

**Hawthorn Hill  
Des Moines, Iowa**

**FINANCIAL REPORT**

**June 30, 2019 and 2018**

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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 statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses, and cash flows, and functional expenses for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Prior Period Financial Statements**

The financial statements of Hawthorn Hill as of June 30, 2018, were audited by other auditors whose report dated November 2, 2018 expressed an unmodified opinion on those statements.

*Denman & Company, LLP*  
DENMAN & COMPANY, LLP

West Des Moines, Iowa  
November 12, 2019

**Hawthorn Hill  
STATEMENTS OF FINANCIAL POSITION**

	<b>June 30</b>	
<b>ASSETS</b>	<b>2019</b>	<b>2018</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 420,427	\$ 463,929
Certificates of deposit	50,359	50,363
Accounts receivable	4,406	-
Contributions receivable	24,015	-
Prepaid expenses	9,279	8,000
Total current assets	<u>508,486</u>	<u>522,292</u>
<b>OTHER ASSETS</b>		
Certificates of deposit	10,134	10,004
Investments	6,133	6,135
Property and equipment, net of accumulated depreciation	1,442,014	1,517,160
Total other assets	<u>1,458,281</u>	<u>1,533,299</u>
Total assets	<u>\$1,966,767</u>	<u>\$2,055,591</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 4,873	\$ 8,519
Accrued expenses	30,132	20,498
Deferred revenue	2,420	-
Client escrow	7,450	13,318
Tenant security deposits	10,500	12,802
Current portion of long-term liabilities	5,594	5,300
Total current liabilities	<u>60,969</u>	<u>60,437</u>
<b>LONG-TERM LIABILITIES</b>		
Notes payables	56,130	61,441
Less current portion	(5,594)	(5,300)
Total long-term liabilities	<u>50,536</u>	<u>56,141</u>
Total liabilities	<u>111,505</u>	<u>116,578</u>
<b>NET ASSETS</b>		
Net assets without donor restrictions	1,849,127	1,932,878
Net assets with donor restrictions	6,135	6,135
Total net assets	<u>1,855,262</u>	<u>1,939,013</u>
Total liabilities and net assets	<u>\$1,966,767</u>	<u>\$2,055,591</u>

See Notes to Financial Statements.

**Hawthorn Hill  
STATEMENTS OF ACTIVITIES**

	<u>Year ended June 30, 2019</u>			<u>Year ended June 30, 2018</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>
<b>REVENUES</b>						
Contributions	\$ 552,639	\$ —	\$ 552,639	\$ 579,129	\$ —	\$ 579,129
Program fees	142,920	—	142,920	135,294	—	135,294
Special events	33,875	—	33,875	40,165	—	40,165
Contracts	—	—	—	27,000	—	27,000
Investment income	7,075	—	7,075	4,091	195	4,286
Other income	525	—	525	—	—	—
Gain (loss) on sale of assets	(326)	—	(326)	33,017	—	33,017
Net assets released from restrictions	—	—	—	<u>17,425</u>	<u>(17,425)</u>	<u>—</u>
Total revenue and support	<u>736,708</u>	<u>—</u>	<u>736,708</u>	<u>836,120</u>	<u>(17,230)</u>	<u>818,890</u>
<b>EXPENSES</b>						
Program services						
New Direction Shelter	298,435	—	298,435	301,562	—	301,562
The Home Connection	318,902	—	318,902	300,732	—	300,732
Supporting services						
Management and general	137,384	—	137,384	141,149	—	141,149
Fundraising	65,738	—	65,738	42,726	—	42,726
Total expenses	<u>820,459</u>	<u>—</u>	<u>820,459</u>	<u>786,169</u>	<u>—</u>	<u>786,169</u>
<b>CHANGE IN NET ASSETS</b>	(83,751)	—	(83,751)	49,951	(17,230)	32,721
<b>NET ASSETS, beginning</b>	<u>1,932,878</u>	<u>6,135</u>	<u>1,939,013</u>	<u>1,882,927</u>	<u>23,365</u>	<u>1,906,292</u>
<b>NET ASSETS, ending</b>	<u>\$1,849,127</u>	<u>\$ 6,135</u>	<u>\$1,855,262</u>	<u>\$1,932,878</u>	<u>\$ 6,135</u>	<u>\$1,939,013</u>

See Notes to Financial Statements.

**Hawthorn Hill**  
**STATEMENTS OF FUNCTIONAL EXPENSES**  
Year ended June 30, 2019

	<b>Program Services</b>			<b>Total</b>
	<b>New Direction Shelter</b>	<b>The Home Connection</b>		
	<b>Property Management</b>	<b>Case Management</b>		
Salaries and benefits				
Salaries	\$ 181,600	\$ 70,101	\$ 53,459	\$ 123,560
Employee benefits	11,143	11,489	15,065	26,554
Payroll taxes	15,046	4,176	5,476	9,652
	<u>207,789</u>	<u>85,766</u>	<u>74,000</u>	<u>159,766</u>
Accounting	20	-	-	-
Client assistance	10,358	-	213	213
Consulting/management fee	165	-	75	75
Continuing education	3,566	-	305	305
Depreciation	21,128	84,473	-	84,473
Food supplies	3,162	-	788	788
Human resources	4,918	3,080	-	3,080
Insurance	12,082	12,082	-	12,082
Interest	-	2,558	-	2,558
Maintenance	11,882	23,142	-	23,142
Other	1,316	1,258	9,116	10,374
Postage and shipping	219	13	-	13
Printing	460	-	350	350
Professional fees	152	837	-	837
Supplies	672	359	717	1,076
Telephone	3,227	1,376	2,752	4,128
Transportation	1,234	3,403	2,047	5,450
Utilities	16,085	10,192	-	10,192
Totals	<u>\$ 298,435</u>	<u>\$ 228,539</u>	<u>\$ 90,363</u>	<u>\$ 318,902</u>

See Notes to Financial Statements.

**Support Services**

<b><u>Management and General</u></b>	<b><u>Fundraising</u></b>	<b><u>Total</u></b>
\$ 74,993	\$ 40,399	\$ 420,552
11,758	6,258	55,713
<u>5,925</u>	<u>3,223</u>	<u>33,846</u>
92,676	49,880	510,111
19,923	—	19,943
—	—	10,571
150	990	1,380
316	—	4,187
—	—	105,601
54	—	4,004
2,681	409	11,088
6,275	—	30,439
—	—	2,558
—	—	35,024
893	6,001	18,584
279	2,341	2,852
543	6,117	7,470
9,874	—	10,863
1,021	—	2,769
815	—	8,170
1,884	—	8,568
<u>—</u>	<u>—</u>	<u>26,277</u>
<u>\$ 137,384</u>	<u>\$ 65,738</u>	<u>\$ 820,459</u>



**Hawthorn Hill**  
**STATEMENTS OF FUNCTIONAL EXPENSES (continued)**  
**Year ended June 30, 2018**

	<b>Program Services</b>			<b>Total</b>
	<b>New Direction Shelter</b>	<b>The Home Connection</b>		
		<b>Property Management</b>	<b>Case Management</b>	
Salaries and benefits				
Salaries	\$ 204,723	\$ 57,859	\$ 65,696	\$ 123,555
Employee benefits	11,009	13,257	13,258	26,515
Payroll taxes	16,158	3,513	7,131	10,644
	<u>231,890</u>	<u>74,629</u>	<u>86,085</u>	<u>160,714</u>
Accounting	14	-	-	-
Client assistance	1,203	-	-	-
Consulting/management fundraising services	360	-	788	788
Continuing education	729	-	698	698
Depreciation	19,404	70,519	-	70,519
Food and supplies	4,300	-	376	376
Insurance	8,841	13,262	-	13,262
Interest	-	2,748	-	2,748
Maintenance	12,633	14,613	4,872	19,485
Other	1,795	7,914	2,084	9,998
Postage	214	22	-	22
Printing	418	-	418	418
Professional fees	-	-	-	-
Supplies	677	414	840	1,254
Telephone	2,959	1,273	2,586	3,859
Transportation	607	2,882	2,233	5,115
Utilities	15,518	11,476	-	11,476
Totals	<u>\$ 301,562</u>	<u>\$ 199,752</u>	<u>\$ 100,980</u>	<u>\$ 300,732</u>

See Notes to Financial Statements.

**Support Services**

<b><u>Management and General</u></b>	<b><u>Fundraising</u></b>	<b><u>Total</u></b>
\$ 56,547	\$ 20,384	\$ 405,209
9,737	4,214	51,475
<u>4,510</u>	<u>1,765</u>	<u>33,077</u>
70,794	26,363	489,761
20,672	—	20,686
—	—	1,203
17,020	1,130	19,298
117	—	1,544
—	—	89,923
—	—	4,676
9,473	—	31,576
—	—	2,748
—	—	32,118
9,331	5,168	26,292
573	2,263	3,072
300	6,002	7,138
7,650	—	7,650
2,188	1,800	5,919
840	—	7,658
2,191	—	7,913
<u>—</u>	<u>—</u>	<u>26,994</u>
<u>\$ 141,149</u>	<u>\$ 42,726</u>	<u>\$ 786,169</u>

**Hawthorn Hill  
STATEMENTS OF CASH FLOWS**

	<b>Year ended June 30</b>	
	<b>2019</b>	<b>2018</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (83,751)	\$ 32,721
Adjustment to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	105,601	89,923
Realized and unrealized gains on investments, net	(125)	(195)
(Gain) loss on disposal of assets	326	(33,017)
Changes in operating assets and liabilities		
Accounts receivable	(4,406)	8,868
Contributions receivable	(24,015)	7,425
Prepaid expenses	(1,279)	804
Accounts payable	(3,646)	6,587
Accrued expenses	9,634	-
Deferred revenue	2,420	-
Client escrow	(5,868)	1,224
Tenant security deposits	(2,302)	751
Net cash provided by (used in) operating activities	<u>(7,411)</u>	<u>115,091</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of property	-	84,668
Purchase of certificates of deposit	(126)	(96)
Proceeds from sale of investments	268	-
Purchase of investments	(141)	-
Purchase of property and equipment	(30,781)	(112,798)
Net cash used in investment activities	<u>(30,780)</u>	<u>(28,226)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on note payable	(5,311)	(4,361)
Net cash used in financing activities	<u>(5,311)</u>	<u>(4,361)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(43,502)	82,504
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning	<u>463,929</u>	<u>381,425</u>
Ending	\$ <u>420,427</u>	\$ <u>463,929</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH PAYMENTS</b>		
Interest	\$ <u>2,558</u>	\$ <u>2,748</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 two certificates of deposit at local banks and are carried at cost, which approximates fair value. These certificates bear interest at rates of .25% and 1.50% and have maturity dates through January 2021.

**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, 2019 and 2018.

**Hawthorn Hill**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Contributions Receivable**

Contributions receivable are unconditional promises to give. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Contributions receivable are written-off when deemed uncollectible.

**Pooled Cash and Investments**

Cash includes \$386,307 and \$444,943 of pooled checking and money market funds held at the Community Foundation of Greater Des Moines (Community Foundation) for the years ended June 30, 2019 and 2018, 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

**Donated Assets, Property and Equipment, and Services**

Donated marketable securities, property and equipment, and other noncash donations are recorded as contributions at their fair values at the date of donation. Such donations are reported as increases in net assets without donor restrictions unless the donor has restricted the donated asset for a specific purpose. Assets donated with explicit restrictions regarding their use are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

**Hawthorn Hill**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Donated Assets, Property and Equipment, and Services (continued)**

Donated services are recognized as contributions if the services: (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. The Organization also receives donated services from other contributors and volunteers that are not measurable, and therefore, are excluded from the financial statements.

**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.

**Revenue Recognition**

Unconditional promises to give are recognized as revenue in the period the promise was made. Conditional promises are recorded as revenue when the conditions are substantially met. Contributions and grants are recognized as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Contributions restricted by donors are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reported period in which the revenue is recognized.

Program service fees are recorded at the estimated net realizable amounts from third party payors, clients, and others, typically based on services provided at agreed-upon rates.

**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**

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

Cash	\$ 420,427
Certificates of deposit	50,359
Accounts receivable	4,406
Contributions receivable	<u>24,015</u>
 Total	 \$ <u>499,207</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. A cash flow line of credit up to \$150,000 is available to draw upon in the event of an unanticipated liquidity need.

**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)(2).

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 2016.

**Change in Accounting Principle**

Financial Accounting Standards Board Accounting Standards Update 2016-14 *Presentation of Financial Statements of Not-for-Profit Entities* was implemented in the year ended June 30, 2019. The revised requirements changed financial reporting requirements for nonprofits. The new standard modified net asset reporting requirements and increased reporting and disclosure of nonprofit organizations' functional expenses and liquidity. Certain amounts have been reclassified in the 2018 financial statements in order to conform with the new standard, with no change to net assets.

**NOTE 2 CONTRIBUTIONS RECEIVABLE**

Contributions receivable consist primarily of pledges as of the year ended June 30, 2019 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:

	<b>Year ended June 30</b>	
	<b>2019</b>	<b>2018</b>
Interest and dividends	\$ 7,218	\$ 4,213
Realized gains	119	114
Change in unrealized gains	6	230
Investment fees	(268)	(271)
	\$ 7,075	\$ 4,286

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, 2019 and 2018.

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, 2019 and 2018:

*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, 2019 and 2018. 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.

<b>June 30, 2019</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Pooled investments	\$ —	\$ —	\$ 6,133	\$ 6,133
<b>June 30, 2018</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Pooled investments	\$ —	\$ —	\$ 6,135	\$ 6,135

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, 2019 and 2018.



**Hawthorn Hill**  
**NOTES TO FINANCIAL STATEMENTS**

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

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

	<b>Year ended June 30</b>	
	<b>2019</b>	<b>2018</b>
Pooled investments		
Beginning of year	\$ 6,135	\$ 5,940
Investment income (loss)	<u>(2)</u>	<u>195</u>
End of year	<u>\$ 6,133</u>	<u>\$ 6,135</u>

**NOTE 4 PROPERTY AND EQUIPMENT**

Property and equipment consist of the following:

	<b>June 30</b>	
	<b>2019</b>	<b>2018</b>
Land	\$ 249,160	\$ 249,160
Building and improvements	2,455,555	2,436,724
Furniture and equipment	120,417	114,067
Vehicles	<u>45,128</u>	<u>45,128</u>
Total at cost	2,870,260	2,845,079
Accumulated depreciation	<u>(1,428,246)</u>	<u>(1,327,919)</u>
Total property and equipment	<u>\$1,442,014</u>	<u>\$1,517,160</u>

**NOTE 5 ENDOWMENT FUNDS**

The Organization's endowment consists primarily of investments of donor-restricted assets held in perpetuity to provide in service of 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:

	<b>Year ended June 30</b>	
	<b>2019</b>	<b>2018</b>
Net assets with donor restrictions, beginning of year	\$ 6,135	\$ 5,940
Investment income	<u>          —</u>	<u>          195</u>
Net assets with donor restrictions, end of year	<u>\$ 6,135</u>	<u>\$ 6,135</u>

**NOTE 6 NOTE PAYABLE**

Notes payable consisted for the following:

	<b>Year ended June 30</b>	
	<b>2019</b>	<b>2018</b>
Great Western Bank note to purchase property	\$ 56,130	\$ 61,441
Monthly payment of \$656, including interest at 4.27%.		
Matures December 2027.	<u>          (5,594)</u>	<u>          (5,300)</u>
Current portion	<u>\$ 50,536</u>	<u>\$ 56,141</u>

**Hawthorn Hill  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 NOTE PAYABLE (continued)**

Maturities of the note are as follows:

<u>Year ending June 30</u>	
2020	\$ 5,594
2021	5,837
2022	6,090
2023	6,354
2024	6,629
Thereafter	<u>25,626</u>
Total	<u>\$ 56,130</u>

**NOTE 7 LINE OF CREDIT**

The Organization had a line of credit in the amount of \$150,000 with a local financial institution that matured November 4, 2019. The line of credit bears interest at a rate of 6.50% and may change annually based upon the prime rate. There was no balance outstanding at June 30, 2019 or 2018.

**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>2019</u>	<u>2018</u>
Endowment funds to be held in perpetuity	<u>\$ 6,135</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 \$6,507 and \$7,833 for the years ended June 30, 2019 and 2018, 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 \$111,797 and \$55,566 for the years ended June 30, 2019 and 2018, 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.

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**NOTES TO FINANCIAL STATEMENTS**

**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.

**NOTE 12 SUBSEQUENT EVENTS**

Subsequent to year end, the Organization renewed its line of credit to mature November 4, 2020, and during this process the amount of the line was decreased to \$135,000.

The Organization has evaluated events and transactions occurring after June 30, 2019 for the potential items required to be recognized or disclosed in the financial statements. Subsequent events were evaluated through November 12, 2019, the date the financial statements were available to be issued.