

**HAWTHORN FOUNDATION
AND AFFILIATE**

Jefferson City, Missouri

INDEPENDENTS AUDITORS' REPORT

For the Year Ended June 30, 2019

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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, 2019, and the related consolidated statements of activities, functional expenses, 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; 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.

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, 2019, 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.

Report of Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statements on pages 14 through 17 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

January 6, 2020

HAWTHORN FOUNDATION AND AFFILIATE
Jefferson City, Missouri
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
June 30, 2019

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 2,064,980.47	
Investments	597,372.10	
Accounts Receivable	117,362.52	
Prepaid Expenses	109,024.64	
Total Current Assets		2,888,739.73

Fixed Assets

Equipment	128,117.86	
Building and Fixtures	98,957.90	
Marketing Equipment	28,252.62	
Less: Accumulated Depreciation	(236,606.56)	
Net Fixed Assets		18,721.82

TOTAL ASSETS

2,907,461.55

LIABILITIES

Accounts Payable		428,631.32
Advance Payments		71,552.85
Accrued Vacation Payable		32,373.10
Deferred Liabilities		51,987.58
Income Tax Payable		596.00
		585,140.85

TOTAL LIABILITIES

NET ASSETS

NET ASSETS

Without Donor Restrictions

Board Designated		145,333.71
Undesignated		2,125,982.28

With Donor Restrictions

51,004.71

TOTAL NET ASSETS

\$ 2,322,320.70

See accompanying notes to the financial statements

HAWTHORN FOUNDATION AND AFFILIATE
 Jefferson City, Missouri
CONSOLIDATED STATEMENT OF ACTIVITIES
 For The Year Ended June 30, 2019

REVENUES

DED Support	\$ 2,400,000.00
Membership Dues	848,135.00
BRAC Study	394,149.55
Conference Income	377,642.38
Sponsorship Income	88,199.25
Partner Contributions	48,610.48
Interest Income	11,899.31
Miscellaneous Income	1,299.67
Total Revenues	<u>4,169,935.64</u>
Net Assets Released from Restrictions:	
Contributions Released from Restrictions	<u>343,112.36</u>
Total Revenues	4,513,048.00

EXPENSES

EXPENSES:	
Program Expenses:	
Marketing	793,077.41
Business Development	1,092,670.43
Capacity Building	37,565.11
Shared Operations	47,904.75
Project Management	1,372,873.98
Supporting Expenses:	
Administrative Expenses	<u>634,354.71</u>
Total Expenses	<u>3,978,446.38</u>
Increase/ (Decrease) in Net Assets Without Donor Restrictions	534,601.62
NET ASSETS WITH DONOR RESTRICTIONS (See Note 8)	
Contributions	354,549.14
Contributions Released from Restrictions	<u>(343,112.36)</u>
Increase/ (Decrease) in Net Assets With Donor Restrictions	<u>11,436.78</u>
Increase (Decrease) in Net Assets	546,038.40
Net Assets, Beginning of Year	<u>1,776,282.30</u>
Net Assets, End of Year	<u><u>\$ 2,322,320.70</u></u>

See accompanying notes to the financial statements

HAWTHORN FOUNDATION AND AFFILIATE
Jefferson City, Missouri
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For The Year Ended June 30, 2019

EXPENSES	PROGRAM SERVICES					SUPPORTING SERVICES	TOTAL EXPENSES
	MARKETING	BUSINESS DEVELOPMENT	CAPACITY BUILDING	SHARED OPERATIONS	PROJECT MANAGEMENT	MANAGEMENT AND GENERAL	
Salary Expense	\$ 292,799.76	\$ 139,428.46	\$ -	\$ -	\$ 655,313.74	\$ 306,742.60	\$ 1,394,284.55
Payroll Taxes	21,672.12	10,320.06	-	-	48,504.27	22,704.13	103,200.57
Employee Benefits	22,161.36	10,553.03	-	-	49,599.23	23,216.66	105,530.27
Retirement Expense	13,083.01	6,230.00	-	-	29,281.01	13,706.01	62,300.03
Performance Incentive Pay	34,123.42	16,249.25	-	-	76,371.46	35,748.34	162,492.47
Income Tax Expense	-	-	-	-	-	766.00	766.00
Professional Development	2,035.69	969.38	-	-	4,556.07	2,132.63	9,693.76
Contracts for Services	-	-	2,308.38	-	-	26,389.75	28,698.13
Advertising	29,877.99	-	-	-	-	-	29,877.99
Accounting	7,047.81	3,356.10	-	-	15,773.68	7,383.42	33,561.02
Legal Fees	-	-	-	-	-	3,898.30	3,898.30
Supplies	3,923.94	1,868.54	-	-	8,782.14	4,110.79	18,685.41
Telephone	4,490.63	2,138.40	-	-	10,050.46	4,704.47	21,383.96
Postage	2,510.06	1,195.27	-	-	5,617.75	2,629.59	11,952.66
Meals and Entertainment	4,301.76	39,956.53	477.97	1,433.92	7,169.61	-	53,339.79
Dues and Subscriptions	-	-	-	14,384.24	-	3,705.67	18,089.91
Professional Association Dues	-	-	-	-	-	30,469.84	30,469.84
Printing	-	-	-	-	-	5,169.18	5,169.18
Insurance	5,103.18	2,430.09	-	-	11,421.40	5,346.19	24,300.85
Rent	20,649.29	9,833.00	-	-	46,215.09	21,632.59	98,329.97
Office Improvements	-	-	-	-	-	9,075.75	9,075.75
Maintenance and Repair	19.95	9.50	-	-	44.65	20.90	95.00
Operating Expense - CFS	-	-	-	-	-	1,275.00	1,275.00
Trade Mission	-	121,430.25	-	-	-	-	121,430.25
Meeting Expense	-	-	-	-	-	19,451.64	19,451.64
Event Expenses	32,130.79	-	-	-	-	-	32,130.79
Government Task Force	-	1,227.78	-	-	-	-	1,227.78
Bank Charges	50.84	24.21	-	-	113.78	53.26	242.08
Research Information Services	-	-	-	31,682.32	-	-	31,682.32
Foreign Trade Office Expense	-	343,112.36	-	-	-	-	343,112.36
BRAC Study Expense	-	-	-	-	394,149.55	-	394,149.55
Miscellaneous Allowances	3,524.77	1,678.46	-	-	7,888.77	3,692.61	16,784.61
Depreciation	-	-	-	-	-	12,452.63	12,452.63
Miscellaneous Marketing	162,607.20	-	-	-	-	-	162,607.20
Collateral Materials	19,123.28	-	-	-	-	-	19,123.28
Conferences/Trade Shows/Sponsorships	1,212.80	380,659.79	134.76	404.27	2,021.34	-	384,432.95
Capacity Building	-	-	34,644.00	-	-	-	34,644.00
Miscellaneous Expense	-	-	-	-	-	132.00	132.00
Travel	110,627.77	-	-	-	-	15,757.18	126,384.95
Project Management	-	-	-	-	-	51,987.58	51,987.58
Total Expenses	\$ 793,077.41	\$ 1,092,670.43	\$ 37,565.11	\$ 47,904.75	\$ 1,372,873.98	\$ 634,354.71	\$ 3,978,446.38

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, 2019

Cash Flows from Operating Activities:

Change in Net Assets	\$ 546,038.40
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:	
Depreciation	12,452.63
Decrease (Increase) in Accounts Receivable	(73,382.52)
Decrease (Increase) in Prepaid Expenses	(39,180.01)
Increase (Decrease) in Accounts Payable	(22,547.16)
Increase (Decrease) in Advance Payments	9,783.55
Increase (Decrease) in Accrued Vacation Payable	12,723.92
Increase (Decrease) in Deferred Liabilities	51,987.58
Increase (Decrease) in Income Tax Payable	(89.00)
Net Cash Provided (Used) by Operating Activities	<u>497,787.39</u>

Cash Flows from Investing Activities:

Acquisition of Equipment	(12,496.31)
Purchase of Investments	(497,372.10)
Proceeds from Investments	200,000.00
Net Cash Provided (Used) by Investing Activities	<u>(309,868.41)</u>

Net Increase (Decrease) in Cash and Cash Equivalents 187,918.98

Cash and Cash Equivalents at Beginning of Year 1,877,061.46

Cash and Cash Equivalents at End of Year \$ 2,064,980.44

Supplemental Disclosures of Cash Flow Information:

Income Taxes Paid	\$ 685.00
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, 2019

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 two classes of net assets: without donor restrictions and with donor restrictions.

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, 2019 were 2016 through 2018, 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, 2019

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 net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases net assets with donor restrictions. When a restriction expires, these net assets are reclassified to net assets without donor restriction 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 June 30, 2019 all accounts are deemed collectible.

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 the Statement of Activities. The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salary-related expenses, professional development, accounting, office-type expenses, meals, and hospitality-related expenses, which are allocated based on budgeted estimates of expense categorization.

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 January 6, 2020, 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, 2019

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

New Accounting Pronouncement

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) - *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. Hawthorn Foundation and Affiliate has adjusted the presentation of these statements accordingly.

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. Balances at all banks are insured by the Federal Deposit Insurance Corporation (FDIC) for \$250,000.

Hawthorn Foundation and Affiliate investments consist of an investaccount balance and two negotiable certificates of deposit all 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 \$706,776.22 for the Hawthorn Foundation and \$1,249,260.14 for the Missouri Partnership are reported as Cash and Cash Equivalents on the financial statements for the year ended June 30, 2019. Due to the nature of these investments, there are no realized or unrealized gains and losses reported. At June 30, 2019, the amounts held in bank deposit accounts were within FDIC coverage limits.

Revenues

The Foundation receives a significant amount of revenue from the State of Missouri, which is included in DED Support and BRAC Study on the statement of activities. The percentage of total revenues that was received from the State of Missouri was approximately 67% for the year-ended June 30, 2019. The Foundation receives this revenue as a result of a contract with the State of Missouri. Changes, if any, to this contract could occur with little notice which could result in additional costs and/or additional administrative burden.

HAWTHORN FOUNDATION AND AFFILIATE
Jefferson City, Missouri

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For The Year Ended June 30, 2019

NOTE 3 - AVAILABILITY AND LIQUIDITY:

The following represents the Organization's financial assets at December 31, 2019:

Financial assets at year-end:	Hawthorn Foundation	Missouri Partnership
Cash and cash equivalents	\$ 842,851.68	\$1,222,128.79
Investment	-	597,372.10
Accounts receivable, net	113,617.12	3,745.40
Related party accounts receivable	-	150,000.00
Total Financial Assets	956,468.80	1,973,246.29
Less those unavailable for general expenditures within one year, due to:		
Contractual or donor-imposed restrictions:		
Restrictions by donor with time or purpose restrictions	(51,004.71)	-
Financial assets available to meet cash needs for general expenditures within one year before board designations	905,464.09	1,973,346.29
Less Board designations:		
Missouri Department of Economic Development	(145,333.71)	-
Financial assets available to meet general expenditures Over the next twelve months	<u>\$ 760,130.38</u>	<u>1,973,346.29</u>

Hawthorn's goal is generally to maintain financial assets to meet 1 year of operating expenses (approximately \$249,000). This reserve is held in a money market account. Hawthorn's affiliate, Missouri Partnership, has a goal to generally maintain financial assets to meet 6-9 months of operating expenses (approximately \$1,594,000). Missouri Partnership intends to solely rely on cash and cash equivalents, certificates of deposit, and prepaid expenses.

NOTE 4 – 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 bi-monthly. The contribution for the year ended June 30, 2019 was \$51,178.88.

HAWTHORN FOUNDATION AND AFFILIATE
Jefferson City, Missouri

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For The Year Ended June 30, 2019

NOTE 5 – FAIR VALUE MEASUREMENT:

The Missouri Partnership categorizes its fair value measurements within the fair value hierarchy established by the accrual basis method of accounting. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Missouri Partnership's investments by input levels as of June 30 are presented below.

Investment	2019 Fair Value	Quoted Prices Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
United States Treasury Bills	\$ 397,136.10	-	\$397,136.10	-
Negotiable Certificates of Deposit	200,236.00	-	200,236.00	-
	<u>\$ 597,372.10</u>	<u>-</u>	<u>\$ 597,372.10</u>	<u>-</u>

NOTE 6 – LEASES:

Missouri Partnership leases office space under a third party operating lease agreement in St. Louis, Missouri. The lease term began on May 1, 2008, and the third amendment was effective May 18, 2018. The amended lease agreement has a term of 60 months. The lease is cancelable upon consent by the lessor.

Missouri Partnership leases office space under a third party operating lease agreement in Kansas City, Missouri. The lease term began June 1, 2019 and continues until May 31, 2020 with an option for three additional one year terms. The Partnership plans to cancel this lease in May 2020. The schedule below assumes the three year option will be exercised.

Missouri Partnership leases office space under a third party operating lease agreement in Kansas City, Missouri. The lease term began December 2, 2019 and continues until December 31, 2020 with an option for additional month-to-month terms.

Missouri Partnership leases a copier under a third party operating lease. The lease term began December 1, 2018 and continues until November 30, 2023.

HAWTHORN FOUNDATION AND AFFILIATE
Jefferson City, Missouri

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For The Year Ended June 30, 2019

NOTE 6 – LEASES: (Cont'd.)

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

	St. Louis Office	Kansas City Office	Copier	Total
2020	\$ 92,405.50	\$ 19,334.00	\$ 4,260.00	\$ 103,527.15
2021	94,154.50	-	4,260.00	105,609.06
2022	95,903.50	-	4,260.00	107,573.83
2023	97,652.50	-	4,260.00	101,912.50
2024	16,324.00	-	1,775.00	18,099.00
Total Future Minimum Lease Payments	<u>\$ 396,440.00</u>	<u>\$ 19,334.00</u>	<u>\$ 18,815.00</u>	<u>\$ 436,721.53</u>

NOTE 7 – FIXED ASSETS:

Missouri Partnership

	Cost	Accumulated Depreciation	Book Value
Equipment	\$ 128,117.86	\$121,537.53	\$ 6,580.33
Building and Fixtures	98,957.90	88,382.37	10,575.53
Marketing Equipment	28,252.62	26,686.66	1,565.96
	<u>\$ 255,328.38</u>	<u>\$ 236,606.56</u>	<u>\$ 18,721.82</u>

Depreciation expense for the year ended June 30, 2019 totaled \$12,452.62.

HAWTHORN FOUNDATION AND AFFILIATE
Jefferson City, Missouri

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For The Year Ended June 30, 2019

NOTE 8 – NET ASSETS:

Net Assets With Donor Restrictions:

Net assets with donor restrictions include contributions and grants with donor stipulations.

	Foreign Trade Office
Balance June 30, 2018	\$ 39,567.93
Contributions	354,549.14
Contributions released from Restrictions	(343,112.36)
Balance June 30, 2019	\$ 51,004.71

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 June 30, 2018	\$ 45,898.63
Conference Income	377,642.38
Conference Expenses	(278,207.30)
Balance June 30, 2019	\$ 145,333.71

NOTE 9 – 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 June 30, 2019, Hawthorn Foundation transferred \$2,400,000 funding originally received from the Missouri Department of Economic Development and \$450,000, funding raised by the Hawthorn Foundation, to the Missouri Partnership to fund several programs that were specifically designed to promote Missouri businesses. The Hawthorn Foundation received \$10,000 worth of airline tickets from Southwest Airlines designated for Missouri Partnership’s use and forwarded those vouchers to the Missouri Partnership as an in-kind donation. Additionally, \$150,000 was owed to the Missouri Partnership from the Hawthorn Foundation at June 30, 2019.

HAWTHORN FOUNDATION AND AFFILIATE
Jefferson City, Missouri

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For The Year Ended June 30, 2019

NOTE 10 – ACCOUNTS RECEIVABLE:

As of June 30, 2019, the Hawthorn Foundation and affiliate reported \$117,362.52 in accounts receivable. Of this amount, \$106,362.52 was general accounts receivable and \$11,000.00 were dues receivable reported by the Foundation. An additional \$150,000 was owed to Missouri Partnership from Hawthorn Foundation, but this intercompany receivable was eliminated in consolidation.

NOTE 11 – CONTRACTED SERVICES:

In August 2017, the Foundation entered into an agreement with the Missouri Chamber of Commerce and Industry (MCCI) whereby the Executive Director and administrative assistant of the Foundation are employees of MCCI who devote all of their time and effort to the Foundation. The Foundation reimburses MCCI for these contracted services.

ADDITIONAL INFORMATION

HAWTHORN FOUNDATION AND AFFILIATE
Jefferson City, Missouri
CONSOLIDATING STATEMENTS OF FINANCIAL POSITION
June 30, 2019

	<u>HAWTHORN FOUNDATION</u>	<u>MISSOURI PARTNERSHIP</u>	<u>ELIMINATIONS</u>	<u>CONSOLIDATED</u>
ASSETS				
Current Assets				
Cash and Cash Equivalents	\$ 842,851.68	\$ 1,222,128.79	\$ -	\$ 2,064,980.47
Investments	-	597,372.10	-	597,372.10
Accounts Receivable	113,617.12	153,745.40	(150,000.00)	117,362.52
Prepaid Expenses	45,570.57	63,454.07	-	109,024.64
Total Current Assets	<u>1,002,039.37</u>	<u>2,036,700.36</u>	<u>(150,000.00)</u>	<u>2,888,739.73</u>
Fixed Assets				
Equipment	-	128,117.86	-	128,117.86
Building and Fixtures	-	98,957.90	-	98,957.90
Marketing Equipment	-	28,252.62	-	28,252.62
Less: Accumulated Depreciation	-	(236,606.56)	-	(236,606.56)
Net Fixed Assets	<u>-</u>	<u>18,721.82</u>	<u>-</u>	<u>18,721.82</u>
TOTAL ASSETS	<u>1,002,039.37</u>	<u>2,055,422.18</u>	<u>(150,000.00)</u>	<u>2,907,461.55</u>
LIABILITIES				
Accounts Payable	387,992.39	190,638.93	(150,000.00)	428,631.32
Advance Payments	71,552.85	-	-	71,552.85
Accrued Vacation Payable	-	32,373.10	-	32,373.10
Deferred Liabilities	-	51,987.58	-	51,987.58
Income Tax Payable	596.00	-	-	596.00
TOTAL LIABILITIES	<u>460,141.24</u>	<u>274,999.61</u>	<u>(150,000.00)</u>	<u>585,140.85</u>
NET ASSETS				
Without Donor Restrictions				
Board Designated	145,333.71	-	-	145,333.71
Undesignated	345,559.71	1,780,422.57	-	2,125,982.28
With Donor Restrictions	<u>51,004.71</u>	<u>-</u>	<u>-</u>	<u>51,004.71</u>
TOTAL NET ASSETS	<u>\$ 541,898.13</u>	<u>\$ 1,780,422.57</u>	<u>\$ -</u>	<u>\$ 2,322,320.70</u>

HAWTHORN FOUNDATION AND AFFILIATE
 Jefferson City, Missouri
CONSOLIDATING STATEMENTS OF ACTIVITIES
 For The Year Ended June 30, 2019

	HAWTHORN FOUNDATION	MISSOURI PARTNERSHIP	ELIMINATIONS	CONSOLIDATED
<u>REVENUES</u>				
DED Support	2,400,000.00	2,400,000.00	(2,400,000.00)	2,400,000.00
Membership Dues	848,135.00	-	-	848,135.00
Conference Income	377,642.38	-	-	377,642.38
BRAC Study	\$ 394,149.55	\$ -	\$ -	\$ 394,149.55
Sponsorship Income	88,199.25	-	-	88,199.25
Partner Contributions	-	48,610.48	-	48,610.48
Interest Income	998.26	10,901.05	-	11,899.31
Miscellaneous Income	891.80	10,407.87	(10,000.00)	1,299.67
Hawthorn Foundation	-	450,000.00	(450,000.00)	-
Total Revenue	4,110,016.24	2,919,919.40	(2,860,000.00)	4,169,935.64
Net Assets Released from Restrictions:				
Contributions Released from Restrictions	343,112.36	-	-	343,112.36
Total Revenues	4,453,128.60	2,919,919.40	(2,860,000.00)	4,513,048.00
<u>EXPENSES</u>				
EXPENSES:				
Program Expenses:				
Marketing	80,770.38	712,307.03	-	793,077.41
Business Development	772,681.82	319,988.61	-	1,092,670.43
Capacity Building	2,308.38	35,256.73	-	37,565.11
Shared Operations	2,860,000.00	47,904.75	(2,860,000.00)	47,904.75
Project Management	503,009.59	869,864.39	-	1,372,873.98
Supporting Expenses:				
Administrative Expenses	68,830.08	565,524.62	-	634,354.71
Total Expenses	4,287,600.25	2,550,846.13	(2,860,000.00)	3,978,446.38
Increase/ (Decrease) in Net Assets Without Donor Restrictions	165,528.35	369,073.27	-	534,601.62
NET ASSETS WITH DONOR RESTRICTION (See Note 8)				
Contributions	354,549.14	-	-	354,549.14
Contributions Released from Restrictions	(343,112.36)	-	-	(343,112.36)
Increase/ (Decrease) in Net Assets With Donor Restriction	11,436.78	-	-	11,436.78
Increase (Decrease) in Net Assets	176,965.13	369,073.27	-	546,038.40
Net Assets, Beginning of Year	364,933.00	1,411,349.30	-	1,776,282.30
Net Assets, End of Year	\$ 541,898.13	\$ 1,780,422.57	\$ -	\$ 2,322,320.70

HAWTHORN FOUNDATION AND AFFILIATE
Jefferson City, Missouri

CONSOLIDATING STATEMENTS OF CASH FLOWS (INDIRECT METHOD)
For the Year Ended June 30, 2019

	<u>Hawthorn Foundation</u>	<u>Missouri Partnership</u>	<u>Consolidated</u>
<u>Cash Flows from Operating Activities:</u>			
Change in Net Assets	\$ 176,965.13	\$ 369,073.27	\$ 546,038.40
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:			
Depreciation	-	12,452.63	12,452.63
Decrease (Increase) in Accounts Receivable	(70,617.12)	(2,765.40)	(73,382.52)
Decrease (Increase) in Prepaid Expenses	(40,642.64)	1,462.63	(39,180.01)
Increase (Decrease) in Accounts Payable	138,647.32	(161,194.48)	(22,547.16)
Increase (Decrease) in Advance Payments	10,378.55	(595.00)	9,783.55
Increase (Decrease) in Accrued Vacation Payable	-	12,723.92	12,723.92
Increase (Decrease) in Deferred Liabilities	-	51,987.58	51,987.58
Increase (Decrease) in Income Tax Payable	(89.00)	-	(89.00)
Net Cash Provided (Used) by Operating Activities	<u>214,642.24</u>	<u>283,145.15</u>	<u>497,787.39</u>
<u>Cash Flows from Investing Activities:</u>			
Acquisition of Equipment	-	(12,496.31)	(12,496.31)
Purchase of Investments	-	(497,372.10)	(497,372.10)
Proceeds from Investments	-	200,000.00	200,000.00
Net Cash Provided (Used) by Investing Activities	<u>-</u>	<u>(309,868.41)</u>	<u>(309,868.41)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	214,642.24	(26,723.26)	187,918.98
Cash and Cash Equivalents at Beginning of Year	<u>628,209.44</u>	<u>1,248,852.05</u>	<u>1,877,061.49</u>
Cash and Cash Equivalents at End of Year	<u>\$ 842,851.68</u>	<u>\$ 1,222,128.79</u>	<u>\$ 2,064,980.47</u>
<u>Supplemental Disclosures of Cash Flow Information:</u>			
Income Taxes Paid	\$ 685.00	\$ -	\$ 685.00
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.

SUGGESTIONS TO MANAGEMENT



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

Certified Public Accountants and Consultants

Richard E. Elliott
Dale A. Siebeneck
Jo L. Moore
Wendy M. Renner
Eldon H. Becker
Bruce A. Vanderveld
Jessica L. Bridges
Bobbie J. Redmon-Murray

Elmer L. Evers, Emeritus
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, 2019, 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 addition, we became aware of a matter that would be an opportunity for strengthening internal control and operating efficiency but did not meet the definition of a significant deficiency or material weakness. This matter is summarized in Attachment A.

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.

Evors & Company, CPA's, LLC

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

January 6, 2020

Attachment A:
Other Recommendations

PRIOR YEAR RECOMMENDATIONS PARTIALLY IMPLEMENTED:

Results of review by State Auditor

Our review of the State Auditors review of the Economic Development Advancement Fund suggests that the Missouri Department of Economic Development is going to rely on the Hawthorn Foundation and Missouri Partnership to insure the findings noted by the State Auditor are corrected. There is also a reference to the fact that there is an expectation that the auditors for both entities will review compliance with the terms of the agreement with the Missouri Department of Economic Development.

In the prior year we noted the following criteria included in the agreement between the Hawthorn Foundation and the Missouri Department of Economic Development.

- 1) Section 2 a ii. We will want to see verification that the subcontractor contract has been provided to DED.
- 2) Section 2 d. We will want to see evidence that the subcontractors are complying with the audit requirement as detailed in this section.
- 3) Section 3 e. We will want to understand how Hawthorn is monitoring whether a subcontractor is performing lobbying activities to ensure the prohibition of the same is not being violated.
- 4) Section 5. We will want to see the planned activities communication.
- 5) Section 9 a and c. We will want to see copies of the written reports submitted to DED.
- 6) Section 13. We will want to review compliance with the E-Verify reporting.
- 7) General – the financial records will need to be organized in a fashion that will reflect expenditures paid by source of funds. We will then test these allocations by reviewing source documents to determine if the allocation is reasonable based on the supporting documentation.

During our current year audit procedures, our testing did not reveal any non-compliance with the criteria above except for item number two. It is our understanding that the contract requires all contractors to submit an audit report to the Foundation. Not all contractors have an audit performed.