

**Hawthorn Hill  
Des Moines, Iowa**

**FINANCIAL REPORT**

**June 30, 2020 and 2019**

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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, 2020 and 2019, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hawthorn Hill as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

West Des Moines, Iowa  
November 10, 2020

**Hawthorn Hill**  
**STATEMENTS OF FINANCIAL POSITION**

	<b>June 30</b>	
<b>ASSETS</b>	<b>2020</b>	<b>2019</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 538,333	\$ 420,427
Certificates of deposit	40,450	50,359
Accounts receivable	9,964	4,406
Contributions receivable	8,923	24,015
Prepaid expenses	8,667	9,279
Total current assets	<u>606,337</u>	<u>508,486</u>
<b>OTHER ASSETS</b>		
Certificates of deposit	20,522	10,134
Investments	5,883	6,133
Property and equipment, net of accumulated depreciation	1,352,716	1,442,014
Total other assets	<u>1,379,121</u>	<u>1,458,281</u>
Total assets	<u>\$1,985,458</u>	<u>\$1,966,767</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 5,721	\$ 4,873
Accrued expenses	34,315	30,132
Deferred revenue	1,370	2,420
Client escrow	3,380	7,450
Tenant security deposits	12,800	10,500
Current portion of long-term liabilities	39,946	5,594
Total current liabilities	<u>97,532</u>	<u>60,969</u>
<b>LONG-TERM LIABILITIES</b>		
Notes payables	-	56,130
Paycheck Protection Program loan	104,017	-
Less current portion	(39,946)	(5,594)
Total long-term liabilities	<u>64,071</u>	<u>50,536</u>
Total liabilities	<u>161,603</u>	<u>111,505</u>
<b>NET ASSETS</b>		
Net assets without donor restrictions	1,817,720	1,849,127
Net assets with donor restrictions	6,135	6,135
Total net assets	<u>1,823,855</u>	<u>1,855,262</u>
Total liabilities and net assets	<u>\$1,985,458</u>	<u>\$1,966,767</u>

See Notes to Financial Statements.

**Hawthorn Hill  
STATEMENTS OF ACTIVITIES**

	<u>Year ended June 30, 2020</u>			<u>Year ended June 30, 2019</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	\$ 632,198	\$ -	\$ 632,198	\$ 552,639	\$ -	\$ 552,639
Program fees	163,229	-	163,229	142,920	-	142,920
Special events	15,050	-	15,050	33,875	-	33,875
Investment income	4,612	-	4,612	7,075	-	7,075
Other income	-	-	-	525	-	525
Gain (loss) on sale of assets	-	-	-	(326)	-	(326)
Net assets released from restrictions	-	-	-	-	-	-
Total revenue and support	<u>815,089</u>	<u>-</u>	<u>815,089</u>	<u>736,708</u>	<u>-</u>	<u>736,708</u>
<b>EXPENSES</b>						
Program services						
New Direction Shelter	361,118	-	361,118	298,435	-	298,435
The Home Connection	365,737	-	365,737	318,902	-	318,902
Supporting services						
Management and general	56,995	-	56,995	137,384	-	137,384
Fundraising	<u>62,646</u>	<u>-</u>	<u>62,646</u>	<u>65,738</u>	<u>-</u>	<u>65,738</u>
Total expenses	<u>846,496</u>	<u>-</u>	<u>846,496</u>	<u>820,459</u>	<u>-</u>	<u>820,459</u>
<b>CHANGE IN NET ASSETS</b>	(31,407)	-	(31,407)	(83,751)	-	(83,751)
<b>NET ASSETS, beginning</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>
<b>NET ASSETS, ending</b>	<u>\$1,817,720</u>	<u>\$ 6,135</u>	<u>\$1,823,855</u>	<u>\$1,849,127</u>	<u>\$ 6,135</u>	<u>\$1,855,262</u>

See Notes to Financial Statements.

**Hawthorn Hill**  
**STATEMENTS OF FUNCTIONAL EXPENSES**  
Year ended June 30, 2020

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

See Notes to Financial Statements.

**Support Services**

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



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

	<b>Program Services</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
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
Program supplies	3,162	-	788	788
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
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
54	—	4,004
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 CASH FLOWS**

	<b>Year ended June 30</b>	
	<b>2020</b>	<b>2019</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (31,407)	\$ (83,751)
Adjustment to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	100,532	105,601
Realized and unrealized losses (gains) on investments, net	121	(125)
Loss on disposal of assets	-	326
Changes in operating assets and liabilities		
Accounts receivable	(5,558)	(4,406)
Contributions receivable	15,092	(24,015)
Prepaid expenses	612	(1,279)
Accounts payable	848	(3,646)
Accrued expenses	4,183	9,634
Deferred revenue	(1,050)	2,420
Client escrow	(4,070)	(5,868)
Tenant security deposits	2,300	(2,302)
Net cash provided by (used in) operating activities	<u>81,603</u>	<u>(7,411)</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Purchase of certificates of deposit	(479)	(126)
Proceeds from sale of investments	270	268
Purchase of investments	(141)	(141)
Purchase of property and equipment	<u>(11,234)</u>	<u>(30,781)</u>
Net cash (used in) investment activities	<u>(11,584)</u>	<u>(30,780)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on note payable	(56,130)	(5,311)
Proceeds from Paycheck Protection Program loan	<u>104,017</u>	<u>-</u>
Net cash provided by (used in) financing activities	<u>47,887</u>	<u>(5,311)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	117,906	(43,502)
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning	<u>420,427</u>	<u>463,929</u>
Ending	<u>\$ 538,333</u>	<u>\$ 420,427</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH PAYMENTS</b>		
Interest	<u>\$ 2,402</u>	<u>\$ 2,558</u>

See Notes to Financial Statements.

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

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

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

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

**Basis of Presentation**

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

**Estimates**

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

**Cash Equivalents**

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

**Certificates of Deposit**

The Organization has multiple certificates of deposit at local banks and are carried at cost, which approximates fair value. These certificates bear interest at rates of 1.50% and 2.00% and have maturity dates through February 2023.

**Accounts Receivable**

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Changes in the valuation allowance have not been material to the financial statements. The Organization has recorded an allowance for uncollectible receivables of \$-0-, as of June 30, 2020 and 2019.

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

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

**Pooled Cash and Investments**

Cash includes \$304,693 and \$386,307 of pooled checking and money market funds held at the Community Foundation of Greater Des Moines (Community Foundation) for the years ended June 30, 2020 and 2019, respectively.

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

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

**Property and Equipment and Depreciation**

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

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

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

**Client Escrow**

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

**Net Assets**

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

**Without Donor Restrictions**

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

**With Donor Restrictions**

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

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

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

**Revenue Recognition**

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

*Public Support*

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

Public support that is expected to be collected within one year is recorded at its net realizable value. Public support that is expected to be collected in future years is reported at fair value using present value techniques. The discount on those amounts is computed using an interest rate applicable in the year in which the contribution was received. All grants and contributions receivable as of June 30, 2020 and 2019 are anticipated to be collected in the following year and, therefore, no discount has been recorded.

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

*Contributed Goods and Services*

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

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

**Functional Expense Allocations**

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

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

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

**Liquidity**

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

	<b>June 30</b>	
	<b>2020</b>	<b>2019</b>
Cash and cash equivalents	\$ 538,333	\$ 420,427
Certificates of deposit	40,450	50,359
Accounts receivable	9,964	4,406
Contributions receivable	<u>8,923</u>	<u>24,015</u>
Total	<u>\$ 597,670</u>	<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 \$135,000 is available to draw upon in the event of an unanticipated liquidity need as of June 30, 2020.

**Income Taxes**

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

The Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. Management believes that the Organization is no longer subject to income tax examinations for years prior to 2017.

**Change in Accounting Principle**

The Financial Accounting Standards Board (FASB) issued new guidance that created Topic 606, *Revenue From Contracts with Customers*, in the Accounting Standards Codification (ASC). Topic 606 supersedes the revenue recognition requirements in FASB ASC 605, *Revenue Recognition*, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The Organization adopted the requirements of the new guidance as of July 1, 2019, utilizing the full retrospective method of transition. Adoption of the new guidance resulted in changes to the Organization's accounting policies for revenue recognition, as previously described, however there were no changes in the amounts reported within the 2019 financial statements.

The Organization has adopted FASB Accounting Standards Update (ASU) 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard clarifies previously issued guidance regarding whether transactions should be accounted for as contributions or exchange transactions and in determining whether a contribution is conditional. The Organization has implemented the provisions of ASU 2018-08 in the accompanying financial statements under the modified prospective basis. Accordingly, there is no effect on net assets in connection with the implementation of this standard.

**Hawthorn Hill  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 CONTRIBUTIONS RECEIVABLE**

Contributions receivable consist primarily of pledges as of the year ended June 30, 2020 and all are due within one year.

**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>2020</b>	<b>2019</b>
Interest and dividends	\$ 5,002	\$ 7,218
Realized gains	40	119
Change in unrealized gains (losses)	(161)	6
Investment fees	(269)	(268)
	<b>\$ 4,612</b>	<b>\$ 7,075</b>

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, 2020 and 2019.

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, 2020 and 2019:

*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, 2020 and 2019. 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, 2020</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Pooled investments	\$ —	\$ —	\$ 5,883	\$ 5,883
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>June 30, 2019</b>				
Pooled investments	\$ —	\$ —	\$ 6,133	\$ 6,133



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

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

The Organization recognizes transfers into and out of levels within the fair value hierarchy at the end of the reporting period. There were no transfers between levels in the years ended June 30, 2020 and 2019.

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

	<u>Year ended June 30</u>	
	<u>2020</u>	<u>2019</u>
Pooled investments		
Beginning of year	\$ 6,133	\$ 6,135
Investment income (loss)	<u>(250)</u>	<u>(2)</u>
End of year	<u>\$ 5,883</u>	<u>\$ 6,133</u>

**NOTE 4 PROPERTY AND EQUIPMENT**

Property and equipment consist of the following:

	<u>June 30</u>	
	<u>2020</u>	<u>2019</u>
Land	\$ 249,160	\$ 249,160
Building and improvements	2,459,763	2,455,555
Furniture and equipment	127,442	120,417
Vehicles	<u>45,128</u>	<u>45,128</u>
Total at cost	2,881,493	2,870,260
Accumulated depreciation	<u>(1,528,777)</u>	<u>(1,428,246)</u>
Total property and equipment	<u>\$1,352,716</u>	<u>\$1,442,014</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>2020</b>	<b>2019</b>
Net assets with donor restrictions, beginning of year	\$ 6,135	\$ 6,135
Investment income	—	—
Net assets with donor restrictions, end of year	\$ 6,135	\$ 6,135

**NOTE 6 PAYCHECK PROTECTION PROGRAM LOAN**

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

The PPP loan bears interest at 1% annually and any unforgiven portion of the loan is payable by May 8, 2022. The loan includes a payment deferral period that currently extends to the SBA's final decision date regarding forgiveness of the loan. While the Organization believes it will meet the requirements for loan forgiveness, the final decision will be made by the SBA.

**Hawthorn Hill  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 PAYCHECK PROTECTION PROGRAM LOAN (continued)**

Maturities of the note as follows:

**Year ending June 30**

2021	\$ 39,946
2022	<u>64,071</u>
Total	<u>\$ 104,017</u>

**NOTE 7 LINE OF CREDIT**

The Organization had a line of credit in the amount of \$135,000 with a local financial institution that matured November 4, 2020. The line of credit bears interest at a rate of 4.25% and may change annually based upon the prime rate. There was no balance outstanding at June 30, 2020 or 2019.

**NOTE 8 NET ASSETS WITH DONOR RESTRICTIONS**

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

	<b><u>Year ended June 30</u></b>	
	<b><u>2020</u></b>	<b><u>2019</u></b>
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 \$8,055 and \$6,507 for the years ended June 30, 2020 and 2019, 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 \$111,790 and \$111,797 for the years ended June 30, 2020 and 2019, 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.

The COVID-19 pandemic resulted in significant disruptions to the Organization's operations beginning in March, 2020 and has resulted in economic uncertainties, including mandated closures or the reduction of operations for businesses in many industries. The Organization has reduced some of its operations in order to comply with government mandates and help slow the spread of the disease. In addition, the Organization accessed federal COVID-19 resources, including receiving a Paycheck Protection Program loan of \$104,017. The Organization anticipates the COVID-19 pandemic will continue to affect operations throughout much of the upcoming fiscal year, however, the impact that the pandemic will have on the Organization's operations, liquidity, and capital resources cannot be determined at this time.

**NOTE 12 SUBSEQUENT EVENTS**

Subsequent to year end, the Organization renewed its line of credit to mature November 4, 2021, and during this process the amount of the line was decreased to \$115,000 under the same terms and conditions.

The Organization has evaluated events and transactions occurring after June 30, 2020 for the potential items required to be recognized or disclosed in the financial statements. Subsequent events were evaluated through November 10, 2020, the date the financial statements were available to be issued.