

HAWTHORN BANCSHARES, INC.

Form 11-K

June 13, 2018

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 11-K**

(Mark One):

**ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

For the fiscal year ended December 31, 2017.

OR

**TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-23636

A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

**Hawthorn Bancshares, Inc. Profit Sharing 401(k) Plan**

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

**Hawthorn Bancshares, Inc.**

**132 East High Street, Box 688**

**Jefferson City, MO 65102**

**(573) 761-6100**

Hawthorn Bancshares, Inc.

Profit Sharing 401(k) Plan

Years Ended December 31, 2017 and 2016

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Report of Independent Registered Public Accounting Firm

Retirement and Investment Committee

and Audit Committee

Hawthorn Bancshares, Inc.

Profit Sharing 401(k) Plan

Jefferson City, Missouri

***Opinion on the Financial Statements***

We have audited the accompanying statements of net assets available for benefits of Hawthorn Bancshares, Inc. Profit Sharing 401(k) Plan as of December 31, 2017 and 2016, and the related statements of changes in net assets available for benefits for the years then ended, and the related notes and schedule (collectively referred to as the “financial statements”). In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2017 and 2016, and the changes in net assets available for benefits for the years then ended in conformity with accounting principles generally accepted in the United States of America.

***Basis of Opinion***

These financial statements are the responsibility of the Plan’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Plan in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Plan is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Plan’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Retirement and Investment Committee

and Audit Committee

Hawthorn Bancshares, Inc.

Profit Sharing 401(k) Plan

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***Report on Supplemental Information***

The supplemental information in the accompanying Schedule of Assets (Held at End of Year) for the year ended December 31, 2017, has been subjected to audit procedures performed in conjunction with the audit of the Plan's financial statements. The supplemental schedule is the responsibility of the Plan's management. Our audit procedures included determining whether the supplemental schedule reconciles to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in the supplemental schedule. In forming our opinion on the supplemental schedule, we evaluated whether the supplemental schedule, including its form and content, is presented in conformity with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the *Employee Retirement Income Security Act of 1974*. In our opinion, the Schedule of Delinquent Participant Contributions is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

/s/ **BKD, LLP**

We have served as the Plan's auditor since 2003

St. Louis, Missouri

June 13, 2018

**Hawthorn Bancshares, Inc.**

**Profit Sharing 401(k) Plan**

Statements of Net Assets Available for Benefits

December 31, 2017 and 2016

	2017	2016
Investments, At Fair Value	\$31,336,517	\$25,652,666
Receivable Employer's contribution	508,000	479,000
Net Assets Available for Benefits	\$31,844,517	\$26,131,666

See accompanying notes to the financial statements.

**Hawthorn Bancshares, Inc.****Profit Sharing 401(k) Plan**

## Statements of Changes in Net Assets Available for Benefits

Years Ended December 31, 2017 and 2016

	2017	2016
Additions to Net Assets Attributable to:		
Investment Income		
Net appreciation in fair value of investments	\$3,952,480	\$1,217,688
Interest and dividends	1,268,025	820,899
Total investment income	5,220,505	2,038,587
Contributions		
Employer	872,987	825,493
Participants	725,692	735,087
Rollovers	91,819	12,640
Total contributions	1,690,498	1,573,220
Total additions	6,911,003	3,611,807
Deductions from Net Assets Attributable to:		
Benefits paid to participants	1,198,152	1,548,157
Net increase	5,712,851	2,063,650
Net Assets Available for Benefits:		
Beginning of Year	26,131,666	24,068,016
End of Year	\$31,844,517	\$26,131,666

See accompanying notes to the financial statements.



**Hawthorn Bancshares, Inc.**

**Profit Sharing 401(k) Plan**

Notes to Financial Statements

Years Ended December 31, 2017 and 2016

(1) Description of the Plan

The following description of the Hawthorn Bancshares, Inc. Profit Sharing 401(k) Plan (“Plan”) provides only general information. Participants should refer to the Plan Document and *Summary Plan Description* for a more complete description of the Plan’s provisions, which are available from the Plan Administrator.

General

The Plan is a defined contribution plan sponsored by Hawthorn Bancshares, Inc. and its subsidiaries (collectively the “Company”) for the benefit of the employees of the Company who have at least 90 days of service and are age 21 or older. An eligible employee becomes a participant in the Plan on the first day of each quarter of the Plan year. The Plan is subject to the provisions of the *Employee Retirement Income Security Act of 1974* (ERISA). Capital Bank and Trust Company is the trustee of the Plan.

Contributions

The Company profit-sharing contributions are discretionary as determined by the Company’s Board of Directors. All employer contributions are allocated to a participant’s account based on that participant’s compensation compared to the total compensation of all eligible participants. In addition, the Company matches the participant’s salary deferral into the plan dollar for dollar up to 3 percent of the participant’s annual salary. All contributions are made conditioned upon their deductibility for federal income tax purposes.

Participants have the option to make voluntary contributions to the Plan up to the annual limit set by the Internal Revenue Service (IRS).

Effective July 1, 2016, an automatic deferral feature was added to the Plan. Accordingly, the Company will automatically withhold a portion of the participant's compensation from each payroll period and contribute that amount to the Plan as a pre-tax 401(k) deferral unless a contrary election is made.

#### Participant Investment Account Options

Investment account options available include various mutual funds and common stock of the Company. Each participant has the option of directing his/her contributions into any of the separate investment accounts and may change the allocation daily.

#### Participant Accounts

Each participant's account is credited with the participant's contribution, the Company's contribution, plan earnings and forfeitures of terminated participants' nonvested accounts. Allocations are based on participant earnings. The benefits to which a participant is entitled is the benefit that can be provided from the participant's vested account.

**Hawthorn Bancshares, Inc.**

**Profit Sharing 401(k) Plan**

Notes to Financial Statements

Years Ended December 31, 2017 and 2016

Vesting

Participant contributions and earnings thereon are 100 percent vested at all times. Employer contributions and earnings thereon vest according to the following schedule:

Length of Service	Percent Vested
After 1 Year	0%
After 2 Years	20%
After 3 Years	40%
After 4 Years	60%
After 5 Years	100%

Forfeited accounts

At the time a participant terminates his/her employment, the nonvested portion of the employer contribution account is forfeited and allocated to eligible participants on a pro rata allocation method. At December 31, 2017 and 2016, plan assets include \$66,826 and \$42,017, respectively, of forfeitures to be allocated to eligible participants on a pro rata allocation method.

***Payment of Benefits***

Under the terms of the Plan, participants are entitled to receive the amount credited to their accounts upon normal retirement at the age of 65 or disability retirement. Participants terminating employment prior to retirement are entitled to receive that portion of their account that is vested. In the event of death, the participant's account becomes fully vested and the balance is paid to the designated beneficiary. Distributions under the Plan are payable in a lump sum or through installments.

## (2) Summary of Significant Accounting Policies

### Basis of Accounting

The accompanying financial statements are prepared on the accrual basis of accounting except for benefits, which are recorded upon distribution, and present the net assets available for plan benefits and changes in those net assets.

### 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 the reported amounts of net assets and changes in net assets and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

### Investment Valuation and Income Recognition

Investments are reported at fair value. Fair value is 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. Quoted market prices, if available, are used to value investments. Mutual funds are valued at net asset value (NAV) of shares held by the Plan at year end. See Note 3 for discussion of fair value measurements.

Investment transactions are accounted for on the trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation includes the Plan's gains and losses on investments bought and sold as well as held during the year.

**Hawthorn Bancshares, Inc.**

**Profit Sharing 401(k) Plan**

Notes to Financial Statements

Years Ended December 31, 2017 and 2016

Payment of Benefits

Benefits payments are recorded to participants upon distribution.

Administrative Expenses

The administrative expenses of the Plan are paid by the Company.

(3) Fair Value of Plan Assets

FASB Accounting Standards Codification (ASC) 820, *Fair Value Measurements*, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

**Level 1** Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan can access at the measurement date.

**Level 2** Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, such as:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

**Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in methodologies used at December 31, 2017 and 2016.

*Mutual funds:* Shares held in mutual funds are valued at the net asset value (NAV) of shares held by the Plan at year end. Mutual funds held by the Plan are open-end mutual funds that are registered with the U.S. Securities and Exchange Commission. These funds are required to publish their daily NAV and transact at that price. The mutual funds held by the plan are deemed to be actively traded.

*Common Stock:* The Company's common stock is valued at the closing price reported in the active market in which the individual securities are traded.

**Hawthorn Bancshares, Inc.****Profit Sharing 401(k) Plan**

Notes to Financial Statements

Years Ended December 31, 2017 and 2016

The following table presents the fair value measurements of assets recognized in the accompanying statements of net assets available for benefits measured at fair value and the level within the fair value hierarchy in which the fair value measurements fall at December 31:

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2017				
Mutual funds	\$23,752,987	\$23,752,987	\$ -	\$ -
Common stock	7,583,530	7,583,530	-	-
Total	\$31,336,517	\$31,336,517	\$ -	\$ -
December 31, 2016				
Mutual funds	\$19,587,398	\$19,587,398	\$ -	\$ -
Common stock	6,065,268	6,065,268	-	-
Total	\$25,652,666	\$25,652,666	\$ -	\$ -

*Transfers between levels:* For years ended December 31, 2017 and 2016, there were no transfers in or out of Levels 1, 2, or 3.

**(4) Party-in-interest Transactions**

The Plan held an investment of 365,471 and 343,641 shares of common stock of the Company with a fair value of \$7.6 million and \$6.1 million at December 31, 2017 and 2016, respectively, and received dividends of \$91,075 and \$65,915 on such shares during 2017 and 2016, respectively. These investments are considered allowable party-in-interest transactions under ERISA guidelines.

Certain Plan investments are shares of mutual funds selected by the Company's retirement committee and managed by the participants. Capital Bank and Trust Company is the trustee as defined by the Plan and, therefore, these transactions qualify as party-in-interest transactions. Fees incurred by the Plan for the investment management services are included in net appreciation in fair value of the investment, as they are paid through revenue sharing, rather than a direct payment. The Plan Sponsor pays directly any other fees related to the Plan's operations.

(5) Tax Status

The IRS issued its latest determination letter on March 3, 2006, which stated that the Plan and its underlying trust qualify under the applicable provisions of the Internal Revenue Code and, therefore, are exempt from federal income taxes. The Plan has been amended since receiving the determination letter. However, the Plan Administrator believes that the Plan is currently designed and being operated in compliance with the applicable requirements of the Internal Revenue Code. Therefore, we believe the Plan was qualified and the related trust was tax-exempt as of the financial statement date. With a few exceptions, the Plan is no longer subject to U.S. federal tax examinations for years before 2014.

(6) Plan Termination

Although it has not expressed any intent to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to provision of ERISA. In such an event, the participants' accounts become fully vested and are not subject to forfeiture.

(7) Risks and Uncertainties

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the participants' account balances and the amounts reported in the statements of net assets available for benefits.



**Supplemental Schedule**

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**Hawthorn Bancshares, Inc.****Profit Sharing 401(k) Plan**

Schedule H, Line 4i – Schedule of Assets (Held at End of Year)

December 31, 2017

Investment Type and Issuer	Description of Investment		Current Value
<b>Mutual funds</b>			
* American Funds U.S. Government Money Market	1,086,955	Shares	\$ 1,086,955
* American Funds Euro-Pacific Growth Fund	28,549	Shares	1,572,756
* American Funds Growth Fund	60,690	Shares	2,979,902
* American Funds New Perspective Fund	56,669	Shares	2,412,419
* American Funds New World Fund	2,069	Shares	137,635
* American Funds Small-Cap World Fund	35,182	Shares	1,947,672
AB Large-Cap Growth Fund	2,515	Shares	122,303
Columbia Small-Cap Index Fund	11,056	Shares	273,193
Federated Kaufmann A	269,653	Shares	1,507,362
MFS Global Real Estate Fund	1,017	Shares	8,775
* American Funds Fundamental Investors	22,241	Shares	1,380,529
* American Funds Washington Mutual Investors Fund	74,979	Shares	3,405,567
Putnam Equity Income A	7,875	Shares	193,022
* American Funds Bond Fund of America Fund	154,419	Shares	1,990,458
AMG Managers Loomis Sayles Bond Fund	64,943	Shares	1,751,502
* American Funds 2010 Target Date Fund	154	Shares	1,672
* American Funds 2015 Target Date Fund	4,066	Shares	47,045
* American Funds 2020 Target Date Fund	92,234	Shares	1,156,612
* American Funds 2025 Target Date Fund	34,600	Shares	463,984
* American Funds 2030 Target Date Fund	21,431	Shares	308,176
* American Funds 2035 Target Date Fund	8,986	Shares	132,989
* American Funds 2040 Target Date Fund	18,118	Shares	274,676
* American Funds 2045 Target Date Fund	8,087	Shares	124,457
* American Funds 2050 Target Date Fund	17,136	Shares	258,064
* American Funds 2055 Target Date Fund	10,708	Shares	200,877
* American Funds 2060 Target Date Fund	1,163	Shares	14,385
Total Mutual funds			23,752,987
<b>Common stock</b>			
* Hawthorn Bancshares, Inc. Common Stock	365,471	Shares	7,583,530
Total Investments			\$31,336,517

\* Represents party-in-interest to the Plan.



**SIGNATURES**

The Plan. Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

Hawthorn  
Bancshares, Inc.  
Profit Sharing 401(k)  
Plan  
(Name of Plan)

Dated: June 13, 2018

/s/ W. Bruce Phelps  
W. Bruce Phelps

Chief Financial  
Officer