor contributions are reported as permanently restricted contributions. Changes in the fair value of the funds are reported as permanently restricted changes in beneficial interests.

Fair value of financial instruments

Due to the short term nature of cash and cash equivalents, receivables, funds held by others, prepaid expenses, accounts payable and accrued expenses, their fair value approximates carrying value.

Property and Equipment

Significant acquisitions of property and equipment or repairs, maintenance or betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are carried at cost or the fair value of the property contributed.

Hawthorn Hill  
**NOTES TO FINANCIAL STATEMENTS**

**Note 1 Organization and Significant Accounting Policies (continued)**

Property and Equipment (continued)

Depreciation on building and equipment and vehicles is computed using the straight-line method over the useful lives of the assets ranging from 3 to 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.

Contributions

Contributions are recognized when the donor makes an unconditional promise to give. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods are restricted by the donor for specific purposes are reported as temporarily restricted support. When a donor restriction expires (i.e., when a stipulated time restriction ends or a purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as temporarily restricted net assets released from restrictions. However, if a restriction is fulfilled in the same reporting period in which a contribution is received, the Organization reports the support as unrestricted.

Significant in-kind donations, including goods and services, are recorded as income and expense at their estimated fair values at the time the services are performed or unconditionally promised. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions are recorded as unrestricted support. Contributions of cash or other assets restricted to the acquisition of long-lived assets are reported as restricted support.

The Organization uses donated services from organizations and individuals in its programs. No amounts have been reflected in the financial statements for donated services.

The Organization is dependent on contributions of time, money and governmental grants for continued operation. Significant reductions in support from these sources could jeopardize the Organization's ability to operate.

**Note 2 Promises to give**

Unconditional promises to give consist of the following at June 30, 2018 and 2017:

|  | <u>2018</u> | <u>2017</u> |
|--|-------------|-------------|
| Operations                               | \$ -        | \$ 7,425    |
| Amounts receivable in less than one year | \$ -        | \$ 7,425    |

**Note 3 Endowment**

The Organization has established the Hawthorn Hill Endow Iowa Fund with the Community Foundation of Greater Des Moines (The Foundation) to be used as a permanent endowment fund for the benefit of the Organization. The assets are the property of The Foundation which controls the investment and management of the fund. Distributions to be received by the Organization and are based on the fund agreement.

Hawthorn Hill  
**NOTES TO FINANCIAL STATEMENTS**

**Note 3 Endowment (continued)**

***Endowment Fund***

The Hawthorn Hill Endow Iowa Fund is a permanent endowment established under the terms of Endow Iowa legislation. In accordance with the terms of the Endow Iowa legislation, distributions not to exceed five percent (5%) of the fund balance as of December 31 of the previous year may be made each year. Net income in excess of distributions, administrative fees, and direct expenses are to remain in the fund.

***Interpretation of Relevant Law***

The Board of Directors of Hawthorn Hill has interpreted the Iowa Uniform Prudent Management of Institutional Funds Act (IUPMIFA) 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 Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by the IUPMIFA. In accordance with the IUPMIFA 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 fund
- (2) The purposes of the Organization and the donor-restricted fund
- (3) General economic conditions
- (4) The possible effects of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Organization

***Return Objectives, Risk Parameters and Strategies Employed for Achieving Objectives***

Investments of the endowment funds are the assets of the Community Foundation of Greater Des Moines which determines the investment and management of the funds rather than the Organization. The assets are invested in the Foundation's "Long Term Growth Portfolio" and are subject to investment risks, including loss of principal.

Hawthorn Hill Endow Iowa fund net assets as of June 30, 2018 and 2017 are as follows:

|                        | 2018     | 2017     |
|------------------------|----------|----------|
| Temporarily Restricted | \$ 1,035 | \$ 840   |
| Permanently Restricted | 5,100    | 5,100    |
| Total                  | \$ 6,135 | \$ 5,940 |

Hawthorn Hill  
**NOTES TO FINANCIAL STATEMENTS**

**Note 3 Endowment (continued)**

Changes in the Hawthorn Hill Endow Iowa fund net assets for the year ended June 30, 2018 and 2017 are as follows:

|                          | Temporarily<br>Restricted | Permanently<br>Restricted | Total    |
|--------------------------|---------------------------|---------------------------|----------|
| Net assets June 30, 2016 | \$ 445                    | \$ 5,100                  | \$ 5,545 |
| Investment income        | 112                       | -                         | 112      |
| Net realized gains       | 432                       | -                         | 432      |
| Net unrealized gains     | 101                       | -                         | 101      |
| Administrative expenses  | ( 250)                    | -                         | ( 250)   |
| Net assets June 30, 2017 | \$ 840                    | \$ 5,100                  | \$ 5,940 |
| Investment income        | 122                       | -                         | 122      |
| Net realized gains       | 93                        | -                         | 93       |
| Net unrealized gains     | 230                       | -                         | 230      |
| Administrative expenses  | ( 250)                    | -                         | ( 250)   |
| Net assets June 30, 2018 | \$ 1,035                  | \$ 5,100                  | \$ 6,135 |

**Note 4 Investment in Assets held at the Community Foundation of Greater Des Moines and Beneficial Interests**

As required by U.S. generally accepted accounting principles, the Organization uses a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to measurements involving significant unobservable inputs (Level 3 inputs). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices in active markets for identical investments that the Organization has the ability to access at the measurement date.
- Level 2 inputs are quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; modeling with inputs that have observable inputs (i.e. interest rates observable at commonly quoted intervals).
- Level 3 inputs are unobservable inputs for the investments.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The Organization values its investment in assets held at the CFGDM as well as its beneficial interests granted by donors to the CFGDM using Level 3 inputs as provided to the Organization by CFGDM as there is no direct ownership of the underlying investments. However, the underlying investments in the pooled funds at the CFGDM consist of investments that have been measured by CFGDM using Level 1, Level 2 and Level 3 inputs and other investments valued using the net asset value.

Hawthorn Hill  
NOTES TO FINANCIAL STATEMENT

The following table provides a summary of changes in fair value of the Organization's investment assets held at the CFGDM and beneficial interests for the years ended June 30:

|                        | Investments held at the CFGDM |                   | Beneficial Interests |                 |
|------------------------|-------------------------------|-------------------|----------------------|-----------------|
|                        | 2018                          | 2017              | 2018                 | 2017            |
| Beginning balance      | \$ 375,421                    | \$ 302,913        | \$ 5,940             | \$ 5,545        |
| Interest and dividends | 3,996                         | 1,583             | 122                  | 112             |
| Realized gains         | -                             | -                 | 93                   | 432             |
| Unrealized gains       | -                             | -                 | 230                  | 101             |
| Contributions          | 675,708                       | 525,795           | -                    | -               |
| Distributions          | (610,182)                     | (454,870)         | -                    | -               |
| Investment fees        | -                             | -                 | \$ (250)             | (250)           |
| Ending balance         | <u>\$ 444,943</u>             | <u>\$ 375,421</u> | <u>\$ 6,135</u>      | <u>\$ 5,940</u> |

Net investment income arising from investments at the CFGDM consisted of the following for the years ended June 30:

|                                   | Investments held at the<br>CFGDM |                 | Beneficial Interests |               |
|-----------------------------------|----------------------------------|-----------------|----------------------|---------------|
|                                   | 2018                             | 2017            | 2018                 | 2017          |
| Interest and dividend income      | \$ 3,996                         | \$ 1,583        | \$ 122               | \$ 112        |
| Net realized and unrealized gains | -                                | -               | 323                  | 533           |
| Investment fees                   | -                                | -               | (250)                | (250)         |
| Net investment income             | <u>\$ 3,996</u>                  | <u>\$ 1,583</u> | <u>\$ 195</u>        | <u>\$ 395</u> |

**Note 5 Property and Equipment**

Property and equipment consists of the following at June 30, 2018 and 2017:

|                            | 2018                | 2017                |
|----------------------------|---------------------|---------------------|
| Land                       | \$ 249,160          | \$ 252,580          |
| Building and improvements  | 2,436,724           | 2,421,376           |
| Furniture and equipment    | 114,067             | 119,077             |
| Vehicles                   | 45,128              | 33,836              |
|                            | <u>2,845,079</u>    | <u>2,826,869</u>    |
| Accumulated depreciation   | ( 1,327,919)        | ( 1,280,932)        |
| Net property and equipment | <u>\$ 1,517,160</u> | <u>\$ 1,545,937</u> |

Hawthorn Hill  
**NOTES TO FINANCIAL STATEMENTS**

**Note 6 Note Payable**

Notes payable at June 30, 2018 and 2017 consist of the following:

|  | <u>2018</u>      | <u>2017</u>      |
|--|------------------|------------------|
| Note payable – Great Western Bank to purchase property, 4.25% interest, monthly payment of \$656, matures December, 2027 | \$ 61,441        | \$ 65,802        |
| Current portion  | <u>( 5,300)</u>  | <u>( 3,625)</u>  |
|  | <u>\$ 56,141</u> | <u>\$ 62,177</u> |

Maturities of the note are as follows:

|                      |    |               |
|----------------------|----|---------------|
| Years ending June 30 |    |               |
| 2019                 | \$ | 5,300         |
| 2020                 |    | 5,600         |
| 2021                 |    | 5,900         |
| 2022                 |    | 6,100         |
| thereafter           |    | <u>38,541</u> |
| Total                | \$ | <u>61,441</u> |

**Note 7 Net Assets**

Temporarily restricted net assets are available for the following periods or purposes at June 30, 2018 and 2017:

|  | <u>2018</u>     |    | <u>2017</u>   |
|--|-----------------|----|---------------|
| New Directions Shelter   |                 |    |               |
| Iowa Annual Conference, time restriction                           | \$ -            | \$ | 7,425         |
| Community Foundation of Greater Des Moines, for MSO legal expenses | -               |    | 5,000         |
| United Way of Central Iowa, for MSO legal expenses                 | -               |    | 5,000         |
| Hawthorn Hill Endow Iowa Fund                                      |                 |    |               |
| Time restriction   | <u>1,035</u>    |    | <u>840</u>    |
| Total temporarily restricted net assets                            | <u>\$ 1,035</u> | \$ | <u>18,265</u> |

At June 30, 2018 and 2017, permanently restricted net assets are restricted for the Hawthorn Hill Endow Iowa fund.

|                 | <u>2018</u>     |    | <u>2017</u>  |
|-----------------|-----------------|----|--------------|
| Endow Iowa fund | <u>\$ 5,100</u> | \$ | <u>5,100</u> |



Hawthorn Hill  
**NOTES TO FINANCIAL STATEMENTS**

**Note 8 Line of Credit**

At June 30, 2018 the Organization has a line of credit in the amount of \$150,000 with a local financial institution. The line of credit bears interest at an initial rate of 4.25% and may change annually based upon a national prime rate. No amounts were borrowed by the Organization under the line of credit during 2018.

**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 \$7,833 and \$10,380 for the years ended June 30, 2018 and 2017, respectively.

**Note 10 Commitments 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 proceeds of the sale may be repayable to the granting organizations. The potential amount of repayments under the grants and agreements has not been determined.

**Note 11 Related Parties**

The Organization created 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 Hawthorn Hill and the board members of BRC-HH also serve as board members for Hawthorn Hill. 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 \$55,566 for the year ended June 30, 2018 and is included in the salaries and benefits section of the Statement of Functional Expenses. The affiliation can be terminated by either of the members at any time.

**Note 12 Subsequent Events**

The Organization has evaluated events and transactions occurring after June 30, 2018 for potential items required to be recognized or disclosed in the financial statements. Subsequent events were evaluated through November 2, 2018, the date the financial statements were available to be issued.