

**ST. STEPHEN'S
HUMAN SERVICES, INC.**

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
JUNE 30, 2018**

ST. STEPHEN'S HUMAN SERVICES, INC.

FINANCIAL STATEMENTS WITH SUPPLEMENTARY INFORMATION AND REPORTS

For the Year Ended June 30, 2018
(With Comparative Information for 2017)

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Mahoney Ulbrich Christiansen Russ P.A.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
St. Stephen's Human Services, Inc.
Minneapolis, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of St. Stephen's Human Services, Inc., which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of St. Stephen's Human Services, Inc. as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Report on Summarized Comparative Information

We have previously audited St. Stephen's Human Services, Inc.'s 2017 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated October 3, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is 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 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2018, on our consideration of St. Stephen's Human Services, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of St. Stephen's Human Services, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering St. Stephen's Human Services, Inc.'s internal control over financial reporting and compliance.

September 25, 2018

*Mahoney Ulbrich
Christiansen Russ P.A.*

ST. STEPHEN'S HUMAN SERVICES, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 2018

(With Comparative Totals for 2017)

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash	\$ 2,112,773	\$ 2,440,966
Cash - restricted for participant deposits	417,986	354,598
Investments	1,134,515	1,055,182
Accounts receivable	35,938	34,119
Grants receivable	617,637	542,538
Pledges receivable, net	180,000	1,100
Prepaid expenses	15,392	19,085
Property and equipment, net	<u>407,602</u>	<u>272,786</u>
 Total assets	 <u>\$ 4,921,843</u>	 <u>\$ 4,720,374</u>
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 57,871	\$ 47,512
Accrued payroll and related	334,319	280,809
Participant deposits	417,986	338,040
Refundable advances	45,290	23,350
Deferred lease incentive, net	<u>142,500</u>	<u>-</u>
 Total liabilities	 <u>997,966</u>	 <u>689,711</u>
Net assets:		
Unrestricted:		
Board designated reserve	754,006	699,228
Other unrestricted	<u>2,862,700</u>	<u>3,233,965</u>
	3,616,706	3,933,193
Temporarily restricted	<u>307,171</u>	<u>97,470</u>
 Total net assets	 <u>3,923,877</u>	 <u>4,030,663</u>
 Total liabilities and net assets	 <u>\$ 4,921,843</u>	 <u>\$ 4,720,374</u>

See accompanying notes to financial statements.

ST. STEPHEN'S HUMAN SERVICES, INC.

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2018
(With Comparative Totals for 2017)

	2018			
	Unrestricted	Temporarily Restricted	Total	2017
Revenues and support:				
Contributions	\$ 1,567,122	\$ 271,165	\$ 1,838,287	\$ 2,420,229
Contributions - in-kind	106,639	-	106,639	96,698
Greater Twin Cities United Way	116,849	-	116,849	125,187
Government grants and reimbursements	8,850,077	-	8,850,077	8,573,259
Board and lodge income	971,762	-	971,762	897,874
Fee income	404,331	-	404,331	403,807
Special events less direct benefits to donors of \$8,768 in 2018 and \$25,964 in 2017	38,107	-	38,107	108,189
Net assets released upon expiration of time and purpose restrictions	61,464	(61,464)	-	-
Total revenues and support	12,116,351	209,701	12,326,052	12,625,243
Expenses:				
Program services:				
Shelter	870,236	-	870,236	489,484
Street outreach	885,477	-	885,477	824,119
Ending long-term homelessness	3,761,237	-	3,761,237	3,977,551
Family supportive housing	1,240,052	-	1,240,052	1,178,449
Kateri residence	515,217	-	515,217	528,127
Prevention	259,543	-	259,543	221,390
Rapid re-housing	1,562,571	-	1,562,571	1,251,179
MHFA subsidies	1,470,738	-	1,470,738	1,545,684
Community engagement	128,950	-	128,950	218,707
Rep payee	190,453	-	190,453	181,190
Total program services	10,884,474	-	10,884,474	10,415,880
Management and general	1,226,814	-	1,226,814	1,067,000
Fundraising	415,790	-	415,790	389,188
Total expenses	12,527,078	-	12,527,078	11,872,068
Change in net assets before investment income or loss	(410,727)	209,701	(201,026)	753,175
Interest and dividend income	5,602	-	5,602	3,004
Gain on investments, net of fees	88,638	-	88,638	211,322
Change in net assets	(316,487)	209,701	(106,786)	967,501
Net assets, beginning of year	3,933,193	97,470	4,030,663	3,063,162
Net assets, end of year	\$ 3,616,706	\$ 307,171	\$ 3,923,877	\$ 4,030,663

See accompanying notes to financial statements.

ST. STEPHEN'S HUMAN SERVICES, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2018
(With Comparative Totals for 2017)

	2018													Total	2017
	Program Services														
	Shelter	Street Outreach	Ending Long-Term Homelessness	Family Supportive Housing	Kateri Residence	Prevention	Rapid Re-Housing	MHFA Subsidies	Community Engagement	Rep Payee	Total Program Services	Management and General	Fund-raising		
Salaries and wages	\$ 406,669	\$ 462,225	\$ 775,184	\$ 330,615	\$ 299,055	\$ 76,365	\$ 515,351	\$ 45,682	\$ 55,988	\$ 121,162	\$ 3,088,296	\$ 635,008	\$ 252,170	\$ 3,975,474	\$ 3,822,756
Payroll taxes	37,807	42,273	69,653	30,059	28,456	6,964	47,175	3,332	5,111	11,001	281,831	52,906	21,169	355,906	346,259
Employee benefits	80,693	87,535	199,470	58,477	43,226	11,541	116,881	10,429	12,768	25,431	646,451	72,909	61,272	780,632	750,810
	<u>525,169</u>	<u>592,033</u>	<u>1,044,307</u>	<u>419,151</u>	<u>370,737</u>	<u>94,870</u>	<u>679,407</u>	<u>59,443</u>	<u>73,867</u>	<u>157,594</u>	<u>4,016,578</u>	<u>760,823</u>	<u>334,611</u>	<u>5,112,012</u>	<u>4,919,825</u>
Office expense	3,137	505	1,668	1,532	3,377	413	3,339	30	19	3,175	17,195	53,065	1,656	71,916	104,808
Telephone	8,981	9,461	8,390	4,748	10,136	986	6,524	862	942	879	51,909	8,348	2,689	62,946	68,041
Postage and shipping	20	94	698	426	25	141	319	-	14	3,606	5,343	8,288	21,097	34,728	36,232
Equipment and maintenance	-	-	-	-	-	-	-	-	-	-	-	66,161	8,638	74,799	154,391
Insurance	3,361	-	-	-	2,943	-	-	-	340	446	7,090	17,800	-	24,890	15,235
Printing and publications	-	2,626	-	-	-	-	-	-	2,340	-	4,966	-	10,894	15,860	14,873
Travel	418	26,624	25,605	9,997	1,107	1,660	18,760	438	1,761	-	86,370	258	351	86,979	75,862
Conferences and meetings	1,361	9,981	2,404	1,111	1,065	118	1,525	-	243	-	17,808	24,449	1,270	43,527	35,827
Professional fees	5,333	2,624	3,066	989	1,025	165	3,295	1,154	175	135	17,961	31,133	-	49,094	22,117
Contracted services	44,006	-	-	-	8,050	-	-	-	-	-	52,056	168,319	5,784	226,159	191,863
Specific assistance to individuals	129,860	176,969	2,556,479	756,498	68,901	150,630	795,697	1,404,011	-	-	6,039,045	-	-	6,039,045	5,655,065
Education expense	-	-	-	-	-	-	-	-	39,649	-	39,649	-	-	39,649	-
Interest	-	-	-	-	-	-	-	-	-	10,218	10,218	-	-	10,218	11,007
Depreciation	16,655	-	-	-	21,805	-	-	-	-	-	38,460	-	-	38,460	49,076
Occupancy	<u>131,935</u>	<u>64,560</u>	<u>118,620</u>	<u>45,600</u>	<u>26,046</u>	<u>10,560</u>	<u>53,705</u>	<u>4,800</u>	<u>9,600</u>	<u>14,400</u>	<u>479,826</u>	<u>88,170</u>	<u>28,800</u>	<u>596,796</u>	<u>517,846</u>
	<u>\$ 870,236</u>	<u>\$ 885,477</u>	<u>\$ 3,761,237</u>	<u>\$ 1,240,052</u>	<u>\$ 515,217</u>	<u>\$ 259,543</u>	<u>\$ 1,562,571</u>	<u>\$ 1,470,738</u>	<u>\$ 128,950</u>	<u>\$ 190,453</u>	<u>\$ 10,884,474</u>	<u>\$ 1,226,814</u>	<u>\$ 415,790</u>	<u>12,527,078</u>	<u>11,872,068</u>
Add direct benefits to donors														8,768	25,964
Total expenses														<u>\$ 12,535,846</u>	<u>\$ 11,898,032</u>

See accompanying notes to financial statements.

ST. STEPHEN'S HUMAN SERVICES, INC.

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2018
(With Comparative Totals for 2017)

Increase (Decrease) in Cash

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Change in net assets	\$ (106,786)	\$ 967,501
Adjustments to reconcile the change in net assets to net cash from operating activities:		
Depreciation	45,054	49,076
Gain on investments, net of fees	(88,638)	(211,322)
Interest and dividends reinvested	(3,218)	(661)
Donated stock	(22,385)	-
Deferred lease incentive amortization	(7,500)	-
Changes in operating assets and liabilities:		
Accounts receivable	(1,819)	(7,464)
Grants receivable	(75,099)	(105,359)
Pledges receivable	(178,900)	64,757
Prepaid expenses	3,693	(13,732)
Accounts payable	10,359	(935)
Accrued payroll and related	53,510	3,697
Participant deposits, net	16,558	(16,558)
Refundable advances	21,940	(46,974)
	<u>(333,231)</u>	<u>682,026</u>
Net cash from operating activities		
Cash flows from investing activities:		
Payments for property and equipment	(179,870)	-
Proceeds from the sale of investments	262,687	29,892
Purchases of investments	(227,779)	(51,559)
	<u>(144,962)</u>	<u>(21,667)</u>
Net cash from investing activities		
Cash flows from financing activities:		
Deferred lease incentive	150,000	-
	<u>150,000</u>	<u>-</u>
Net cash from financing activities		
Net increase (decrease) in cash	(328,193)	660,359
Cash, beginning of year	<u>2,440,966</u>	<u>1,780,607</u>
Cash, end of year	<u>\$ 2,112,773</u>	<u>\$ 2,440,966</u>

See accompanying notes to financial statements.

ST. STEPHEN'S HUMAN SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2018
(With Comparative Information for 2017)

1. ORGANIZATION

St. Stephen's Human Services, Inc. (Human Services) was founded by the Church of Saint Stephen (the Church) as a provider of social services programs in the 1970s. St. Stephen's Human Services, Inc. was incorporated as a nonprofit entity independent of the church in 2002. Human Services carries out its mission of ending homelessness by serving over 5,000 people (unaudited) each year through homelessness prevention assistance, street outreach, shelter, housing, support services, community engagement, and systems change. These programs fulfill immediate needs, help people grow increasingly self-sufficient in order to not return to homelessness, and promote policies and systems to prevent and end homelessness.

Human Services operates the following programs:

Shelter - The main Shelter is offered to forty-five adult men every night year-round while we work with them to access housing and support services. An additional shelter was opened in November 2017, which offers shelter to 55 individuals, including women and couples, year-round.

Street Outreach - This program provides the first contact for individuals living outside and for the community members concerned for them. Partnering with law enforcement, probation officers, neighborhood organizations, and other stakeholders, this intensive outreach connects people to shelter, housing and other services.

Housing Services:

Ending Long-Term Homelessness - This program works with single adults who have been homeless over many years and are stuck in a cycle of shelters, jail, detox, treatment programs, and living outside. The program works intensively to break this cycle, and to connect people to permanent housing with the supportive services needed to maintain housing stability.

Kateri Residence - Kateri Residence provides sober transitional housing to American Indian women recovering from chemical dependency and their children. Kateri blends traditional recovery methods such as AA and 12-step with a focus on American Indian culture and spirituality. The program works closely with county child protective services to reconnect Kateri residents and their children. Kateri was closed on June 30, 2018.

(Continued)

ST. STEPHEN'S HUMAN SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2018
(With Comparative Information for 2017)

1. **ORGANIZATION (Continued)**

Family Supportive Housing - This program works with high-barrier families who need long-term support to secure and maintain housing.

Prevention - This program works with families and single adults who are facing eviction, foreclosure, or loss of housing for other reasons. One-time financial support and counseling prevent them from becoming homeless.

Rapid Re-Housing - This program helps families and single adults transition quickly from shelter into housing with supportive services and a short-term rental subsidy. Specialized services include rapid rehousing with an emphasis on employment and services for veterans.

MHFA Subsidies - Rental subsidies are an important tool for helping some single adults and families maintain their housing while they work toward self-sufficiency. These subsidies are provided through Minnesota Housing.

Community Engagement - This program engages people experiencing homelessness and other members of the community in advocating for systemic change to prevent and end homelessness. The program offers *A Day in the Life*, an experiential-learning program that gives participants an opportunity to learn directly from people experiencing homelessness; zAmya Theater Project offers educational performances about homelessness by people who have experienced homelessness and their allies; and legislative advocacy in collaboration with our public, private and nonprofit partners.

Other Services:

Representative Payee – Social Security appoints representative payees to Social Security beneficiaries who need help managing their funds to pay rent and utility expenses, personal needs and food.

Other Resources - Human Services publishes the *Handbook of the Streets* to help people navigate available services and secures birth certificates for people who lack identification documents.

The majority of revenue and support is from government agencies, contributions, and fees for services.

(Continued)

ST. STEPHEN'S HUMAN SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2018
(With Comparative Information for 2017)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Financial Statement Presentation - Human Services reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Revenues and support are classified based on the presence or absence of donor restrictions and reported in the following net asset categories:

- Unrestricted net assets represent the portion of net assets that are not subject to donor restrictions.
- Temporarily restricted net assets arise from contributions that are restricted by donors for specific purposes or time periods.
- Permanently restricted net assets arise from contributions that the donor has stipulated must be maintained in perpetuity. There are no permanently restricted net assets.

Cash - Restricted for Participant Deposits - Some clients are not able to manage their own money and therefore Human Services holds as an agent amounts collected from these participants in its Alliance of the Streets Representative Payee program and manages their money on their behalf. A liability titled "Participant Deposits" has been established for these funds.

Cash and Cash Equivalents - For the purpose of preparing the statement of cash flows, investments with an original maturity of three months or less are considered cash equivalents. Restricted cash for participant deposits is not considered a cash equivalent.

Cash and money market accounts held in brokerage accounts is included in investments and is not considered cash for purposes of the Statement of Cash Flows.

(Continued)

ST. STEPHEN'S HUMAN SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2018
(With Comparative Information for 2017)

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Investments - Investments are recorded at fair value. Investment income or loss including gains and losses on investments, interest, and dividends, is included in the statement of activities as increases in unrestricted net assets unless the income or loss is restricted by the donor.

Fair Value Measurements - Human Services determines fair value, when necessary, based on the assumptions that market participants would use when pricing the asset or liability. Valuation techniques require using inputs which are categorized using the following hierarchy:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - inputs that are observable, directly or indirectly, other than the quoted prices included in Level 1; and
- Level 3 - unobservable inputs.

Human Services' investments are all valued using Level 1 inputs.

Concentration of Credit Risk - Human Services places its cash with several financial institutions. At times the amount on deposit exceeds the insured limit of the institutions and exposes Human Services to a credit risk. Human Services has not experienced any losses on its cash deposits. At June 30, 2018 and 2017, deposits exceeded the federally insured limit by \$1,850,102 and \$2,223,561, respectively.

Receivables - Accounts and grants receivable are stated at the amount management expects to collect. Management reviews receivable balances at year end and establishes an allowance based on expected collections. Receivables are written off as a charge to the allowance when, in management's estimation, it is probable that the receivable is worthless. No allowance was considered necessary at June 30, 2018 or 2017.

Pledges Receivable - Pledges receivable are recorded at the promised amount because the difference between the promised amount and the net present value of the promise is immaterial. Management believes that all amounts will be received when due, therefore no allowance for uncollectible amounts has been provided. Receivables are written off as a charge to the allowance when, in management's estimation, it is probable that the receivable is worthless.

(Continued)

ST. STEPHEN'S HUMAN SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2018
(With Comparative Information for 2017)

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Property and Equipment - Property and equipment are recorded at cost. Human Services' policy is to capitalize expenditures for these items in excess of \$5,000. Depreciation is computed using the straight-line method over the estimated useful lives of the property and equipment. Maintenance and repairs are expensed as incurred. Major renewals or betterments that extend the lives of property and equipment are capitalized.

Management evaluates these assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Absent explicit donor restrictions regarding how long contributed assets must be used, Human Services reports expiration of donor restrictions when the donated or acquired assets are placed in service.

Contributions - Contributions are recognized when the donor makes an unconditional commitment to give. Contributions that are restricted by the donor are reported as increases in temporarily restricted net assets and transferred to unrestricted net assets when restrictions expire or the condition is met. 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.

Contributed Materials and Space - Contributed materials are recorded as contributions, when received, at their fair value. During 2017, Human Services received donated food for the Kateri residence and the shelter of \$535 and use of space of \$7,500.

Human Services received donated clothing and household items for programs as follows:

	<u>2018</u>	<u>2017</u>
Rapid re-housing	\$ 40,570	\$ 10,152
Shelter	22,164	4,130
Family supportive housing	17,046	4,365
Kateri residence	13,157	3,029
Street outreach	12,047	1,551
Ending long-term homelessness	<u>1,655</u>	<u>436</u>
Total	<u>\$ 106,639</u>	<u>\$ 23,663</u>

(Continued)

ST. STEPHEN'S HUMAN SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2018
(With Comparative Information for 2017)

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Contributed Services - Contributed services are recorded as contributions, at their fair value, when the service creates or enhances a non-financial asset or the service requires specialized skills, is provided by an individual possessing those skills, and would need to be purchased if not provided by donation. There were no contributed services recognized in 2018. During 2017, Human Services received donated services of \$65,000 for new branding.

Government Grants and Contracts - Government grants and contracts are generally considered exchange transactions and are recorded as revenue when earned. Revenue is earned when eligible expenditures, as defined in each grant or contract, are incurred. Funds received but not yet earned are recorded as refundable advances.

Board and Lodge Income - Board and lodge income consists of housing support reimbursements for residents living in housing operated by Human Services. Revenue is recognized on a monthly basis as units are occupied.

Functional Expenses - Expenses have been allocated among program services, management and general, and fundraising classifications based upon direct expenditures and estimates made by management.

Operating and Nonoperating Activities - The statement of activities presents the changes in net assets from operating activities and from nonoperating activities. Operating revenues and expenses include all activities that are an integral part of the Human Services' programs and supporting activities. Nonoperating activities consist primarily of investment income, including gains and losses.

Comparative Total Column - The financial statements include certain prior-year summarized comparative information in total but not by net asset class or by functionalized expenses. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with Human Services' financial statements for the year ended June 30, 2017, from which the information was derived.

Income Taxes - Human Services is exempt from income taxes under Internal Revenue Code Section 501(c)(3) and applicable Minnesota Statutes, except to the extent it has taxable income from activities that are not related to its exempt purpose. Management believes Human Services does not have any unrelated business income or uncertain tax positions in 2018 or 2017.

(Continued)

ST. STEPHEN'S HUMAN SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2018
(With Comparative Information for 2017)

3. INVESTMENTS

Investments consist of the following:

	<u>2018</u>	<u>2017</u>
Board designated (Kopp):		
Cash and money market funds	\$ 56,903	\$ 32,450
U. S. common stock	651,864	666,778
International equities	45,239	-
Total board designated (Kopp)	<u>754,006</u>	<u>699,228</u>
Cash and money market funds	380,509	346,993
U. S. common stock	-	8,961
Total investments	<u>\$ 1,134,515</u>	<u>\$ 1,055,182</u>

Gain (loss) on investments consists of the following:

	<u>2018</u>	<u>2017</u>
Realized gains (losses), net	\$ 147,862	\$ 34,159
Unrealized gains (losses), net	(51,696)	185,974
Investment service fees	<u>(7,528)</u>	<u>(8,811)</u>
Investment gains (loss), net	<u>\$ 88,638</u>	<u>\$ 211,322</u>

Human Services has established a Board designated (Kopp) reserve for an unspecified period of time. A portion of the earnings from segregated reserve investments, as determined from time to time by the Board, is to be used for Human Services' social service programs. The Board of Directors has approved a quarterly withdrawal of 1.25% of the previous quarter ending date balance.

Changes in the Board designated reserve for the year ended June 30, 2018 are as follows:

Beginning of year balance	\$ 699,228
Unrealized gains (losses), net	(40,720)
Realized gains (losses), net	127,856
Interest and dividends	426
Service fees	(7,533)
Withdrawals	<u>(25,251)</u>
End of year balance	<u>\$ 754,006</u>

(Continued)

ST. STEPHEN'S HUMAN SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2018
(With Comparative Information for 2017)

4. PLEDGES RECEIVABLE

Pledges receivable are related to specific programs and general operations. Pledges are expected to be collected in the years ending June 30, as follows:

2019	\$ 155,000
2020	<u>25,000</u>
	<u>\$ 180,000</u>

5. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	<u>2018</u>	<u>2017</u>	<u>Depreciation life in years</u>
Kateri building and improvements	\$ 376,155	\$ 376,155	15 - 27.5
Shelter building improvements	208,728	208,728	15
Administrative leasehold improvements	<u>276,396</u>	<u>96,526</u>	5 - 15
	861,279	681,409	
Less accumulated depreciation	<u>(453,677)</u>	<u>(408,623)</u>	
	<u>\$ 407,602</u>	<u>\$ 272,786</u>	

In 2018, depreciation of \$6,594 for the administrative leasehold improvements is recorded in occupancy expense on the statement of functional expenses.

The Kateri program ended on June 30, 2018. Human Services intends to sell the Kateri building to another nonprofit who provides services to a similar population. In August 2018, a purchase agreement was signed to sell the Kateri building for \$300,000.

6. LINE OF CREDIT

Human Services has a revolving line of credit that enables Human Services to borrow up to \$350,000. Interest accrues at a rate of 1% over the prime rate, but not less than 5.5%. The agreement expires on February 1, 2019. The line of credit is secured by all assets of Human Services. As of June 30, 2018 and 2017, there were no outstanding advances on the line of credit.

(Continued)

ST. STEPHEN'S HUMAN SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2018
(With Comparative Information for 2017)

7. RESTRICTED AND DESIGNATED NET ASSETS

Temporarily restricted net assets consist of contributions restricted for the following:

	<u>2018</u>	<u>2017</u>
Purpose restricted:		
Shelter	\$ 83,413	\$ 23,202
Rapid re-housing	49,001	35,969
Ending long-term homelessness	31,849	1,981
Street outreach	42,871	20,110
Other	37	15,108
General operations (time restricted)	<u>100,000</u>	<u>1,100</u>
Total temporarily restricted net assets	<u>\$ 307,171</u>	<u>\$ 97,470</u>

The Board designated (Kopp) reserve represents investments segregated for operating support (Note 4). Income from the investments is to be used for Human Services' social service programs.

8. RETIREMENT PLAN

Human Services administers the St. Stephen's Human Services 401(k) retirement savings plan (the Plan). The Plan is subject to provisions of the Employee Retirement Income Security Act of 1974 (ERISA). Generally, all employees of Human Services who are over 21 years of age and who have completed twelve months of service are eligible to participate in this plan. Participants may contribute up to the maximum allowable by law and are fully vested immediately.

Human Services provided a discretionary contribution of 2% of any eligible employee's earnings to the Plan. Human Services also provides a 3% match to employees participating in the plan. Contributions to the plan were \$101,678 and \$97,200 in 2018 and 2017, respectively.

(Continued)

ST. STEPHEN'S HUMAN SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2018
(With Comparative Information for 2017)

9. LEASE

Human Services occupies administrative space and two shelters under non-cancelable lease agreements. The leases require monthly payments for base rent plus operating expenses. Rent expense under these leases was \$407,551 in 2018 and \$356,589 in 2017.

During the year ended June 30, 2018, Human Services modified its lease for the administrative space. As part of this modification, the landlord agreed to reimburse Human Services for up to \$150,000 of leasehold improvements. The \$150,000 is recorded as a deferred lease incentive and is amortized over the term of the lease, using the straight-line method. Amortization is included in occupancy expense.

Future minimum lease payments required for the years ending June 30 are as follows:

2019	\$	353,236
2020		313,981
2021		318,877
2022		323,772
2023		328,667
Thereafter		<u>1,538,969</u>
	\$	<u><u>3,177,502</u></u>

A portion of the leased administrative space is subleased to an unaffiliated nonprofit organization. The sub-tenant is renting space from Human Services on a month-to-month basis. Rent revenue of \$14,198 in 2018 and \$13,975 in 2017 is recorded in fee income.

10. CONTINGENCIES

Amounts received from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed grant costs may constitute a liability. The amount, if any, of costs that may be disallowed by the grantor agencies will be recognized in the year determined.

Human Services is a defendant in a number of legal actions. While the final outcome cannot be determined at this time, management is of the opinion that the ultimate liability, if any, from the final resolution of these matters will not have a material effect on Human Services' financial statements.

(Continued)

ST. STEPHEN'S HUMAN SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2018
(With Comparative Information for 2017)

11. ECONOMIC DEPENDENCE

Of its revenues and support, Human Services received approximately 46% from government contracts with one government agency in 2018 and 49% from government contracts with one government agency in 2017. Many of those contracts are dependent on the grantor obtaining funding from various government agencies.

12. SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 25, 2018, the date on which the financial statements were available for issue, and identified no further significant events or transactions to disclose.

**SUPPLEMENTARY INFORMATION
AND REPORTS**

ST. STEPHEN'S HUMAN SERVICES, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2018

Federal Grantor/ Program Title/ Pass-through Grantor	CFDA Number	Pass-through Grantor Identifying Number	Federal Expenditures
U.S. Department of Health and Human Services			
Substance Abuse and Mental Health Services Administration			
Block Grants for Prevention and Treatment of Substance Abuse	93.959		
Pass-through program from Minnesota Department of Human Services/Alcohol and Drug Abuse Division		114247	\$ 98,731
Administration for Children and Families			
TANF Cluster - Temporary Assistance for Needy Families	93.558		
Pass-through program from Minnesota Department of Health		111371	<u>56,055</u>
Total U.S. Department of Health and Human Services			<u>154,786</u>
U.S. Department of Housing and Urban Development			
Office of Community Planning and Development			
Emergency Solutions Grant Program	14.231		
Pass-through programs from:			
Minnesota Department of Human Services		GRK126918	50,000
Hennepin County Department of Human Services		A177548	100,875
City of Minneapolis Department of Community Planning and Economic Development:			
		C41291	71,812
		C42122	<u>146,395</u>
			<u>369,082</u>

(Continued)

See accompanying notes to schedule of expenditures of federal awards.

ST. STEPHEN'S HUMAN SERVICES, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2018

Federal Grantor/ Program Title/ Pass-through Grantor	CFDA Number	Pass-through Grantor Identifying Number	Federal Expenditures
Continuum of Care	14.267		
Pass-through program from Hennepin County Department of Human Services:			
		A177549	300,702
		A166177	<u>462,349</u>
			<u>763,051</u>
Shelter Plus Care	14.238		
Pass-through program from Hearth Connections		N/A	<u>54,993</u>
Total U.S. Department of Housing and Urban Development			<u>1,187,126</u>
U.S. Department of Homeland Security			
Federal Emergency Management Agency (FEMA)			
Emergency Food and Shelter National Board Program	97.024		
Pass-through program from United Way		LRO 495000028	<u>16,317</u>
U.S. Department of Veterans Affairs			
VA Health Administration Center			
VA Supportive Services for Veteran Families	64.033		
Pass-through program from Minnesota Assistance Council for Veterans		N/A	<u>359,601</u>
Total expenditures of federal awards			<u><u>\$ 1,717,830</u></u>

See accompanying notes to schedule of expenditures of federal awards.

ST. STEPHEN'S HUMAN SERVICES, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2018

Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of St. Stephen's Human Services, Inc. under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance). Because the Schedule presents only a selected portion of the operations of St. Stephen's Human Services, Inc. it is not intended to and does not present the financial position, changes in net assets, or cash flows of St. Stephen's Human Services, Inc.

Note 2. Summary of Significant Accounting Policies

(1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(2) Pass-through entity identifying numbers are presented where available.

(3) St. Stephen's Human Services, Inc. has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

Note 3: Reconciliation to the Statement of Activities:

Expenditures of federal awards as shown on previous page	\$ 1,717,830
Revenue from state grants	6,319,952
Revenue from county grants	574,602
Revenue from city grants	<u>237,693</u>
Total government grants and reimbursements	<u>\$ 8,850,077</u>



Mahoney Ulbrich Christiansen Russ P.A.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
St. Stephen's Human Services, Inc.
Minneapolis, Minnesota

We have audited the financial statements of St. Stephen's Human Services, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to financial statements, and have issued our report thereon dated September 25, 2018. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered St. Stephen's Human Services, Inc.'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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of St. Stephen's Human Services, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of St. Stephen's Human Services, Inc.'s internal control.

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether St. Stephen's Human Services, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

September 25, 2018

*Mahoney Ulbrich
Christiansen Russ P.A.*



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors
St. Stephen's Human Services, Inc.
Minneapolis, Minnesota

Report on Compliance for the Major Federal Program

We have audited St. Stephen's Human Services, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on St. Stephen's Human Services, Inc.'s major federal program for the year ended June 30, 2018. St. Stephen's Human Services, Inc.'s major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for St. Stephen's Human Services, Inc.'s major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program occurred. An audit includes examining, on a test basis, evidence about St. Stephen's Human Services, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of St. Stephen's Human Services, Inc.'s compliance.

(Continued)

Opinion on the Major Federal Program

In our opinion, St. Stephen's Human Services, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2018.

Report on Internal Control Over Compliance

Management of St. Stephen's Human Services, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered St. Stephen's Human Services, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of St. Stephen's Human Services, Inc.'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Mahoney Ulbrich
Christiansen Russ P.A.*

September 25, 2018

ST. STEPHEN'S HUMAN SERVICES, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2018

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

Type of auditor's report issued	Unmodified		
"Going concern" emphasis-of-matter paragraph included in the auditor's report?	<u> </u> yes	<u> X </u> no	
Internal control over financial reporting:			
• Material weakness(es) identified?	<u> </u> yes	<u> X </u> no	
• Significant deficiency(s) identified?	<u> </u> yes	<u> X </u> none reported	
Noncompliance material to financial statements noted?	<u> </u> yes	<u> X </u> no	

FEDERAL AWARDS

Internal control over major program:			
• Material weakness(es) identified?	<u> </u> yes	<u> X </u> no	
• Significant deficiency(s) identified?	<u> </u> yes	<u> X </u> none reported	
Type of auditor's report issued on compliance for major program	Unmodified		
Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)?	<u> </u> yes	<u> X </u> no	
Identification of major program	CFDA Number 14.267 – Continuum of Care		
Dollar threshold used to distinguish between type A and type B programs	<u>\$ 750,000</u>		
Auditee qualified as low-risk auditee?	<u> X </u> yes	<u> </u> no	

(Continued)

ST. STEPHEN'S HUMAN SERVICES, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2018

SECTION II - FINDINGS - FINANCIAL STATEMENTS AUDIT

No matters were reported.

SECTION III - FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT

No matters were reported.