

**HAWTHORN FOUNDATION
AND AFFILIATE**

Jefferson City, Missouri

INDEPENDENTS AUDITORS' REPORT

For the Year Ended June 30, 2016

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Hawthorn Foundation and Affiliate
Jefferson City, Missouri:

We have audited the accompanying consolidated financial statements of **Hawthorn Foundation and Affiliate** (nonprofit organizations), which comprise the consolidated statement of financial position as of June 30, 2016, and the related consolidated statement of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. Management is also responsible for 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of **Hawthorn Foundation and Affiliate** as of June 30, 2016, and changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The consolidating statements on pages 12 through 16 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with the auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Evers & Company, CPA's, LLC

EVERS & COMPANY, CPA's, L.L.C.
Jefferson City, Missouri

November 28, 2016

HAWTHORN FOUNDATION AND AFFILIATE
Jefferson City, Missouri

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2016

ASSETS

Current Assets		
Cash and Cash Equivalents	\$2,525,008.86	
Accounts Receivable	130,153.18	
Prepaid Expenses	203,177.16	
Total Current Assets		<u>2,858,339.20</u>
Fixed Assets		
Equipment	118,523.19	
Building and Fixtures	91,488.50	
Marketing Equipment	25,507.25	
Less: Accumulated Depreciation	<u>(177,867.77)</u>	
Net Fixed Assets		<u>57,651.17</u>
TOTAL ASSETS		<u>2,915,990.37</u>

LIABILITIES

Accounts Payable	410,640.64
Advance Payments	418,595.00
Benefits Payable	25,477.39
Accrued Vacation Payable	3,013.45
Income Tax Payable	<u>856.00</u>
TOTAL LIABILITIES	<u>858,582.48</u>

NET ASSETS

NET ASSETS	
Unrestricted Net Assets	
Board Designated	57,317.00
Undesignated	<u>2,000,090.89</u>
TOTAL NET ASSETS	<u>\$2,057,407.89</u>

See accompanying notes to the financial statements.

HAWTHORN FOUNDATION AND AFFILIATE
Jefferson City, Missouri
CONSOLIDATED STATEMENT OF ACTIVITIES
For The Year Ended June 30, 2016

REVENUES

Membership Dues	\$ 684,500.00
Interest Income	4,819.46
Sponsorship Income	93,030.63
Event/Symposium Income	26,610.00
Miscellaneous Income	11,860.28
Missouri Partnership Funds	2,066,240.00
Conference Income	112,830.68
Grant Income	1,000,000.00
Partner Contributions	63,641.54
Gain/ (Loss) of Equipment	<u>(4,530.22)</u>
Total Revenues	4,059,002.37
Net Assets Released from Restrictions:	
Contributions Released from Restrictions	<u>754,924.00</u>
Total Unrestricted Revenue and Reclassifications	4,813,926.37

EXPENSES

Salary Expense	1,162,665.98
Payroll Taxes	92,500.18
Employee Benefits	64,665.51
Retirement Expense	44,599.71
Performance Incentive Pay	141,536.10
Income Tax Expense	856.00
Professional Development	12,201.71
Employee Hiring and Recruitment	350.68
Contracts for Services	50,495.22
Advertising	135,189.97
Accounting	29,902.12
Supplies	22,980.03
Telephone	25,191.46
Postage	7,638.54
Meals and Entertainment	71,855.23
Dues and Subscriptions	7,486.58
Professional Association Dues	6,515.31
Printing	173.47
Insurance	20,681.47
Rent	113,208.63
Trade Mission	162,382.84

See accompanying notes to the financial statements.

HAWTHORN FOUNDATION AND AFFILIATE
Jefferson City, Missouri
CONSOLIDATED STATEMENT OF ACTIVITIES
For The Year Ended June 30, 2016

Meeting Expense	19,099.73
Event Expenses	15,500.15
Education Symposium	13,529.21
Bank Charges	110.41
Research Information Services	55,852.30
Foreign Trade Office Expense	424,879.96
BRAC Study Expense	344,256.25
Grant Expense	985,000.00
Miscellaneous Allowances	8,417.20
Depreciation	26,478.31
Miscellaneous Marketing	41,188.76
Maintenance & Repair	680.00
Collateral Materials	21,161.73
Conferences/Trade Shows/Sponsorships	309,936.94
Miscellaneous Expense	252.30
Travel	126,462.15
Agency Services	1,439.75
Total Expenses	<u>4,567,321.89</u>
Increase/ (Decrease) in Unrestricted Net Assets	246,604.48
TEMPORARILY RESTRICTED NET ASSETS (See Note 7)	
Contributions	815,499.55
Contributions Released from Restrictions	<u>(754,924.00)</u>
Increase/ (Decrease) in Temporarily Restricted Net Assets	<u>60,575.55</u>
Increase/ (Decrease) in Net Assets	307,180.03
Net Assets, Beginning of Year	1,934,412.40
Prior Period Adjustment	<u>(184,184.54)</u>
Net Assets, Beginning of Year as Restated	<u>1,750,227.86</u>
Net Assets, End of Year	<u><u>\$ 2,057,407.89</u></u>

See accompanying notes to the financial statements.

HAWTHORN FOUNDATION AND AFFILIATE
Jefferson City, Missouri

CONSOLIDATED STATEMENTS OF CASH FLOWS (INDIRECT METHOD)
For the Year Ended June 30, 2016

	Consolidated
<u>Cash Flows from Operating Activities:</u>	
Change in Net Assets	\$ 307,180.03
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:	
Depreciation	26,478.31
(Gain)/Loss on Disposal of Fixed Assets	4,530.22
Decrease (Increase) in Accounts Receivable	(98,409.18)
Decrease (Increase) in Prepaid Expenses	(150,136.42)
Increase (Decrease) in Accounts Payable	274,016.34
Increase (Decrease) in Advance Payments	332,578.00
Increase (Decrease) in Benefits Payable	4,351.64
Increase (Decrease) in Accrued Vacation Payable	(22,188.78)
Increase (Decrease) in Income Tax Payable	856.00
Net Cash Provided (Used) by Operating Activities	679,256.16
<u>Cash Flows from Investing Activities:</u>	
Acquisition of Equipment	(24,039.87)
Proceeds from Disposal of Fixed Assets	375.00
Net Cash Provided (Used) by Investing Activities	(23,664.87)
Net Increase (Decrease) in Cash and Cash Equivalents	655,591.29
Cash and Cash Equivalents at Beginning of Year	1,869,417.57
Cash and Cash Equivalents at End of Year	\$2,525,008.86
<u>Supplemental Disclosures of Cash Flow Information:</u>	
Income Taxes Paid	\$ 869.00
Interest	-

Disclosure of Accounting Policy:

For purposes of the Consolidated Statement of Cash Flows, Hawthorn Foundation and Affiliate consider all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

See accompanying notes to the financial statements.

HAWTHORN FOUNDATION AND AFFILIATE
Jefferson City, Missouri

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Business

The Hawthorn Foundation is a nonprofit organization organized to assist the Missouri Governor, the Department of Economic Development, and other industries to expand businesses in Missouri. The Foundation is supported by membership dues and payments from the State of Missouri.

The Missouri Partnership, the Hawthorn Foundation's affiliate, was developed in 2006 and aides the Hawthorn Foundation by representing the common economic interests of Missouri businesses.

Method of Accounting

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

Basis of Presentation

The Foundation and Affiliate are required to report information regarding their financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As of June 30, 2016, the Foundation and Affiliate had no permanently or temporarily restricted net assets.

Principles of Consolidation

The consolidated financial statements of the Hawthorn Foundation and Affiliate include the accounts of Missouri Partnership. All significant intercompany transactions and accounts are eliminated.

Income Taxes

The Hawthorn Foundation and Affiliate are not-for-profit organizations exempt from state and federal income taxes under the Internal Revenue Code Section 501(c)(6). However, should the Organizations receive income from activities not directly related to the Organizations' tax exempt purpose, such income would be subject to unrelated business income tax which is the same as regular corporate rates. The Organizations' Forms 990, Return of Organization Exempt From Income Tax are subject to examination by the Internal Revenue Service as of June 30, 2016 were 2013 through 2015, generally for three years after they are filed.

Property and Equipment

All property and equipment purchases in excess of \$150 are recorded at cost. Depreciation is computed using the straight-line method. Building and fixtures are depreciated over a 6 to 10 year life, marketing equipment is depreciated over a 7 to 10 year life, and equipment is depreciated using a 3 to 7 year life.

HAWTHORN FOUNDATION AND AFFILIATE
Jefferson City, Missouri

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For The Year Ended June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Cont'd.)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Contributions

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Allowance for Doubtful Accounts

The Organization considers accounts receivable balances to determine whether any would be deemed uncollectible. The evaluation is based on historical experience and management's evaluation of outstanding accounts receivable at the date of the financial statements. The allowance for uncollectible accounts receivable was \$0 for the year ended September 30, 2016, all accounts are deemed collectable.

Advertising

Advertising costs are expensed as incurred.

Functional Allocation of Expenses

The costs of various programs and other activities have been summarized on a functional basis in Note 6. Accordingly, certain costs have been allocated among program and supporting services.

Subsequent Events

The Hawthorn Foundation and Affiliate evaluates events and transactions occurring subsequent to the date of the financial statements for matters requiring recognition or disclosure in the financial statements. The accompanying financial statements consider events through November 28, 2016, which is the date the financial statements were available to be issued.

HAWTHORN FOUNDATION AND AFFILIATE
Jefferson City, Missouri

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For The Year Ended June 30, 2016

NOTE 2 – CONCENTRATION OF CREDIT RISK:

Deposits

Financial Instruments that potentially subject the Hawthorn Foundation and Affiliate to concentration of credit risk consist primarily of cash and investments. Their cash accounts are invested with creditworthy, high-quality financial institutions and were fully insured at June 30, 2016.

Hawthorn Foundation and Affiliate investments consist of an investaccount balance at one financial institution. Investaccount balances represent purchase of government-backed securities and are not insured or guaranteed by the FDIC or any other government agency. Investaccount balances of \$601,600.13 for the Hawthorn Foundation and \$1,866,940.99 for the Missouri Partnership are reported as Cash and Cash Equivalents on the financial statements for the year ended June 30, 2016. Due to the nature of these investments, there are no realized or unrealized gains and losses reported.

Revenues

The Foundation receives a significant amount of revenue from the State of Missouri, which is included in Missouri Partnership Funds and Miscellaneous Income-BRAC Study on the statement of activities. The percentage of total revenues that was received from the State of Missouri was approximately 70% for the year-ended June 30, 2016.

NOTE 3 – RETIREMENT PLAN:

Missouri Partnership sponsors a safe harbor 401(k) savings plan. This 401(k) Retirement Savings Plan helps employees accumulate financial resources for retirement. The Plan allows employees to elect how much of their salary they want to contribute to the Plan and to direct the investment of their funds into professionally managed investment funds. The Partnership, under the plan, makes a matching contribution of up to 5% of each employee's annual salary to employee's contributions at plan year end. The contribution for the year ended June 30, 2016 was \$40,248.07.

HAWTHORN FOUNDATION AND AFFILIATE
Jefferson City, Missouri

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For The Year Ended June 30, 2016

NOTE 4 – LEASES:

Missouri Partnership leases office space under a third party operating lease agreement. The lease term began on May 1, 2008, and was amended effective March 1, 2013. The amended lease agreement has a term of 62 months. The lease is cancelable upon consent by the lessor.

The following is a schedule of future annual minimum lease payments required by this lease for each of the fiscal years ended June 30:

2017	\$ 91,893
2018	93,616
2019	<u>15,651</u>
Total future minimum lease payments	<u>\$ 201,160</u>

NOTE 5 – FUNCTIONAL ALLOCATION OF EXPENSES:

The following schedule reflects total program and supporting service expenses on a functional basis:

Program Services	\$ 3,882,223.61
Administrative	<u>685,098.29</u>
Total	<u>\$ 4,567,321.89</u>

NOTE 6 – FIXED ASSETS:

Missouri Partnership

	Cost	Accumulated Depreciation	Book Value
Equipment	\$ 118,523	\$ 93,799	\$ 24,724
Building and Fixtures	91,489	66,587	24,902
Marketing Equipment	25,507	17,481	8,026
	<u>\$ 235,519</u>	<u>\$ 177,867</u>	<u>\$ 57,652</u>

Depreciation expense for the year ended June 30, 2016 totaled \$26,478

HAWTHORN FOUNDATION AND AFFILIATE
Jefferson City, Missouri

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For The Year Ended June 30, 2016

NOTE 7 – NET ASSETS:

Temporarily Restricted Net Assets:

Temporarily restricted net assets include contributions and grants with donor stipulations.

	Foreign Trade Office	BRAC Study	MUJAC	Total
Balance 6/30/15	\$ 28,761	\$ (230)	\$ 80,000	\$ 108,531
Prior Period Adjustment	(89,107)		(80,000)	(169,107)
Contributions	471,014	344,486	-	815,500
Contributions released from Restrictions	(410,668)	(344,256)	-	(754,924)
Balance 6/30/16	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

Board Designated Net Assets:

Board designated net assets include funds received from the Missouri Department of Economic Development to be used toward the Governor’s Conference less expenses directly associated with this project. Activity in the account for the year is as follows:

Balance 6/30/2015	\$ 88,552
Prior Period Adjustment	11,983
Conference Income	112,831
Conference Expenses	(156,049)
Balance 6/30/2016	<u>\$ 57,317</u>

NOTE 8 – RELATED PARTY TRANSACTIONS

The Hawthorn Foundation maintains at least a 51% voting interest in matters decided by Missouri Partnership and, therefore, the two entities are considered related parties. For the year ended September 30, 2016, Hawthorn Foundation transferred \$2,486,240, funding originally received from the Missouri Department of Economic Development, to the Missouri Partnership to fund several programs that were specifically designed to promote Missouri businesses.

HAWTHORN FOUNDATION AND AFFILIATE
Jefferson City, Missouri

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For The Year Ended June 30, 2016

NOTE 9 – PRIOR PERIOD ADJUSTMENT

Effective July 1, 2015, the Hawthorn Foundation and its affiliate changed the method of accounting from modified cash basis to full accrual or in accordance with generally accepted accounting principles. The prior period adjustment reflects the accrued assets and liabilities at June 30, 2015 that were not reported prior to the conversion.

ADDITIONAL INFORMATION

HAWTHORN FOUNDATION AND AFFILIATE
Jefferson City, Missouri

CONSOLIDATING STATEMENTS OF FINANCIAL POSITION

June 30, 2016

	<u>HAWTHORN FOUNDATION</u>	<u>MISSOURI PARTNERSHIP</u>	<u>ELIMINATIONS</u>	<u>CONSOLIDATED</u>
<u>ASSETS</u>				
Current Assets				
Cash and Cash Equivalents	\$ 692,486.30	\$ 1,832,522.56	\$ 0.00	\$ 2,525,008.86
Accounts Receivable	127,186.01	2,967.17	0.00	130,153.18
Prepaid Expenses	154,303.54	48,873.62	0.00	203,177.16
Total Current Assets	973,975.85	1,884,363.35	0.00	2,858,339.20
Fixed Assets				
Equipment	0.00	118,523.19	0.00	\$ 118,523.19
Building and Fixtures	0.00	91,488.50	0.00	\$ 91,488.50
Marketing Equipment	0.00	25,507.25	0.00	\$ 25,507.25
Less: Accumulated Depreciation	0.00	(177,867.77)	0.00	\$ (177,867.77)
Net Fixed Assets	0.00	57,651.17	0.00	\$ 57,651.17
TOTAL ASSETS	973,975.85	1,942,014.52	0.00	2,915,990.37
<u>LIABILITIES</u>				
Accounts Payable	349,566.40	61,074.24	0.00	410,640.64
Advance Payments	418,595.00	0.00	0.00	418,595.00
Benefits Payable	0.00	25,477.39	0.00	25,477.39
Accrued Vacation Payable	0.00	3,013.45	0.00	3,013.45
Income Tax Payable	856.00	0.00	0.00	856.00
TOTAL LIABILITIES	769,017.40	89,565.08	0.00	858,582.48
<u>NET ASSETS</u>				
Unrestricted Net Assets				
Board Designated	57,317.00	0.00	0.00	57,317.00
Undesignated	147,641.45	1,852,449.44	0.00	2,000,090.89
TOTAL NET ASSETS	\$ 204,958.45	\$ 1,852,449.44	\$ 0.00	\$ 2,057,407.89

HAWTHORN FOUNDATION AND AFFILIATE
Jefferson City, Missouri
CONSOLIDATING STATEMENTS OF ACTIVITIES
For The Year Ended June 30, 2016

	<u>HAWTHORN</u> <u>FOUNDATION</u>	<u>MISSOURI</u> <u>PARTNERSHIP</u>	<u>ELIMINATIONS</u>	<u>CONSOLIDATED</u>
<u>REVENUES</u>				
Membership Dues	\$ 684,500.00	\$ 0.00	\$ 0.00	\$ 684,500.00
Interest Income	563.91	4,255.55	0.00	4,819.46
Sponsorship Income	93,030.63	0.00	0.00	93,030.63
Event/Symposium Income	26,610.00	0.00	0.00	26,610.00
Miscellaneous Income	2,152.02	9,708.26	0.00	11,860.28
Missouri Partnership Funds	2,066,240.00	0.00	0.00	2,066,240.00
Conference Income	112,830.68	0.00	0.00	112,830.68
Grant Income	1,000,000.00	0.00	0.00	1,000,000.00
Partner Contributions	0.00	63,641.54	0.00	63,641.54
Promote MO Funds	0.00	2,486,240.00	(2,486,240.00)	0.00
Gain/ (Loss) on Equipment	0.00	(4,530.22)	0.00	(4,530.22)
Total Revenue	3,985,927.24	2,559,315.13	(2,486,240.00)	4,059,002.37
Net Assets Released from Restrictions:				
Contributions Released from Restrictio	754,924.00	0.00	0.00	754,924.00
Total Unrestricted Revenue and Reclassifications	4,740,851.24	2,559,315.13	(2,486,240.00)	4,813,926.37
<u>EXPENSES</u>				
Salary Expense	98,333.31	1,064,332.67	0.00	1,162,665.98
Payroll Taxes	5,630.21	86,869.97	0.00	92,500.18
Employee Benefits	0.00	64,665.51	0.00	64,665.51
Retirement Expense	0.00	44,599.71	0.00	44,599.71
Performance Incentive Pay	0.00	141,536.10	0.00	141,536.10
Income Tax Expense	856.00	0.00	0.00	856.00
Professional Development	0.00	12,201.71	0.00	12,201.71
Employee Hiring and Recruitment	0.00	350.68	0.00	350.68
Contracts for Services	19,952.05	30,543.17	0.00	50,495.22
Advertising	0.00	135,189.97	0.00	135,189.97
Accounting	11,449.49	18,452.63	0.00	29,902.12
Supplies	3,283.07	19,696.96	0.00	22,980.03
Telephone	1,935.56	23,255.90	0.00	25,191.46
Postage	600.97	7,037.57	0.00	7,638.54

HAWTHORN FOUNDATION AND AFFILIATE
Jefferson City, Missouri
CONSOLIDATING STATEMENTS OF ACTIVITIES
For The Year Ended June 30, 2016

	<u>HAWTHORN</u> <u>FOUNDATION</u>	<u>MISSOURI</u> <u>PARTNERSHIP</u>	<u>ELIMINATIONS</u>	<u>CONSOLIDATED</u>
Meals and Entertainment	892.88	70,962.35	0.00	71,855.23
Dues and Subscriptions	1,654.59	5,831.99	0.00	7,486.58
Professional Association Dues	0.00	6,515.31	0.00	6,515.31
Printing	173.47	0.00	0.00	173.47
Insurance	3,351.00	17,330.47	0.00	20,681.47
Rent	1,008.00	112,200.63	0.00	113,208.63
Missouri Partnership	2,486,240.00	0.00	(2,486,240.00)	0.00
Trade Mission	162,382.84	0.00	0.00	162,382.84
Meeting Expense	11,540.46	7,559.27	0.00	19,099.73
Event Expenses	15,500.15	0.00	0.00	15,500.15
Education Symposium	13,529.21	0.00	0.00	13,529.21
Bank Charges	110.41	0.00	0.00	110.41
Research Information Services	0.00	55,852.30	0.00	55,852.30
Foreign Trade Office Expense	424,879.96	0.00	0.00	424,879.96
BRAC Study Expense	344,256.25	0.00	0.00	344,256.25
Grant Expense	985,000.00	0.00	0.00	985,000.00
Miscellaneous Allowances	0.00	8,417.20	0.00	8,417.20
Depreciation	0.00	26,478.31	0.00	26,478.31
Miscellaneous Marketing	0.00	41,188.76	0.00	41,188.76
Maintenance & Repair	0.00	680.00	0.00	680.00
Collateral Materials	0.00	21,161.73	0.00	21,161.73
Conferences/Trade Shows/Sponsorships	156,048.58	153,888.36	0.00	309,936.94
Travel	0.00	126,462.15	0.00	126,462.15
Miscellaneous Expense	252.30	0.00	0.00	252.30
Agency Services	0.00	1,439.75	0.00	1,439.75
Total Expenses	<u>4,748,860.76</u>	<u>2,304,701.13</u>	<u>(2,486,240.00)</u>	<u>4,567,321.89</u>
Increase/ (Decrease) in Unrestricted Net Assets	(8,009.52)	254,614.00	0.00	246,604.48
TEMPORARILY RESTRICTED NET ASSETS (See Note 7)				
Contributions	815,499.55	0.00	0.00	815,499.55
Contributions Released from Restrictions	(754,924.00)	0.00	0.00	(754,924.00)
Increase/ (Decrease) in Temporarily Restricted Net Assets	60,575.55	0.00	0.00	60,575.55
Increase/ (Decrease) in Net Assets	52,566.03	254,614.00	0.00	307,180.03
Net Assets, Beginning of Year	308,389.35	1,626,023.05	0.00	1,934,412.40

HAWTHORN FOUNDATION AND AFFILIATE
 Jefferson City, Missouri
CONSOLIDATING STATEMENTS OF ACTIVITIES
 For The Year Ended June 30, 2016

	<u>HAWTHORN</u> <u>FOUNDATION</u>	<u>MISSOURI</u> <u>PARTNERSHIP</u>	<u>ELIMINATIONS</u>	<u>CONSOLIDATED</u>
Prior Period Adjustment	<u>(155,996.93)</u>	<u>(28,187.61)</u>	<u>0.00</u>	<u>(184,184.54)</u>
Net Assets, Beginning of Year as Restated	<u>152,392.42</u>	<u>1,597,835.44</u>	<u>0.00</u>	<u>1,750,227.86</u>
Net Assets, End of Year	<u>\$ 204,958.45</u>	<u>\$ 1,852,449.44</u>	<u>\$ 0.00</u>	<u>\$ 2,057,407.89</u>

HAWTHORN FOUNDATION AND AFFILIATE
Jefferson City, Missouri

CONSOLIDATING STATEMENTS OF CASH FLOWS (INDIRECT METHOD)
For the Year Ended June 30, 2016

	<u>Hawthorn Foundation</u>	<u>Missouri Partnership</u>	<u>Consolidated</u>
<u>Cash Flows from Operating Activities:</u>			
Change in Net Assets	\$ 52,566.03	\$ 254,614.00	\$ 307,180.03
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:			
Depreciation	-	26,478.31	26,478.31
(Gain)/Loss on Disposal of Fixed Assets	-	4,530.22	4,530.22
Decrease (Increase) in Accounts Receivable	(102,442.01)	4,032.83	(98,409.18)
Decrease (Increase) in Prepaid Expenses	(136,303.15)	(13,833.27)	(150,136.42)
Increase (Decrease) in Accounts Payable	236,842.08	37,174.26	274,016.34
Increase (Decrease) in Advance Payments	332,578.00	-	332,578.00
Increase (Decrease) in Benefits Payable	-	4,351.64	4,351.64
Increase (Decrease) in Accrued Vacation Payable	-	(22,188.78)	(22,188.78)
Increase (Decrease) in Income Tax Payable	856.00	-	856.00
Net Cash Provided (Used) by Operating Activities	<u>384,096.95</u>	<u>295,159.21</u>	<u>679,256.16</u>
<u>Cash Flows from Investing Activities:</u>			
Acquisition of Equipment	-	(24,039.87)	(24,039.87)
Proceeds from Disposal of Fixed Assets	-	375.00	375.00
Net Cash Provided (Used) by Investing Activities	<u>-</u>	<u>(23,664.87)</u>	<u>(23,664.87)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	384,096.95	271,494.34	655,591.29
Cash and Cash Equivalents at Beginning of Year	<u>308,389.35</u>	<u>1,561,028.22</u>	<u>1,869,417.57</u>
Cash and Cash Equivalents at End of Year	<u>\$ 692,486.30</u>	<u>\$ 1,832,522.56</u>	<u>\$ 2,525,008.86</u>
<u>Supplemental Disclosures of Cash Flow Information:</u>			
Income Taxes Paid	\$ 869.00	\$ -	\$ 869.00
Interest	-	-	-

Disclosure of Accounting Policy:

For purposes of the Consolidated Statement of Cash Flows, Hawthorn Foundation and Affiliate consider all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

See accompanying notes to the financial statements.

SUGGESTIONS TO MANAGEMENT



Evers & Company, CPA's, L.L.C.

Certified Public Accountants and Consultants

Elmer L. Evers
Richard E. Elliott
Dale A. Siebeneck
Jo L. Moore
Wendy M. Renner
Eldon H. Becker, Jr.
Bruce A. Vanderveld
Jessica L. Bridges

Jerome L. Kauffman, Emeritus
Keith L. Taylor, Emeritus

To the Board of Directors and Management of
Hawthorn Foundation and Affiliate
Jefferson City, Missouri:

In planning and performing our audit of the consolidated financial statements of Hawthorn Foundation and Affiliate as of and for the year ended June 30, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered Hawthorn Foundation and Affiliate's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in Hawthorn Foundation and Affiliate's internal control to be significant deficiencies:

PRIOR YEAR RECOMMENDATIONS RESUBMITTED:

Organizational Structure

The size of the Organization's accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties. The Board has adopted and implemented several review procedures in an effort to mitigate the deficiency that results from a small number of staff. We agree that the Board should continue to remain informed in the financial affairs of the Organization to provide oversight and independent review.

Internal Control Structure

We are required to give consideration to the Organization's ability to prepare financial statements and related note disclosures, as well as the oversight of the financial reporting process by those charged with governance. The Organization does not have in place controls that would assure the preparation of internal financial statements and related note disclosures in accordance with U.S. generally accepted accounting principles. The Organization engages independent auditors to draft the financial statements, which includes drafting the primary financial statements and ensuring the disclosures are complete. Once drafted, the financial statements are submitted to the Organization for review and approval. This practice is common and practical. However, we are required to communicate this deficiency on an annual basis to the governing body. The Executive Committee has acknowledged that their cost/benefit analysis does not justify making changes to this procedure.

In the prior year, we noted several matters that were opportunities for strengthening internal control and operating efficiency but did not meet the definition of a significant deficiency or material weakness. These matters were addressed by the Organizations and procedures implemented. Attachment A provides a summary of the prior year recommendations and a summary of procedures implemented. Since these have been successfully addressed the recommendations will not be reflected in the next year's report.

This communication is intended solely for the information and use of management, the Board of Directors for Hawthorn Foundation and Missouri Partnership, and others within the Organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

Evers & Company, CPA's, LLC

EVERS & COMPANY, CPA's, L.L.C.
Jefferson City, Missouri

November 28, 2016

ATTACHMENT A

PRIOR YEAR RECOMMENDATIONS IMPLEMENTED:

Cash Disbursements and Wire Transfers

In the prior year we suggested that the then current pre-approval of invoices policy be further enhanced by the adoption of a policy requiring management to review the check register to verify that only pre-authorized payments were made. We also recommended that an original copy of the bank statement be forwarded directly to management and the bank reconciliation also be reviewed and approved by management. In the current year we noted that the contracted accountant is providing a pre-issuance check register to the Executive Director prior to checks being issued. We also noted the Executive Director has personalized online access to monthly bank statements and receives a monthly bank reconciliation for review.

Adjusting Journal Entries

In the prior year we recommended adjusting journal entries be reviewed on a monthly basis and approved by management. In the current year we noted that this process is managed by the Executive Director and Treasurer's monthly review of the general ledger which includes all journal entries. The accounting software package does not distinguish between adjusting journal entries and entries such as cash receipts. Therefore, the journal entry review is accomplished by the general ledger review.

Bank Reconciliations

In our prior year audit, we noted that the monthly bank reconciliations and bank statements were not being reviewed by management. We recommended that monthly bank reconciliations and bank statements be reviewed by management and compared to the monthly financial statements. In the current year, we noted these are being reviewed by the Treasurer and the Executive Director.

Executive Director Spending Threshold

In our prior year audit, we noted that the Executive Director did not have a spending threshold above which Board approval is needed. We recommended the Board consider establishing a dollar spending threshold for the Executive Director above which the he or she would need prior Board authorization. In the current year, we noted the implementation of a threshold above which checks must be signed by the Treasurer.

Approval of DED Expenditures

In the prior year, we recommended the staff from the Department of Economic Development submit expenditures to the Executive Director of the Foundation for approval before the expenditure is made, to the extent possible. In the current year, this has been implemented. Communication has improved and is expected to continue to improve with the use of a budget system. Flexibility is still necessary, however, some budget guidelines will be agreed upon among all parties.

Communication of Financial Reports

In the prior year, we recommended that any financial reports or information shared directly between DED staff and the fiscal manager be shared with the Executive Director. In the current year we noted all communication is being shared.

ATTACHMENT A

PRIOR YEAR RECOMMENDATIONS IMPLEMENTED: (Cont'd)

Check Signatures

In the prior year, we recommended the Board consider establishing a dollar threshold for requiring two signatures on checks issues. In the current year, we noted a threshold was established.

MISSOURI PARTNERSHIP

Credit Card Statement Review

In the prior year, it was noted that the charges and receipts for the Executive Director's credit card were not reviewed. We recommended the Treasurer or another Board member review the charges by the Executive Director. In the current year we noted the review process was initiated.



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November 28, 2016

To the Board of Directors of
Hawthorn Foundation and Affiliate
Jefferson City, Missouri:

We have audited the consolidated financial statements of Hawthorn Foundation and Affiliate for the year ended June 30, 2016, and have issued our report thereon dated November 28, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 9, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Hawthorn Foundation and Affiliate are described in Note 1 to the financial statements. Effective July 1, 2015, Hawthorn Foundation and Affiliate changed their method of accounting from the modified cash basis to full accrual accounting in accordance with accounting principles generally accepted in the United States of America. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of the depreciation expense is based on the estimated useful lives of capital assets. We evaluated the key factors and assumptions used to develop the depreciation expense in determining that they are reasonable in relation to the financial statements taken as a whole.

Management's estimate of the allowance for uncollectible accounts is based upon an analysis of collectability of the accounts receivable. We evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 28, 2016.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Foundation's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has changed from the modified cash basis method of accounting to full accrual accounting in the current period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board of Directors and management of the Hawthorn Foundation and Affiliate and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Evers & Company, CPA's, LLC

Evers & Company, CPA's L.L.C.