



**AGATE HOUSING  
AND SERVICES, INC.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED  
JUNE 30, 2022**



**AGATE HOUSING AND SERVICES, INC.**

CONSOLIDATED FINANCIAL STATEMENTS WITH SUPPLEMENTARY INFORMATION AND REPORTS

For the Year Ended June 30, 2022  
(With Comparative Information for 2021)

Table of Contents

|   | Page |
|---|------|
| Independent Auditor's Report  | 1    |
| Consolidated Financial Statements:  |      |
| Consolidated Statement of Financial Position  | 4    |
| Consolidated Statement of Activities  | 5    |
| Consolidated Statement of Functional Expenses   | 6    |
| Consolidated Statement of Cash Flows  | 7    |
| Notes to Consolidated Financial Statements  | 8    |
| Supplementary Information and Reports:  |      |
| Schedule of Expenditures of Federal Awards  | 24   |
| 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 <i>Government Auditing Standards</i> | 27   |
| Independent Auditor's Report on Compliance for the Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance Schedule of Findings and Questioned Cost                                | 29   |
| Schedule of Findings and Questioned Costs   | 32   |
| Summary Schedule of Prior Audit Findings  | 36   |



## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Agate Housing and Services, Inc.  
Minneapolis, Minnesota

### **Report on the Consolidated Financial Statements**

#### ***Opinion***

We have audited the accompanying consolidated financial statements of Agate Housing and Services, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Agate Housing and Services, Inc. as of June 30, 2022, 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.

#### ***Basis for Opinion***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Agate Housing and Services, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Responsibilities of Management for the Consolidated Financial Statements***

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Agate Housing and Services, Inc.'s ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

(Continued)

## ***Auditor's Responsibilities for the Audit of the Consolidated Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Agate Housing and Services, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Agate Housing and Services, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

### ***Other Information***

Management is responsible for the other information included in the annual report. The other information comprises the information included in the annual report but does not include the consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the consolidated financial statements, or the other information otherwise appears to be materially misstated. If, based on that work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report. As described below, we have concluded that such an uncorrected material misstatement of the other information exists.

(Continued)

### ***Adoption of New Accounting Standards***

As discussed in Note 2 to the consolidated financial statements, Agate Housing and Services, Inc. has adopted the Accounting Standards Update (ASU) 2020-07, *Not-for-Profit Entities (Topic 958), Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. Our opinion is not modified with respect to that matter.

### ***Report on Summarized Comparative Information***

We have previously audited Agate Housing and Services, Inc.'s 2021 consolidated financial statements and we expressed an unmodified opinion on those audited consolidated financial statements in our report dated March 1, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived, except for the changes made to retrospectively correct accounting as discussed in Note 15. As part of our audit of the 2022 consolidated financial statements, we audited the adjustments made to the 2021 consolidated financial statements that were described in Note 15. In our opinion, such adjustments are appropriate and have been properly applied.

### ***Report on Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the consolidated 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 also not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated 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 December 13, 2022 on our consideration of Agate Housing and 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 Agate Housing and 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 Agate Housing and Services, Inc.'s internal control over financial reporting and compliance.

*Mahoney Ulbrich*  
*Christiansen & Russ, PA*

December 13, 2022

## AGATE HOUSING AND SERVICES, INC.

### CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2022

(With Comparative Totals for 2021)

|  | 2022          | 2021          |
|--|---------------|---------------|
| <b>ASSETS</b>                              |               |               |
| Cash and cash equivalents                  | \$ 3,569,720  | \$ 3,418,624  |
| Cash - restricted for participant deposits | 1,082,127     | 1,154,091     |
| Investments                                | 8,376,434     | 9,049,876     |
| Grants receivable                          | 581,290       | 1,352,461     |
| Pledges receivable                         | 40,000        | -             |
| Other receivables                          | 52,694        | 7,731         |
| Prepaid expenses and other assets          | 186,023       | 131,024       |
| Predevelopment costs                       | 280,083       | 323,913       |
| Property and equipment, net                | 2,967,478     | 2,612,332     |
| Total assets                               | \$ 17,135,849 | \$ 18,050,052 |
| <b>LIABILITIES AND NET ASSETS</b>          |               |               |
| Accounts payable                           | \$ 82,571     | \$ 550,997    |
| Construction payable                       | 143,697       | -             |
| Accrued payroll and related                | 355,088       | 420,589       |
| Participant deposits                       | 1,082,127     | 1,154,091     |
| Refundable advances                        | 348,589       | 331,711       |
| Long term debt                             | 1,018,000     | 1,018,750     |
| Accrued interest                           | 202,813       | 194,563       |
| Deferred lease incentive, net              | 82,500        | 97,500        |
| Total liabilities                          | 3,315,385     | 3,768,201     |
| Net assets:                                |               |               |
| Without donor restrictions:                | 9,329,146     | 9,950,811     |
| With donor restrictions                    | 4,491,318     | 4,331,040     |
| Total net assets                           | 13,820,464    | 14,281,851    |
| Total liabilities and net assets           | \$ 17,135,849 | \$ 18,050,052 |

See accompanying notes to financial statements.

**AGATE HOUSING AND SERVICES, INC.**

CONSOLIDATED STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2022  
(With Comparative Totals for 2021)

|   | 2022  |  |                      | 2021                 |
|---|---|--|----------------------|----------------------|
|   | Net assets<br>without donor<br>restrictions | Net assets<br>with donor<br>restrictions | Total                |                      |
| Revenues and support:   |   |  |                      |                      |
| Contributions   | \$ 3,376,177                                | \$ 1,629,522                             | \$ 5,005,699         | \$ 3,911,148         |
| Contributions - in-kind   | 127,735                                     | -  | 127,735              | 201,895              |
| Government grants and reimbursements                                    | 11,937,021                                  | -  | 11,937,021           | 14,422,658           |
| Fee income  | 440,238                                     | -  | 440,238              | 432,376              |
| Other income  | 98,004                                      | -  | 98,004               | 130,311              |
| Net assets released upon expiration of<br>time and purpose restrictions | 1,469,244                                   | (1,469,244)                              | -                    | -                    |
| <b>Total revenues and support</b>                                       | <b>17,448,419</b>                           | <b>160,278</b>                           | <b>17,608,697</b>    | <b>19,098,388</b>    |
| Expenses:   |   |  |                      |                      |
| Program services:   |   |  |                      |                      |
| Shelter   | 1,912,586                                   | -  | 1,912,586            | 4,703,732            |
| Street outreach   | 435,397                                     | -  | 435,397              | 1,080,047            |
| Supportive housing  | 6,978,124                                   | -  | 6,978,124            | 6,835,236            |
| Housing services:   |   |  |                      |                      |
| Prevention  | 595,763                                     | -  | 595,763              | 755,993              |
| Rapid re-housing  | 1,397,840                                   | -  | 1,397,840            | 1,558,953            |
| Site-based supportive housing   | 1,755,313                                   | -  | 1,755,313            | 784,386              |
| Food Centre   | 826,258                                     | -  | 826,258              | 256,020              |
| Day by Day  | 273,284                                     | -  | 273,284              | 115,397              |
| Community engagement  | 295,958                                     | -  | 295,958              | 126,490              |
| Rep payee   | 256,178                                     | -  | 256,178              | 261,471              |
| <b>Total program services</b>   | <b>14,726,701</b>                           | <b>-</b>                                 | <b>14,726,701</b>    | <b>16,477,725</b>    |
| Management and general  | 2,508,791                                   | -  | 2,508,791            | 2,548,321            |
| Fundraising   | 464,377                                     | -  | 464,377              | 726,919              |
| <b>Total expenses</b>   | <b>17,699,869</b>                           | <b>-</b>                                 | <b>17,699,869</b>    | <b>19,752,965</b>    |
| Change in net assets before nonoperating activity                       | (251,450)                                   | 160,278                                  | (91,172)             | (654,577)            |
| Loss on disposal of property and equipment                              | (29,859)                                    | -  | (29,859)             | (19,632)             |
| Insurance proceeds  | 427,512                                     | -  | 427,512              | -                    |
| Forgiveness of debt   | -   | -  | -                    | 834,881              |
| Contribution from House of Charities combination                        | -   | -  | -                    | 3,225,731            |
| Return on investments, net  | (767,868)                                   | -  | (767,868)            | 654,230              |
| <b>Change in net assets</b>   | <b>(621,665)</b>                            | <b>160,278</b>                           | <b>(461,387)</b>     | <b>4,040,633</b>     |
| Net assets, beginning of year   | 9,950,811                                   | 4,331,040                                | 14,281,851           | 10,241,218           |
| <b>Net assets, end of year</b>  | <b>\$ 9,329,146</b>                         | <b>\$ 4,491,318</b>                      | <b>\$ 13,820,464</b> | <b>\$ 14,281,851</b> |

See accompanying notes to financial statements.

AGATE HOUSING AND SERVICES, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2022  
(With Comparative Totals for 2021)

|                                    | 2022                |                   |                     |                   |                     |                               |                   |                   |                      |                   |                        |                        |                   | 2021                 |                      |
|------------------------------------|---------------------|-------------------|---------------------|-------------------|---------------------|-------------------------------|-------------------|-------------------|----------------------|-------------------|------------------------|------------------------|-------------------|----------------------|----------------------|
|                                    | Program Services    |                   |                     |                   |                     |                               |                   |                   |                      |                   |                        | Management and general | Fund-raising      |                      | Total                |
|                                    | Shelter             | Street outreach   | Supportive housing  | Housing Services  |                     | Site-based supportive housing | Food Centre       | Day by Day        | Community Engagement | Rep payee         | Total program services |                        |                   |                      |                      |
| Prevention                         |                     |                   |                     | Rapid re-housing  |                     |                               |                   |                   |                      |                   |                        |                        |                   |                      |                      |
| Salaries and wages                 | \$ 867,257          | \$ 219,632        | \$ 1,395,917        | \$ 204,592        | \$ 457,254          | \$ 831,529                    | \$ 262,845        | \$ 176,373        | \$ 189,467           | \$ 168,059        | \$ 4,772,925           | \$ 1,106,573           | \$ 261,469        | \$ 6,140,967         | \$ 5,800,488         |
| Payroll taxes                      | 68,867              | 17,452            | 104,343             | 16,472            | 33,572              | 62,352                        | 19,407            | 13,519            | 13,066               | 12,341            | 361,391                | 75,795                 | 19,957            | 457,143              | 416,657              |
| Employee benefits                  | 140,606             | 59,400            | 366,837             | 29,080            | 105,862             | 109,805                       | 20,062            | 28,606            | 40,654               | 29,618            | 930,530                | 134,608                | 47,437            | 1,112,575            | 1,081,211            |
|                                    | <u>1,076,730</u>    | <u>296,484</u>    | <u>1,867,097</u>    | <u>250,144</u>    | <u>596,688</u>      | <u>1,003,686</u>              | <u>302,314</u>    | <u>218,498</u>    | <u>243,187</u>       | <u>210,018</u>    | <u>6,064,846</u>       | <u>1,316,976</u>       | <u>328,863</u>    | <u>7,710,685</u>     | <u>7,298,356</u>     |
| Office expense                     | 1,277               | 341               | 787                 | 523               | 419                 | 16,902                        | 8,123             | 7,538             | 18                   | 2,045             | 37,973                 | 172,401                | 23,141            | 233,515              | 299,723              |
| Telephone                          | 9,592               | 4,524             | 18,487              | 3,080             | 4,806               | 15,757                        | 4,442             | 3,422             | 1,221                | 1,046             | 66,377                 | 21,521                 | 952               | 88,850               | 70,004               |
| Postage                            | -                   | 8                 | 1,156               | 88                | 96                  | 1,130                         | -                 | -                 | 2                    | 2,919             | 5,399                  | 5,016                  | 49,055            | 59,470               | 47,526               |
| Equipment and maintenance          | 184                 | -                 | 402                 | -                 | -                   | 3,245                         | 1,008             | -                 | -                    | -                 | 4,839                  | 21,778                 | -                 | 26,617               | 123,522              |
| Insurance                          | 245                 | -                 | -                   | -                 | -                   | 26,709                        | 10,659            | -                 | 305                  | -                 | 37,918                 | 62,207                 | -                 | 100,125              | 99,036               |
| Printing and publications          | 263                 | 555               | 1,250               | 876               | 127                 | 8                             | -                 | 29                | 6                    | 628               | 3,742                  | -                      | 23,181            | 26,923               | 2,626                |
| Travel and meals                   | 11,078              | 9,511             | 16,648              | 839               | 1,268               | 2,860                         | 5,200             | 1,350             | 1,152                | -                 | 49,906                 | 3,913                  | 47                | 53,866               | 54,493               |
| Conferences and meetings           | 5,756               | 7,610             | 3,298               | 247               | 268                 | 732                           | 5,093             | 833               | 679                  | -                 | 24,516                 | 82,704                 | 1,040             | 108,260              | 35,885               |
| Professional fees                  | -                   | -                 | -                   | -                 | -                   | -                             | -                 | -                 | 4                    | -                 | 4                      | 53,500                 | -                 | 53,504               | 96,411               |
| Contracted services                | 497,074             | -                 | 42,656              | 2,829             | 14,256              | 28,811                        | 7,570             | 21,523            | 2,422                | 16,116            | 633,257                | 667,360                | 18,876            | 1,319,493            | 796,017              |
| Food                               | 78,958              | -                 | -                   | -                 | -                   | -                             | 380,371           | -                 | -                    | -                 | 459,329                | -                      | -                 | 459,329              | 442,737              |
| Specific assistance to individuals | 38,268              | 63,117            | 4,897,770           | 310,613           | 734,443             | 415,935                       | 25,071            | 176               | 33,700               | -                 | 6,519,093              | 399                    | 2,171             | 6,521,663            | 6,529,771            |
| Interest                           | -                   | -                 | -                   | -                 | -                   | -                             | -                 | -                 | -                    | 8,250             | 8,250                  | -                      | -                 | 8,250                | 28,052               |
| Depreciation                       | 95,177              | -                 | -                   | -                 | -                   | 91,679                        | -                 | -                 | -                    | -                 | 186,856                | 42,815                 | -                 | 229,671              | 126,473              |
| Bad debt expense                   | -                   | -                 | -                   | -                 | -                   | -                             | -                 | -                 | -                    | -                 | -                      | -                      | -                 | -                    | 38,000               |
| Miscellaneous                      | -                   | -                 | -                   | -                 | -                   | -                             | -                 | -                 | -                    | -                 | -                      | -                      | -                 | -                    | 200,000              |
| Occupancy                          | 97,984              | 53,247            | 128,573             | 26,524            | 45,469              | 147,859                       | 76,407            | 19,915            | 13,262               | 15,156            | 624,396                | 58,201                 | 17,051            | 699,648              | 3,464,333            |
| Total expenses                     | <u>\$ 1,912,586</u> | <u>\$ 435,397</u> | <u>\$ 6,978,124</u> | <u>\$ 595,763</u> | <u>\$ 1,397,840</u> | <u>\$ 1,755,313</u>           | <u>\$ 826,258</u> | <u>\$ 273,284</u> | <u>\$ 295,958</u>    | <u>\$ 256,178</u> | <u>\$ 14,726,701</u>   | <u>\$ 2,508,791</u>    | <u>\$ 464,377</u> | <u>\$ 17,699,869</u> | <u>\$ 19,752,965</u> |

See accompanying notes to financial statements.

**AGATE HOUSING AND SERVICES, INC.**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2022  
(With Comparative Totals for 2021)

|  | <u>2022</u>         | <u>2021</u>         |
|--|---------------------|---------------------|
| Cash flows from operating activities:  |                     |                     |
| Change in net assets   | \$ (461,387)        | \$ 4,040,633        |
| Adjustments to reconcile the change in net assets to net cash from operating activities: |                     |                     |
| Depreciation   | 229,671             | 126,473             |
| Contributions received from combination  | -                   | (3,225,731)         |
| Forgiveness of debt  | (750)               | (834,881)           |
| Realized and unrealized (gains) losses on investments                                    | 767,868             | (639,694)           |
| Donated stock  | (94,426)            | (103,517)           |
| Loss on sale of property and equipment   | 29,859              | 19,632              |
| Deferred lease incentive amortization  | (15,000)            | (15,000)            |
| Changes in operating assets and liabilities:   |                     |                     |
| Accounts receivable  | -                   | 2,431               |
| Grants receivable  | 771,171             | (529,186)           |
| Pledges receivable   | (40,000)            | 192,500             |
| Other receivables  | (44,963)            | (7,361)             |
| Prepaid expenses   | (54,999)            | 50,498              |
| Accounts payable   | (468,426)           | 264,314             |
| Accrued expenses   | (57,251)            | 229,452             |
| Participant deposits   | (71,964)            | 205,683             |
| Refundable advances  | 16,878              | 103,733             |
| Net cash from operating activities   | <u>506,281</u>      | <u>(120,021)</u>    |
| Cash flows from investing activities:  |                     |                     |
| Payments for property and equipment  | (470,979)           | -                   |
| Cash received from combination   | -                   | 247,198             |
| Proceeds from the sale of investments  | (1,684,327)         | -                   |
| Purchases of investments   | 1,684,327           | (14,536)            |
| Payments for predevelopment costs  | 43,830              | (245,856)           |
| Net cash from investing activities   | <u>(427,149)</u>    | <u>(13,194)</u>     |
| Net increase (decrease)  | 79,132              | (133,215)           |
| Cash, cash equivalents, and restricted cash, beginning of year                           | <u>4,572,715</u>    | <u>4,705,930</u>    |
| Cash, cash equivalents, and restricted cash, end of year                                 | <u>\$ 4,651,847</u> | <u>\$ 4,572,715</u> |
| Reconciliation from the Statement of Financial Position                                  |                     |                     |
| Cash and cash equivalents  | \$ 3,569,720        | \$ 3,418,624        |
| Cash - restricted for participant deposits   | 1,082,127           | 1,154,091           |
| Total cash, cash equivalents and restricted cash   | <u>\$ 4,651,847</u> | <u>\$ 4,572,715</u> |

See accompanying notes to financial statements.

# AGATE HOUSING AND SERVICES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended June 30, 2022  
(With Comparative Information for 2021)

### 1. ORGANIZATION

Agate Housing + Services, Inc. (the Organization) began operations as an independent 501c3 in early 2002 taking over the initiatives started in the early 1970's by the congregation of St. Stephen's Church to end homelessness. Then, in January 2021 the Organization merged with another non-profit corporation, House of Charity, Inc., whose mission was to feed those in need, house those experiencing homelessness and empower individuals to achieve independence.

Over nearly 50 years, the Organization under St. Stephen's Church, St. Stephen's Human Services, House of Charity and now, Agate Housing + Services, continues to be recognized as a community leader through the development and implementation of innovative programs and services that prevent and end homelessness. The mission of the Organization is to end homelessness and relieve hunger through action and advocacy. Our primary goal is to support people experiencing homelessness in achieving permanent, affordable housing. We meet people where they are, working together toward self-sufficiency and housing stability.

The Organization operates the following programs:

**Shelter** – The Organization provides emergency shelter to up to 99 individuals experiencing homelessness each not. In addition to providing meals, access to showers and a safe place to sleep, staff at our two shelter locations provide coordination of services to assist guests in meeting their long-term goals.

**Supportive Housing** – Supportive Housing covers a plethora of services from singles to families providing longer-term services to those identified as having the greatest needs, rent subsidies and long-term support to maintain housing.

**Housing Services** – Our housing programs provide access to scattered-site, affordable housing for single adults and families experiencing and emerging from homelessness. Staff provide support in locating, assessing, and maintaining housing as our participants work toward personal goals and self-sufficiency through Prevention and Rapid-Re Housing.

**Site-Based Supportive Housing** – On-site supportive housing is available for single adults who need safe and sober housing. Clients often are considered chronically homeless, and many have emotional or psychological or a history of chemical dependency. Case management services are required of all our Site-Based Supportive Housing guests, whether is it for further education, development of employment skills or development of self-sufficiency skills, our staff works with each guest toward becoming productive members of the community.

(Continued)

# AGATE HOUSING AND SERVICES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended June 30, 2022  
(With Comparative Information for 2021)

### 1. ORGANIZATION (Continued)

**Food Centre** – The Food Centre is temporary closed due to a fire in January of 2022; however, we are scheduled to re-open in January 2023 to once again provide two public meals every day of every year.

**Day by Day Program** – This comprehensive co-occurring disorder treatment program ended in May of 2022 and was contracted out to Kyros, Inc.

**Community Engagement** – Engaging people experiencing homelessness and other community members to advocate for systemic change to prevent and end homelessness is the core of this program. We offer A Day In the Life which is an experiential learning program that gives participants an opportunity to learn directly from people experiencing homelessness. The Handbook of the Streets is published by this program to help folks navigate available services and we also secure birth certificates for people who lack identification documents.

**Representative Payee Program (Rep Payee)** – Assists Social Security recipients to manage their funds to ensure that all basic needs are met such as rent, utilities, food and personal needs.

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

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Accounting Standards Adopted** - In 2022, the Organization adopted Accounting Standards Update (ASU) 2020-07, Not-for-Profit Entities (Topic 958): *Presentation and Disclosures by Non-for-Profit Entities for Contributed Nonfinancial Assets*. Under the new standard, not-for-profits are required to show contributed nonfinancial assets as a separate line item in the statement of activities. Not-for-profits need to provide enhanced disclosures about in-kind contributions received including: disaggregating by category depicting the type of contributed nonfinancial asset, disclosing qualitative information about whether the contributed nonfinancial assets were either monetized or used during the reporting period, and describing any donor-imposed restrictions associated with the contributed assets. In addition, the valuation techniques and inputs used to arrive at a fair value measure must be disclosed.

**Principles of Consolidation** - The consolidated financial statements include Agate Housing and Services, Inc. (parent organization) and House of Charity Property Development LLC. All significant intercompany accounts and transactions have been eliminated.

(Continued)

## AGATE HOUSING AND SERVICES, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended June 30, 2022  
(With Comparative Information for 2021)

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

The Organization accounts for its investment in Park7 Limited Partnership using the equity method as it has substantial influence but not control. The Organization's share of loss in 2020 reduced the Organization's investment in the partnership to zero and, as a result the Organization discontinued applying the equity method.

**Consolidated Financial Statement Presentation** - The Organization reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. Revenues and support are classified based on the presence or absence of donor restrictions and reported in the following net asset categories:

- Net assets without donor restrictions represent the portion of net assets that are not subject to donor restrictions.
- Net assets with donor restrictions arise from contributions that are restricted by donors for specific purposes or time periods.

**Use of Estimates** - The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and Cash Equivalents** - For the purpose of preparing the consolidated statement of cash flows, investments with an original maturity of three months or less are considered cash equivalents.

**Cash - Restricted for Participant Deposits** - Some clients are not able to manage their own money and therefore the Organization 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. These amounts are considered restricted cash.

**Concentration of Credit Risk** - The Organization places its cash with several financial institutions and brokerage firms bank deposit program and money market accounts. The financial institution and the bank deposit programs are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per institution. At times the amount on deposit exceeds the insured limit of the institutions and exposes the Organization to a credit risk. The Organization has not experienced any losses on its cash deposits. At June 30, 2022 and 2021, deposits exceeded the federally insured limit by \$4,186,141 and \$4,207,346, respectively.

(Continued)

# AGATE HOUSING AND SERVICES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended June 30, 2022  
(With Comparative Information for 2021)

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

The brokerage firms maintain insurance through the Security Investor Protection Corporation (SIPC) which provides coverage to the account holders up to \$500,000 (including up to \$250,000 in cash claims). The current brokerage firm has purchased additional policies covering up to an aggregate loss limit of \$1 billion for all client claims. Securities were fully insured for both years.

**Accounts Receivable** - Accounts receivable are stated at the amount management expects to collect. Management reviews receivable balances at year end and establishes an allowance for doubtful accounts 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 for doubtful account was considered necessary for the years ended June 30, 2022 and 2021.

**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 net assets without donor restrictions unless the income or loss is restricted by the donor.

**Fair Value Measurements** - The Organization 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.

The Organization's investments are all valued using Level 1 inputs.

**Predevelopment costs** - Predevelopment costs are recorded at cost and include costs related to the possible construction of a new shelter by the Organization. Costs will continue to be recorded in predevelopment costs until a final determination to go forward or not with the project is made. If it is determined to go forward with the construction of a new shelter the costs will be transferred to work in progress and capitalized to building when placed in service. If it is determined that construction will not go forward, the predevelopment costs will be expensed in the period so determined.

(Continued)

# AGATE HOUSING AND SERVICES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended June 30, 2022  
(With Comparative Information for 2021)

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

**Property and Equipment** - Property and equipment are recorded at cost. The Organization's policy is to capitalize expenditures 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, the Organization reports expiration of donor restrictions when the donated or acquired assets are placed in service.

**Grants, Contracts, and Contributions** - The Organization recognizes contributions when cash, securities or other assets or an unconditional promise to give are received. Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return - are not recognized until the conditions on which they depend have been met. Contributions are recorded when received as net assets without donor restrictions or net assets with donor restrictions depending on the existence and/or nature of any donor restrictions. Upon expiration of the time restriction or when purpose restrictions have been met, they are reclassified to net assets without donor restrictions. 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.

A portion of the Organization's revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions.

A portion of the Organization's revenue is derived from federal and state contracts and grants, which are conditioned upon certain performance requirements other than incurrence of allowable qualifying expenses. Amounts received are recognized as revenue at the rate stated in the agreements when the Organization has performed the related services required by the specific contract or grant provisions.

Revenues under government grants and contracts are subject to review by the granting authority. If, as a result of such a review, expenditures are determined to be unallowable, or services performed not in compliance, the disallowance will be recorded at the time the assessment for refund is made.

(Continued)

## AGATE HOUSING AND SERVICES, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended June 30, 2022  
(With Comparative Information for 2021)

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

Pledges and grants receivable are stated at the amount management expects to collect from outstanding balances. Grants receivable represent expenditures made in accordance with the terms of the awards not yet reimbursed in cash or services performed but not paid. Funding received in advance of the incurrence of project expenditures or performance of required services is recorded as a refundable advance. Management provides for probable uncollectible amounts through a charge to expense and a credit to a valuation allowance based on its assessment of the current status of individual accounts.

Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to grants or contributions receivable. As of June 30, 2022 and 2021, management has estimated that all of the grants receivable are collectable. Accordingly, no allowance has been provided.

**Contributions - in-kind** - Contributed materials are recorded as contributions at their estimated fair value in the period received. Contributed services are recorded as contributions at their estimated fair value only if the services create or enhance a nonfinancial asset or if the services require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Fair value is estimated by management by reference to the appropriate market and type of goods and services donated. The Organization utilizes contributed goods and services in its programs and operations or according to any donor restrictions.

The Organization received contributed legal fees of \$10,525 in 2021, and donated clothing and household items for programs as follows:

|                               | 2022              | 2021              |
|-------------------------------|-------------------|-------------------|
| Shelter                       | \$ 17,162         | \$ 33,911         |
| Family supportive housing     | 42,015            | 31,823            |
| Street outreach               | 45,614            | 75,812            |
| Ending long-term homelessness | -                 | 27,817            |
| Site-based supportive housing | -                 | 11,782            |
| Food Centre                   | 22,944            | 19,158            |
| Management and General        | -                 | 1,592             |
|                               | <u>127,735</u>    | <u>201,895</u>    |
| Total                         | <u>\$ 127,735</u> | <u>\$ 201,895</u> |

The Organization regularly receives donated services from many volunteers. However, no amounts have been recognized for these services because they do not meet the criteria described above.

(Continued)

# AGATE HOUSING AND SERVICES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended June 30, 2022  
(With Comparative Information for 2021)

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

**Fee Income** - Fee income consists of rep payee fees, sublease of a portion of the Organization facility, Day by Day fees for client services, and various immaterial sale and service fees. Rep payee fees are recognized as revenue during the month in which the related services are provided. The performance obligation of delivering the rep payee services is simultaneously received and consumed; therefore, the revenue is recognized ratably over the month. The sublease of the facility is recognized over the term to which it relates. Other sale or service fees are recognized at the point of sale. Day by Day fees for client services are recorded at the time the services are performed.

Fee income consists of fees earned as follows:

|                               | <u>2022</u> | <u>2021</u> |
|-------------------------------|-------------|-------------|
| Recognized over time          | \$ 358,272  | \$ 323,351  |
| Recognized at a point in time | 81,966      | 109,025     |

**Functional Expenses** - Expenses have been allocated among program services, management and general, and fundraising classifications based upon direct expenditures and allocations by management. Occupancy costs are allocated based on the number of staff members per program. Administrative expenses (office expense, telephone, postage) are allocated based on management's estimation of use by each program based on total expense for each program.

**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 Organization's programs and supporting activities. Nonoperating activities consist primarily of investment income, including realized and unrealized gains and losses, debt forgiveness, and contributions from the House of Charities combination.

**Comparative Total Column** - The consolidated 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 the Organization's consolidated financial statements for the year ended June 30, 2021, from which the information was derived.

**Income Taxes** - The Organization 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 the Organization does not have any unrelated business income or uncertain tax positions in 2022 or 2021.

(Continued)

## AGATE HOUSING AND SERVICES, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended June 30, 2022  
(With Comparative Information for 2021)

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

House of Charity Property Development LLC is a single member LLC. The LLC (limited liability company) is not a taxable entity and is included on the income tax return of the Organization.

**Reclassifications** - Certain reclassifications have been made to the prior year consolidated financial statements to be consistent with the current year classifications. The reclassifications did not affect net assets or the change in net assets.

#### 3. AVAILABILITY AND LIQUIDITY

The following reflects the Organization's financial assets as of the Statement of Financial Position date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the Statement of Financial Position date. Amounts not available include amounts held as a fiscal agent by the Organization for the Rep Payee program.

| Financial assets at June 30:  | 2022                | 2021                 |
|---|---------------------|----------------------|
| Cash  | \$ 3,569,720        | \$ 3,418,624         |
| Investments   | 8,376,434           | 9,049,864            |
| Accounts receivable   | 5,897               | 370                  |
| Grants receivable   | 581,290             | 1,352,461            |
| Pledges receivable  | 40,000              | -                    |
| Other receivables   | -                   | 7,361                |
| Total financial assets  | 12,573,341          | 13,828,680           |
| Less amounts not available to be used within a year:                                |                     |                      |
| Net assets with donor restrictions (Note 10)  | 3,440,240           | 3,368,109            |
|   | <u>3,440,240</u>    | <u>3,368,109</u>     |
| Financial assets available to meet general expenditures over the next twelve months | <u>\$ 9,133,101</u> | <u>\$ 10,460,571</u> |

The Organization occasionally receives Legacy gifts which are given without donor restrictions. These gifts are not recorded as donor restricted but are instead internally designated. These gifts are not excluded from assets available to meet general expenditures.

The Organization regularly monitors liquidity required to meet its operating needs and other commitments. Reports reviewed by the board regularly include ratios and other information to track liquidity versus the Organization's goals. In addition to financial assets available to meet general expenditures over the next 12 months, the Corporation operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures.

(Continued)

## AGATE HOUSING AND SERVICES, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended June 30, 2022  
(With Comparative Information for 2021)

#### 3. AVAILABILITY AND LIQUIDITY (Continued)

The Board of the Organization's goal is generally to maintain financial assets to meet 3 months of operating expenses (approximately \$5 million). The Organization's informal policy is to keep all operating funds in cash, however, Legacy gifts and stock donations are typically kept in investments. The Organization's investment policy is to be generally conservative related to how much of the financial assets are invested. Investments are intended to produce 3% on average for annual cash flow requirements. To help manage unanticipated liquidity needs, the Organization has a line of credit of \$350,000, which it could draw upon (Note 7).

#### 4. CONTRIBUTIONS RECEIVABLE

At June 30, 2022, all unconditional promises to give are due within the next year.

#### 5. INVESTMENTS

Investments, at fair value using level 1 inputs, consist of the following at June 30:

|                             | 2022                | 2021                |
|-----------------------------|---------------------|---------------------|
| Cash and money market funds | \$ 6,093,727        | \$ 5,954,254        |
| U. S. common stock          | 767,745             | 2,057,132           |
| Mutual funds                | 1,318,513           | 800,837             |
| Fixed income                | 196,449             | 130,752             |
| Government securities       | -                   | 106,901             |
| Total investments           | <u>\$ 8,376,434</u> | <u>\$ 9,049,876</u> |

Return on investments, net consists of the following:

|                                | 2022                | 2021              |
|--------------------------------|---------------------|-------------------|
| Realized gains (losses), net   | \$ 121,060          | \$ 334            |
| Interest and dividend income   | 17,795              | 66,497            |
| Unrealized gains (losses), net | (896,256)           | 587,404           |
| Investment service fees        | (10,467)            | (5)               |
| Return on investments, net     | <u>\$ (767,868)</u> | <u>\$ 654,230</u> |

(Continued)

**AGATE HOUSING AND SERVICES, INC.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended June 30, 2022  
(With Comparative Information for 2021)

**6. INVESTMENTS IN UNCONSOLIDATED AFFILIATES**

The Organization is the co-owner of Park7 Limited Partnership (the Partnership) along with Trellis Co. The Partnership owns and operates a 61-unit low-income apartment building, which was placed in service in July 2020. The Organization owns 51%, but due to the management structure of the Partnership does not control the Partnership. Condensed financial information for Park7 Limited Partnership as of December 31 is as follows:

|   | 2021                        | 2020                        |
|---|-----------------------------|-----------------------------|
|   | <u>                    </u> | <u>                    </u> |
| <b>Balance sheet:</b>                             |                             |                             |
| Property and equipment, net                       | \$ 9,343,460                | \$ 9,776,635                |
| Cash and reserves                                 | 935,959                     | 865,376                     |
| Receivables                                       | 224,117                     | 200,593                     |
| Other assets                                      | 19,687                      | 20,476                      |
|   | <u>                    </u> | <u>                    </u> |
| Total assets                                      | \$ 10,523,223               | \$ 10,863,080               |
|   | <u>                    </u> | <u>                    </u> |
| Long-term debt, net                               | \$ 10,250,551               | \$ 9,773,644                |
| Accounts payable and accrued expenses             | 93,527                      | 60,544                      |
| Construction liabilities                          | 216,216                     | 706,029                     |
| Other liabilities                                 | 469,678                     | 496,679                     |
|   | <u>                    </u> | <u>                    </u> |
| Total liabilities                                 | 11,029,972                  | 11,036,896                  |
| Partners' capital (deficit)                       | (506,749)                   | (173,816)                   |
|   | <u>                    </u> | <u>                    </u> |
| Total liabilities and partners' capital (deficit) | \$ 10,523,223               | \$ 10,863,080               |
|   | <u>                    </u> | <u>                    </u> |
| <b>Statement of operations:</b>                   |                             |                             |
| Rental and other revenues                         | \$ 523,284                  | \$ 131,934                  |
| Operating expenses                                | (415,705)                   | (122,536)                   |
|   | <u>                    </u> | <u>                    </u> |
|   | 107,579                     | 9,398                       |
| Interest expense                                  | (7,337)                     | (3,668)                     |
| Depreciation and amortization                     | (433,175)                   | (180,593)                   |
| Other expenses                                    | -                           | (7,150)                     |
|   | <u>                    </u> | <u>                    </u> |
| Net income (loss)                                 | \$ (332,933)                | \$ (182,013)                |
|   | <u>                    </u> | <u>                    </u> |

(Continued)

## AGATE HOUSING AND SERVICES, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended June 30, 2022  
(With Comparative Information for 2021)

#### 7. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30:

|                               | <u>2022</u>         | <u>2021</u>         | <u>Estimated<br/>useful life<br/>in years</u> |
|-------------------------------|---------------------|---------------------|---|
| Land                          | \$ 975,000          | \$ 975,000          | -   |
| Leasehold improvements        | 305,357             | 296,941             | 5 - 15  |
| Buildings and improvements    | 3,821,657           | 3,536,591           | 5 - 50  |
| Furniture and equipment       | 605,044             | 690,504             | 5 - 10  |
| Construction in process       | 309,695             | -                   |   |
|                               | <u>6,016,753</u>    | <u>5,499,036</u>    |   |
| Less accumulated depreciation | <u>(3,049,275)</u>  | <u>(2,886,704)</u>  |   |
|                               | <u>\$ 2,967,478</u> | <u>\$ 2,612,332</u> |   |

Construction in process consists of rehabilitation work performed on the Food Centre building to bring it back into operations.

The Organization is pursuing the acquisition of a new shelter to replace the Clinton Avenue Shelter. The Organization has hired a consulting company and plans to work with several contractors to complete this project. The Organization has contracted with Trellis Co., another nonprofit organization, to manage the development of this project. This project is in the early stages, so an estimate of total costs has not been made as the details are still too uncertain. The Organization may use some of the investments to pay predevelopment costs and acquire a site when one is located.

#### 8. LINE OF CREDIT

The Organization has a revolving line of credit that enables the Organization to borrow up to \$350,000. Interest accrues at a rate of 1% over the prime rate, but not less than 3.5%. The agreement expires on May 1, 2023. The line of credit is secured by all assets of the Organization. As of June 30, 2022 and 2021, there were no outstanding advances on the line of credit.

(Continued)

# AGATE HOUSING AND SERVICES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended June 30, 2022  
(With Comparative Information for 2021)

### 9. LONG-TERM DEBT

Long-term debt consists of the following:

|               | <u>2022</u>         | <u>2021</u>         |
|---------------|---------------------|---------------------|
| MN Housing    | \$ 525,000          | \$ 525,000          |
| MCDA          | 300,000             | 300,000             |
| FHF           | 190,000             | 190,000             |
| MN Housing #2 | <u>3,000</u>        | <u>3,750</u>        |
|               | <u>\$ 1,018,000</u> | <u>\$ 1,018,750</u> |

**MN Housing** - Minnesota Housing Finance Agency (MN Housing) notes payable dated November 18, 1997 and September 3, 1998, secured by real estate. The loans are non-interest bearing and mature on November 18, 2027. Loan was assumed in the merger.

**MCDA** - Minneapolis Community Development Agency (MCDA) note payable dated November 18, 1997, secured by real estate. The loan bears interest at 1% with principal and accrued interest due on November 18, 2027. Loan was assumed in the merger.

**FHF** - Family Housing Fund (FHF) of Minneapolis and Saint Paul note payable dated November 18, 1997, secured by real estate. The loan bears interest at 1% with principal and accrued interest due on November 18, 2027. Loan was assumed in the merger.

**MN Housing #2** - Minnesota Housing Finance Agency loan payable dated May 23, 1996, secured by real estate. The loan is non-interest bearing, matures May 23, 2026, and is forgivable starting in May 2007 at the rate of 5% of the full amount of the loan per year. In consideration of the loan, the Organization has agreed to maintain at least 25% of its housing units for the benefit of low-income persons or families. Loan was assumed in the merger.

If not forgiven, the MN Housing #2 loan matures in 2026. All other debt matures in 2027.

(Continued)

## AGATE HOUSING AND SERVICES, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended June 30, 2022  
(With Comparative Information for 2021)

#### 10. DONOR RESTRICTED NET ASSETS

Net assets with donor restrictions consist of contributions restricted for the following:

|  | 2022                | 2021                |
|--|---------------------|---------------------|
| Purpose restricted:                      |                     |                     |
| Shelter                                  | \$ 975              | \$ 15,794           |
| Rapid re-housing                         | 13,556              | 139,087             |
| Prevention                               | -                   | 23,797              |
| Strategic planning                       | 9,672               | 9,672               |
| New programming                          | 2,836,720           | 4,071,100           |
| Building acquisition                     | 1,500,000           | -                   |
| Other                                    | 90,395              | 56,590              |
| General operations (time restricted)     | 40,000              | 15,000              |
| Total net assets with donor restrictions | <u>\$ 4,491,318</u> | <u>\$ 4,331,040</u> |

#### 11. RETIREMENT PLAN

The Organization 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 the Organization 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. Former House of Charity employees were added to the plan in April 2021.

The Organization provided a discretionary contribution of 2% of any eligible employee's earnings to the Plan. The Organization also provides a 3% match to employees participating in the plan. Contributions to the plan were \$164,917 and \$150,270 in 2022 and 2021, respectively.

#### 12. LEASE

The Organization occupied administrative space and two shelters under non-cancelable lease agreements. The Organization vacated the shelter on Clinton Avenue when the lease expired in April 2021. The leases required monthly payments for base rent plus operating expenses. Rent expense under these leases was \$392,665 in 2022 and \$374,147 in 2021.

(Continued)

**AGATE HOUSING AND SERVICES, INC.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended June 30, 2022  
(With Comparative Information for 2021)

12. **LEASE (Continued)**

During the year ended June 30, 2018, the Organization modified its lease for the administrative space. As part of this modification, the landlord agreed to reimburse the Organization 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:

|            |    |                  |
|------------|----|------------------|
| 2023       | \$ | 456,715          |
| 2024       |    | 465,038          |
| 2025       |    | 473,464          |
| 2026       |    | 481,995          |
| 2027       |    | 402,934          |
| Thereafter |    | <u>175,348</u>   |
|            | \$ | <u>2,455,494</u> |

A portion of the leased administrative space is subleased to an unaffiliated nonprofit organization. The sub-tenant is renting space from the Organization on a month-to-month basis. Rent revenue of \$15,100 in 2022 and \$14,876 in 2021 is recorded in fee income.

13. **COMMITMENTS, CONCENTRATIONS, AND CONTINGENCIES**

Of its revenues and support, the Organization received approximately 55% in 2022 from government contracts with one government agencies and 38% and 20% in 2021 from government contracts with two government agencies, and 26% in 2021 from one foundation donor.

In April 2021 the Organization received a contribution of \$779,829 from a trust. This payment represented a portion of the total unknown amount to be received by the Organization from the trust. The remaining funds are expected to be paid out from the trust in the year ended June 30, 2023 and will be recorded when received.

(Continued)

**AGATE HOUSING AND SERVICES, INC.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended June 30, 2022  
(With Comparative Information for 2021)

13. **COMMITMENTS, CONCENTRATIONS, AND CONTINGENCIES (Continued)**

The Organization has several government grants that contain donor conditions (primarily that funds be expended before they are earned or received). Since these grants represent conditional promises to give, they are not recorded as contribution revenue until donor conditions are met. Human Services has unearned conditional contributions of approximately the following at June, 30:

|                    | 2022                | 2021                |
|--------------------|---------------------|---------------------|
| Street outreach    | \$ 799,615          | \$ 192,805          |
| Shelter            | 509,121             | 1,206,840           |
| Rapid re-housing   | 3,093,822           | 871,270             |
| Supportive housing | 614,286             | 1,041,428           |
|                    | <u>\$ 5,016,844</u> | <u>\$ 3,312,343</u> |

Funds received from the donor in advance of the conditions being met totaled \$348,589; are recorded as refundable advances; and will subsequently be recognized as government grants and reimbursements revenue when donor conditions are met.

The Organization's employees are represented by AFSCME Council 5 (the Union). The Union represents approximately 78% of all employees. The union contract was ratified with an effective date of September 17, 2020, and includes, among other things, a new pay scale.

The Organization is subject to various legal proceedings covering a range of matters that arise in the course of its business activities. Management believes that any liability that may ultimately result from the resolution of these matters will not have a material adverse effect on the financial condition or results of operations of the Organization.

14. **FIRE DAMAGE**

On January 26<sup>th</sup>, 2022, a fire at the Food Centre caused extensive damage. The Organization plans to rehabilitate the building and estimates it will cost approximately \$1,500,000. As of June 30, 2022 \$309,695 of insurance proceeds and costs have been received and capitalized. Additionally, \$188,000 of insurance proceeds were received to pay for lost inventory and equipment at the Food Centre. \$70,000 was recorded as a liability as management plans to replace the equipment in fiscal year 2023.

In June 2022, the Organization's on-site supportive housing building sustained fire damage to several units. June 30, 2022 \$26,850 of insurance proceeds have been received and recorded as a liability as management plans to begin rehabilitation in fiscal year 2023.

(Continued)

## AGATE HOUSING AND SERVICES, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended June 30, 2022  
(With Comparative Information for 2021)

#### 15. PRIOR PERIOD RESTATEMENT

The Organization receives annual funds through the Housing Support program through the Minnesota Department of Human Services. As part of this award, the Organization receives funds for services provided to the participants. Historically the Organization tracked the unused balance of these funds but did not record the associated liability. During fiscal year 2022, the Organization determined it is more appropriate to record the unused balance as a refundable advance on the consolidated statement of financial position. Accordingly, the Organization restated its consolidated financial statements for the year ended June 30, 2021.

The effects of the restatement on the change in net assets without donor restrictions and financial position as of and for the year ended June 30, 2021 are as follows.

|  | Balance as<br>previously<br>reported | Restatement | Balance after<br>restatement |
|--|--------------------------------------|-------------|------------------------------|
| Refundable advances                      | \$ 89,293                            | \$ 242,418  | \$ 331,711                   |
| Net assets without donor<br>restrictions | 10,193,229                           | (242,418)   | 9,950,811                    |
| Beginning net assets                     | 10,315,892                           | (74,674)    | 10,241,218                   |
| Change in net assets                     | 4,208,377                            | (167,744)   | 4,040,633                    |

#### 16. SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 13, 2022, the date on which the consolidated financial statements were available for issue, and identified no further significant events or transactions to disclose.

Subsequent to year-end, the United States and global markets experienced significant declines in value resulting from uncertainty caused by the world-wide coronavirus pandemic. We are closely monitoring our investment portfolio and its liquidity and are actively working to minimize the impact of these declines. Our consolidated financial statements do not include adjustments to fair value that have resulted from these declines.

**SUPPLEMENTARY INFORMATION  
AND REPORTS**

**AGATE HOUSING AND SERVICES, INC.**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2022

| Federal Grantor/<br>Program Title/<br>Pass-through Grantor                      | Assistance<br>Listing<br>Number | Pass-through<br>Grantor<br>Identifying<br>Number | Federal<br>Expenditures |
|---|---------------------------------|--|-------------------------|
| <b>U.S. Department of Housing and Urban Development</b>                         |                                 |  |                         |
| Office of Community Planning and Development                                    |                                 |  |                         |
| Emergency Solutions Grant Program   |                                 |  |                         |
|   | 14.231                          |  |                         |
| Pass-through Hennepin County Department of<br>Human Services and Public Health: |                                 |  |                         |
|   |                                 | HS00000336                                       | \$ 15,347               |
|   |                                 | HS00000942                                       | 107,058                 |
|   |                                 | HS00000649                                       | 570,735                 |
| Passed through the State of Minnesota<br>Department of Human Services:          |                                 |  |                         |
|   |                                 | GRK% 184315<br>189458                            | 37,608<br>341,435       |
| Passed through the City of Minneapolis:   |                                 |  |                         |
|   |                                 | COM0003327                                       | 172,049                 |
|   |                                 | COM0004787                                       | 75,000                  |
|   |                                 |  | <u>1,319,232</u>        |
| Continuum of Care   |                                 |  |                         |
|   | 14.267                          |  |                         |
| Direct Program:   |                                 |  |                         |
| Passed through Hennepin County Department of<br>Human Services:                 |                                 |  |                         |
|   |                                 | HS00000338                                       | 133,011                 |
|   |                                 | HS00000773                                       | 219,074                 |
|   |                                 | HS00000805                                       | 221,329                 |
|   |                                 | HS00000337                                       | 83,394                  |
|   |                                 |  | <u>596,574</u>          |
| Total U.S. Department of Housing and Urban<br>Development                       |                                 |  | <u>891,005</u>          |
| <b>U.S. Department of Treasury</b>  |                                 |  |                         |
| American Rescue Plan:   |                                 |  |                         |
|   | 21.027                          |  |                         |
| Passed through the State of Minnesota and<br>Hunger Solutions MN                |                                 |  |                         |
|   |                                 | N/A  | 5,000                   |
| Total U.S. Department of Treasury   |                                 |  | <u>5,000</u>            |

**AGATE HOUSING AND SERVICES, INC.**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2022

| Federal Grantor/<br>Program Title/<br>Pass-through Grantor            | Assistance<br>Listing<br>Number | Pass-through<br>Grantor<br>Identifying<br>Number | Federal<br>Expenditures |
|---|---------------------------------|--|-------------------------|
| <b>U.S. Department of Homeland Security</b>                           |                                 |  |                         |
| Federal Emergency Management Agency (FEMA)                            |                                 |  |                         |
| Emergency Food and Shelter National Board<br>Program                  | 97.024                          |  |                         |
| Passed through United Way   |                                 | 36-495000-028                                    | 53,115                  |
| Passed through United Way   |                                 | 36-495000-098                                    | 16,456                  |
| Total U.S. Department of Homeland Security                            |                                 |  | <u>69,571</u>           |
| <b>U.S. Department of Health and Human Services</b>                   |                                 |  |                         |
| Substance Abuse and Mental Health Services<br>Administration (SAMSHA) |                                 |  |                         |
| Opioind State Targeted Response                                       | 93.788                          |  |                         |
| Passed through the State of Minnesota                                 |                                 | N/A  | 19,435                  |
| Total U.S. Department of Health and Human Services                    |                                 |  | <u>19,435</u>           |
| Total expenditures of federal awards                                  |                                 |  | <u>\$ 2,093,206</u>     |

**AGATE HOUSING AND SERVICES, INC.**

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2022

**Note 1: Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Agate Housing and Services, Inc. under programs of the federal government for the year ended June 30, 2022. 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 Agate Housing and 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.

**Note 3. Indirect Cost Rate**

Agate Housing and Services, Inc. has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

**Note 4. Grant COM0003327**

During the year ended June 30, 2022, funds totaling \$172,049 were received from the City of Minneapolis for this grant. While the grant agreement indicates that the source of the funds includes both \$150,000 of federal (CFDA 14.231) and \$187,309 of state awards, the City of Minneapolis has not provided the organization with a break-out of which portion of the funds were federal funds versus state funds. Because the grant covers multiple years and the break-out of federal versus state funds is not clear, the full amount is included in the accompanying schedule of expenditures of federal awards.

**Note 5: Reconciliation to the Statement of Activities:**

|  |                      |
|--|----------------------|
| Expenditures of federal awards as shown on previous page | \$ 2,093,206         |
| Revenue from state grants                                | 2,765,543            |
| Revenue from county grants                               | 7,024,404            |
| Revenue from city grants                                 | <u>53,868</u>        |
| Total government grants and reimbursements               | <u>\$ 11,937,021</u> |



**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  
Agate Housing and Services, Inc.  
Minneapolis, Minnesota

We have audited the financial statements of Agate Housing and Services, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2022, 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 December 13, 2022. 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.

**Report on Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Agate Housing and Services, Inc.’s internal control over financial reporting (internal control) as a basis for designing 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 Agate Housing and Services, Inc.’s internal control. Accordingly, we do not express an opinion on the effectiveness of Agate Housing and 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as items 2022-001, that we consider to be a material weakness.

(Continued)

## **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Agate Housing and 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 financial statements. 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.

*Mahoney Ulbrich*  
*Christiansen & Russ, PA*

December 13, 2022



**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  
Agate Housing and Services, Inc.  
Minneapolis, Minnesota

**Report on Compliance for the Major Federal Program**

***Opinion on the Major Federal Program***

We have audited Agate Housing and 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 Agate Housing and Services, Inc.'s major federal program for the year ended June 30, 2022. Agate Housing and 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.

In our opinion, Agate Housing and 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, 2022.

***Basis for Opinion on Each Major Federal Program***

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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Agate Housing and Services, Inc. and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Agate Housing and Services, Inc.'s compliance with the compliance requirements referred to above.

***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to Agate Housing and Services, Inc.'s federal program.

(Continued)

### ***Auditor's Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Agate Housing and Services, Inc.'s compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Agate Housing and Services, Inc.'s compliance with the requirements of the major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Agate Housing and Services, Inc.'s compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Agate Housing and Services, Inc.'s internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 Agate Housing and Services, Inc.'s internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

### ***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance, and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2022-002 and 2022-003. Our opinion on the major federal program is not modified with respect to these matters.

*Government Auditing Standards* requires the auditor to perform limited procedures on Agate Housing and Services, Inc.'s response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. Agate Housing and Services, Inc.'s response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

(Continued)

## Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2022-002 and 2022-03 to be significant deficiencies.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on Agate Housing and Services, Inc.'s response to the internal control over compliance findings identified in our audit described in the accompanying Schedule of Findings and Questioned Costs. Agate Housing and Services, Inc.'s response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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, PA*

December 13, 2022

AGATE HOUSING AND SERVICES, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2022

**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>  X  </u> yes  | <u>      </u> none reported |
| • Significant deficiency(s) identified?  | <u>      </u> yes | <u>      </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>  X  </u> yes  | <u>      </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>  X  </u> yes  | <u>      </u> no            |
| Identification of major program  | Assistance Listing Number 14.231 -<br>Emergency Solutions Grant Program |                             |
| 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)

**AGATE HOUSING AND SERVICES, INC.**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

For the Year Ended June 30, 2022

**SECTION II - FINDINGS - FINANCIAL STATEMENTS AUDIT**

**2022-001 Audit Adjustments and Oversight of the Financial Reporting Process**

**Material Weaknesses**

Criteria – Nonprofit organizations are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). Management is responsible for establishing and maintaining internal controls, including monitoring, for the fair presentation in the consolidated financial statements including the notes to consolidated financial statements, in conformity with accounting principles generally accepted in the United States of America.

Condition – During the audit for the year ended June 30, 2022, 5 audit adjustments were made that, in the aggregate, were material to the financial statements. The entries were to correct the recording the House of Charities beginning of year balances. Net assets were adjusted by approximately \$800,000. Management reviewed, approved, and accepted responsibility for the audit adjustments before the financial statements were issued. The need for us to record significant audit adjustments indicates a break down in the internal controls related to preparing the Agate's financial statements which we consider a material weakness because a misstatement of financial statements could occur and not be prevented or detected.

Cause – Turnover in the Finance Director position and increased complexity of accounting due to merging with another nonprofit organization contributed to the misstatements.

Effect – A material misstatement of the financial statements could occur and not be prevented or detected.

Recommendation – We recommend management develop and implement a financial statement review and approval process to ensure that necessary adjustments and reconciliations are performed for the consolidated financial statements.

Auditee's comments and response – Agate hired a new Finance Director during the year who was learning the intricacies of the Organization through year-end. During this she discovered that the entries from the merger were missing but did not have all the necessary information to adjust the financials. By the end of the audit, she had a thorough understanding of the Organization and is aware of what adjustments need to be made going forward.

Responsible party for corrective action: Laura Straw, Finance Director

Repeat Finding: No

(Continued)

**AGATE HOUSING AND SERVICES, INC.**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

For the Year Ended June 30, 2022

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

**Finding 2022-002 – Allocation of Costs Based on Estimates**

Federal Program – Emergency Solutions Grants Program

Assistance Listing # 14.231

Significant Deficiency

Category of Finding – Allowable Costs/Cost Principles

Criteria – Uniform guidance cost principals require that amounts charged to federal grants be based on actual costs. These can be estimated allocations, but the estimates must be based on actual current information. The regulations specify that budget estimates may be used for interim accounting purposes, provided that they are later trued up to actuals.

Condition – Agate’s current method of charging indirect costs, which consist of administrative, development, facility use and meal costs, to grants, is based on allocating budgeted costs. During 2022, these costs were not adjusted to match actual costs incurred. Agate did not true up these budgeted costs to actual during the year as required. The dollar value effect of this is difficult to determine.

Cause – Due to turnover in the finance department, the true up of these costs was not performed as requires in the financial policies. Also due to other turnover and program changes, the variances from budget to actual were more significant than they have been in the past. The meals costs allocations were new this year due to changes caused by the merger with House of Charities.

Effect – Some of the programs and related federal grants may have been overcharged.

Recommendations – Agate should review their policies for allocating these costs and apply allocations during the year that are based on actual costs rather than budgeted, or implement a process to true up allocated costs periodically during the year. Based on current grant periods, we recommend at least quarterly reconciliations to avoid overcharging a grant which has closed.

Auditee's comments and response – Agate is aware of the Uniform guidance regulations and will follow them in the future. The Director of Finance has implemented changes to allow for adjustments to actual periodically throughout the fiscal year and at year end to accurately account for the distribution of allocations based on actual costs. Additionally, a new accounting system that includes a module to allocate indirect costs was implemented in fiscal year 2023.

Responsible party for corrective action: Laura Straw, Finance Director

Repeat Finding: No

(Continued)

**AGATE HOUSING AND SERVICES, INC.**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2022

**2022-003 Payroll Rates Approval Documentation**

Federal Program – Emergency Solutions Grants Program  
Assistance Listing # 14.231  
Significant Deficiency  
Category of Finding – Allowable Costs/Cost Principles

Criteria – 2 CFR § 200.430 requires that compensation for individual employees be reasonable for the services rendered, be consistently applied to both federal and non-federal activities, follows all of the Organizations written policies, and is adequately documented. Adequately documented as defined by the standard requires the charges must be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated.

Condition – During our audit, we noted that pay rates for employees were not documented in a consistent, systematic manner.

Context – 7 of 11 employees selected did not have appropriately documented approved payrates.

Cause – This occurred because no procedure was in place in the personnel department to ensure that all wage rates get approvals and are documented in employee personnel files. Unique wage rate changes, such as promotions, or merit based raises for individual are documented in personnel files, but annual company wide raises are not documented in individual personnel files.

Effect – Employees may be paid using an inappropriate rate or using a rate that is disputed by the employee or employer.

Recommendation – We recommend that the Agate adopt a policy to consistently and appropriately document approvals of all pay rates in individual personnel files.

Auditee's comments and response – Management has reviewed the current practice for approval of raises and are implementing a new payroll system that will have authorizations built into the software which will correct this issue.

Responsible party for corrective action: Laura Straw, Finance Director

Repeat Finding: No

**AGATE HOUSING AND SERVICES, INC.**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

For the Year Ended June 30, 2022

**FINDINGS - FINANCIAL STATEMENTS AUDIT**

**2021-001 Lack of timely reconciliation and review of HOC financial statements.**

Condition - Management of the Organization had difficulty obtaining and reviewing meaningful financial information and supporting reconciliations and other documents in a timely manner for the House of Charities books kept by a contract accountant.

Recommendation - Management must work to either establish and enforce good timely processes with the existing contract accountant, or to exit the relationship with the contract accountant and bring the accounting in-house under the existing internal control processes which have historically been considered well designed and implemented.

Current Status: The recommendation was adopted in 2022. Effective July 1, 2021 the accounting for HOC has been merged into the ongoing operations of the Organization. No similar findings were noted in the 2022 audit.