



**AGATE HOUSING  
AND SERVICES, INC.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED  
JUNE 30, 2023**



**AGATE HOUSING AND SERVICES, INC.**

CONSOLIDATED FINANCIAL STATEMENTS WITH SUPPLEMENTARY INFORMATION AND REPORTS

For the Year Ended June 30, 2023  
(With Comparative Information for 2022)

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## INDEPENDENT AUDITOR'S REPORT

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

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

#### ***Qualified Opinion***

We have audited the consolidated financial statements of Agate Housing and Services, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2023, 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, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the consolidated financial statements present fairly, in all material respects, the financial position of Agate Housing and Services, Inc. as of June 30, 2023, 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 Qualified Opinion***

We did not obtain sufficient appropriate audit evidence about the amount recognized for the Day by Day program fees earned because the Organization contracted out the full Day by Day program, and we were unable to obtain any documentation related to the program fee transaction or any related controls exercised over the billing of the Day by Day program, or be able to determine if they even exist. We were unable to obtain sufficient appropriate audit evidence about the Day by Day billing by other auditing procedures.

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 qualified audit opinion.

#### ***Adoption of New Accounting Standard***

As discussed in Note 2 to the consolidated financial statements, Agate Housing and Services, Inc. has adopted Accounting Standards Update (ASU) 2016-12, *Leases (Topic 842)*. Our opinion is not modified with respect to this matter.

(Continued)

### ***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.

### ***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.

(Continued)

### ***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.

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

We have previously audited Agate Housing and Services, Inc.'s 2022 consolidated financial statements and we expressed an unmodified opinion on those audited consolidated financial statements in our report dated December 13, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

### ***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 February 26, 2024 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.

February 26, 2024

*Mahoney Ulbrich*

*Christiansen & Russ, PA*

**AGATE HOUSING AND SERVICES, INC.**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2023

(With Comparative Totals for 2022)

	<u>2023</u>	<u>2022</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,658,098	\$ 3,569,720
Cash - restricted for participant deposits	1,267,179	1,082,127
Investments	5,840,893	8,376,434
Grants receivable	1,078,839	581,290
Pledges receivable	-	40,000
Other receivables, net	61,173	52,694
Prepaid expenses and other assets	206,640	186,023
Predevelopment costs	446,086	280,083
Right of use asset, net	1,792,895	-
Property and equipment, net	<u>5,276,703</u>	<u>2,967,478</u>
 Total assets	 <u>\$ 17,628,506</u>	 <u>\$ 17,135,849</u>
<b>LIABILITIES AND NET ASSETS</b>		
Accounts payable	\$ 334,538	\$ 82,571
Construction payable	306,225	143,697
Accrued payroll and related	467,563	355,088
Participant deposits	1,275,860	1,082,127
Refundable advances	49,189	348,589
Lease liability	1,877,267	-
Long term debt	1,017,250	1,018,000
Accrued interest	212,363	202,813
Deferred lease incentive, net	<u>-</u>	<u>82,500</u>
 Total liabilities	 <u>5,540,255</u>	 <u>3,315,385</u>
Net assets:		
Without donor restrictions:		
Undesignated	8,607,438	7,771,719
Board designated reserve	<u>1,620,547</u>	<u>1,557,427</u>
	10,227,985	9,329,146
With donor restrictions	<u>1,860,266</u>	<u>4,491,318</u>
 Total net assets	 <u>12,088,251</u>	 <u>13,820,464</u>
 Total liabilities and net assets	 <u>\$ 17,628,506</u>	 <u>\$ 17,135,849</u>

See accompanying notes to consolidated financial statements.

**AGATE HOUSING AND SERVICES, INC.**

CONSOLIDATED STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2023  
(With Comparative Totals for 2022)

	2023			2022
	Net assets without donor restrictions	Net assets with donor restrictions	Total	
Revenues and support:				
Contributions	\$ 2,681,983	\$ 144,211	\$ 2,826,194	\$ 5,005,699
Contributions - in-kind	120,879	-	120,879	127,735
Government grants and reimbursements	11,159,258	-	11,159,258	11,936,271
Fee income	1,835,722	-	1,835,722	440,238
Other income	6,696	-	6,696	98,004
Net assets released upon expiration of time and purpose restrictions	2,775,263	(2,775,263)	-	-
<b>Total revenues and support</b>	<b>18,579,801</b>	<b>(2,631,052)</b>	<b>15,948,749</b>	<b>17,607,947</b>
Expenses:				
Program services:				
Shelter	2,044,087	-	2,044,087	1,912,586
Street outreach	416,274	-	416,274	435,397
Supportive housing	6,903,218	-	6,903,218	6,978,124
Housing services:				
Prevention	929,392	-	929,392	595,763
Rapid re-housing	1,288,447	-	1,288,447	1,397,840
Site-based supportive housing	1,714,679	-	1,714,679	1,755,313
Food Centre	621,438	-	621,438	826,258
Day by Day	731,435	-	731,435	273,284
Community engagement	335,398	-	335,398	295,958
Rep payee	253,796	-	253,796	256,178
Total program services	15,238,164	-	15,238,164	14,726,701
Management and general	3,249,278	-	3,249,278	2,508,791
Fundraising	606,861	-	606,861	464,377
<b>Total expenses</b>	<b>19,094,303</b>	<b>-</b>	<b>19,094,303</b>	<b>17,699,869</b>
Change in net assets before nonoperating activity	(514,502)	(2,631,052)	(3,145,554)	(91,922)
Loss on disposal of property and equipment	-	-	-	(29,859)
Insurance proceeds	1,001,761	-	1,001,761	427,512
Forgiveness of debt	750	-	750	750
Return on investments, net	410,830	-	410,830	(767,868)
Change in net assets	898,839	(2,631,052)	(1,732,213)	(461,387)
Net assets, beginning of year	9,329,146	4,491,318	13,820,464	14,281,851
Net assets, end of year	\$ 10,227,985	\$ 1,860,266	\$ 12,088,251	\$ 13,820,464

See accompanying notes to consolidated financial statements.

AGATE HOUSING AND SERVICES, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2023  
(With Comparative Totals for 2022)

	2023													2022	
	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	\$ 1,294,416	\$ 250,410	\$ 1,341,897	\$ 318,467	\$ 475,438	\$ 807,945	\$ 270,836	\$ 974	\$ 175,800	\$ 183,338	\$ 5,119,521	\$ 1,396,517	\$ 246,099	\$ 6,762,137	\$ 6,140,967
Payroll taxes	98,407	18,728	98,584	24,067	35,376	61,907	20,142	115	13,446	14,049	384,821	108,497	18,818	512,136	457,143
Employee benefits	141,507	17,305	346,391	71,082	118,658	93,128	25,626	-	43,565	24,602	881,864	325,431	54,075	1,261,370	1,112,575
	1,534,330	286,443	1,786,872	413,616	629,472	962,980	316,604	1,089	232,811	221,989	6,386,206	1,830,445	318,992	8,535,643	7,710,685
Office expense	2,858	303	37,939	4,122	8,321	16,725	10,894	734	6,147	17,406	105,449	146,135	52,544	304,128	233,515
Telephone	9,190	2,678	12,137	3,076	3,427	9,688	1,712	1,437	606	170	44,121	19,251	1,016	64,388	88,850
Postage	24	10	812	194	56	15	-	-	2,125	3,003	6,239	5,803	34,608	46,650	59,470
Equipment and maintenance	202	-	-	-	-	111	-	-	-	-	313	1,756	-	2,069	26,617
Insurance	601	-	-	-	-	-	11,528	-	-	-	12,129	115,047	-	127,176	100,125
Printing and publications	717	2,756	1,294	183	236	433	-	419	32,378	828	39,244	599	58,194	98,037	26,923
Travel and meals	11,595	3,221	6,567	1,012	1,988	2,999	13,355	11	1,760	166	42,674	1,475	74	44,223	53,866
Conferences and meetings	2,056	1,251	6,075	2,312	491	763	705	-	1,516	155	15,324	41,433	1,954	58,711	108,260
Professional fees	-	-	-	-	-	-	-	-	-	-	-	86,543	32,000	118,543	53,504
Contracted services	172,079	793	51,360	1,204	6,486	24,517	24,576	727,745	13,438	10,079	1,032,277	404,902	102,131	1,539,310	1,319,493
Food	81,426	-	-	-	-	41,925	169,967	-	1,039	-	294,357	1,153	-	295,510	459,329
Specific assistance to individuals	29,148	118,819	4,998,011	503,673	637,970	414,581	2,455	-	43,578	-	6,748,235	15,835	3,632	6,767,702	6,521,663
Interest	728	-	-	-	-	13	56	-	-	-	797	12,209	-	13,006	8,250
Depreciation	10,583	-	-	-	-	119,162	17,664	-	-	-	147,409	143,111	-	290,520	229,671
Miscellaneous	-	-	-	-	-	-	-	-	-	-	-	26	1,716	1,742	-
Occupancy	188,550	-	2,151	-	-	120,767	51,922	-	-	-	363,390	423,555	-	786,945	699,648
<b>Total expenses</b>	<b>\$ 2,044,087</b>	<b>\$ 416,274</b>	<b>\$ 6,903,218</b>	<b>\$ 929,392</b>	<b>\$ 1,288,447</b>	<b>\$ 1,714,679</b>	<b>\$ 621,438</b>	<b>\$ 731,435</b>	<b>\$ 335,398</b>	<b>\$ 253,796</b>	<b>\$ 15,238,164</b>	<b>\$ 3,249,278</b>	<b>\$ 606,861</b>	<b>\$ 19,094,303</b>	<b>\$ 17,699,869</b>

See accompanying notes to consolidated financial statements.

**AGATE HOUSING AND SERVICES, INC.**

**CONSOLIDATED STATEMENT OF CASH FLOWS**

For the Year Ended June 30, 2023  
(With Comparative Totals for 2022)

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Change in net assets	\$ (1,732,213)	\$ (461,387)
Adjustments to reconcile the change in net assets to net cash from operating activities:		
Depreciation	290,520	229,671
Amortization of operating lease	390,199	-
Forgiveness of debt	(750)	(750)
Realized and unrealized (gains) losses on investments	(410,830)	767,868
Donated stock	(3,184)	(94,426)
Loss on sale of property and equipment	-	29,859
Deferred lease incentive amortization	-	(15,000)
Changes in operating assets and liabilities:		
Grants receivable	(497,549)	771,171
Pledges receivable	40,000	(40,000)
Other receivables	(8,479)	(44,963)
Prepaid expenses	(20,617)	(54,999)
Accounts payable	251,967	(468,426)
Operating lease liability	(388,327)	-
Accrued expenses	122,025	(57,251)
Participant deposits	193,733	(71,964)
Refundable advances	(299,400)	16,878
	<u>(2,072,905)</u>	<u>506,281</u>
Net cash from operating activities		
Cash flows from investing activities:		
Payments for property and equipment	(2,437,217)	(470,979)
Proceeds from the sale of investments	3,062,404	(1,684,327)
Purchases of investments	(112,849)	1,684,327
Payments for predevelopment costs	(166,003)	43,830
	<u>346,335</u>	<u>(427,149)</u>
Net cash from investing activities		
Net increase (decrease)	(1,726,570)	79,132
Cash, cash equivalents, and restricted cash, beginning of year	<u>4,651,847</u>	<u>4,572,715</u>
Cash, cash equivalents, and restricted cash, end of year	<u>\$ 2,925,277</u>	<u>\$ 4,651,847</u>
Reconciliation from the Statement of Financial Position		
Cash and cash equivalents	\$ 1,658,098	\$ 3,569,720
Cash - restricted for participant deposits	<u>1,267,179</u>	<u>1,082,127</u>
Total cash, cash equivalents, and restricted cash	<u>\$ 2,925,277</u>	<u>\$ 4,651,847</u>
Non-cash investing and financing activities:		
Right of use asset acquired in exchange for lease liability	<u>\$ 2,221,583</u>	<u>\$ -</u>

See accompanying notes to consolidated financial statements.

# AGATE HOUSING AND SERVICES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended June 30, 2023  
(With Comparative Information for 2022)

### 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 night. 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.

**Street Outreach** – The Organization works with people sleeping outside or in places unfit for human habitation. This experienced team provides on-the-spot services to ensure safety and survival for people experiencing unsheltered homelessness. They also help guests address any barriers to finding permanent housing.

**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 issues or a history of chemical dependency.

(Continued)

# AGATE HOUSING AND SERVICES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended June 30, 2023  
(With Comparative Information for 2022)

### 1. ORGANIZATION (Continued)

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.

**Food Centre** – The Food Centre was temporarily closed due to a fire in January of 2022; however, it re-opened 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 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 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 Standard Adopted** - In 2022, The Organization adopted Accounting Standard Update (ASU) 2016-02: *Leases (Topic 842)* using the modified retrospective approach using July 1, 2022 as the date of initial adoption. The Organization elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed the Organization to carry forward the historical lease classification. This ASU requires lessees to record most leases on their statement of financial position as a "right of use" asset and related lease liability but recognize related expenses in a manner similar to existing accounting. As a result of implementing ASU 2016-02, The Organization recognized a right-of-use asset of \$2,221,583 and a lease liability of \$2,304,083 at July 1, 2022. The adoption did not result in a significant effect on amounts reported in the statement of activities for the year ended December 31, 2022.

(Continued)

# AGATE HOUSING AND SERVICES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended June 30, 2023  
(With Comparative Information for 2022)

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

**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.

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.

(Continued)

# AGATE HOUSING AND SERVICES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended June 30, 2023  
(With Comparative Information for 2022)

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

**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, 2023 and 2022, deposits exceeded the federally insured limit by \$1,607,746 and \$4,186,141, respectively.

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, 2023 and 2022.

**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.

(Continued)

## AGATE HOUSING AND SERVICES, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended June 30, 2023  
(With Comparative Information for 2022)

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

**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.

**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.

(Continued)

# AGATE HOUSING AND SERVICES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended June 30, 2023  
(With Comparative Information for 2022)

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

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.

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, 2023 and 2022, 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.

(Continued)

## AGATE HOUSING AND SERVICES, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended June 30, 2023  
(With Comparative Information for 2022)

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

The Organization received contributed IT services of \$11,115 in 2023, and donated clothing and household items for programs as follows:

	2023	2022
Shelter	\$ 14,868	\$ 17,162
Family supportive housing	48,515	42,015
Street outreach	30,854	45,614
Food Centre	15,527	22,944
Total	<u>\$ 109,764</u>	<u>\$ 127,735</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.

**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:

	2023	2022
Recognized over time	\$ 390,725	\$ 343,172
Recognized at a point in time	735,053	81,966
Rental income under the lease standard	709,944	15,100

**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.

(Continued)

## AGATE HOUSING AND SERVICES, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended June 30, 2023  
(With Comparative Information for 2022)

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

**Leases** - The Organization assesses whether an arrangement qualifies as a lease (i.e., conveys the right to control the use of an identified asset for a period of time in exchange for consideration) at inception and only reassesses its determination if the terms and conditions of the arrangement are changed. Leases with an initial term of 12 months or less are not recorded on the balance sheet.

Right of use (ROU) assets represent The Organization's right to use an underlying asset for the lease term, and lease liabilities represent The Organization's obligation to make lease payments. ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. The Organization uses the implicit rate when it is readily determinable. When the leases do not provide an implicit rate, to determine the present value of lease payments, management uses the risk free rate at lease commencement.

Lease expense is recognized for these leases on a straight-line basis over the lease term. The Organization's lease terms may include options to extend or terminate the lease when it is reasonably certain that The Organization will exercise the option. Certain leases also include options to purchase the leased property. The depreciable lives of the assets are limited by the expected lease term unless there is a transfer of title or purchase option reasonably certain of exercise.

The Organization has lease agreements with lease and non-lease components, which are generally insignificant and have not been accounted for separately.

**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 and insurance proceeds.

**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, 2022, from which the information was derived.

(Continued)

**AGATE HOUSING AND SERVICES, INC.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended June 30, 2023  
(With Comparative Information for 2022)

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

**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 2023 or 2022.

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:	2023	2022
Cash	\$ 1,515,154	\$ 3,569,720
Investments	5,840,893	8,376,434
Grants receivable	1,078,839	581,290
Pledges receivable	-	40,000
Other receivables	61,173	52,694
Total financial assets	8,496,059	12,620,138
Less amounts not available to be used within a year:		
Net assets with donor restrictions (Note 10)	798,638	3,440,240
	798,638	3,440,240
Financial assets available to meet general expenditures over the next twelve months	\$ 7,697,421	\$ 9,179,898

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.

(Continued)

# AGATE HOUSING AND SERVICES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended June 30, 2023  
(With Comparative Information for 2022)

### 3. AVAILABILITY AND LIQUIDITY (Continued)

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.

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. INVESTMENTS

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

	2023	2022
Cash and money market funds	\$ 4,707,441	\$ 6,093,727
U. S. common stock	922,318	767,745
Mutual funds	-	1,318,513
Fixed income	211,134	196,449
Total investments	<u>\$ 5,840,893</u>	<u>\$ 8,376,434</u>

Return on investments, net consists of the following:

	2023	2022
Realized gains (losses), net	\$ 2,695	\$ 121,060
Interest and dividend income	189,484	17,795
Unrealized gains (losses), net	218,751	(896,256)
Investment service fees	(100)	(10,467)
Return on investments, net	<u>\$ 410,830</u>	<u>\$ (767,868)</u>

(Continued)

**AGATE HOUSING AND SERVICES, INC.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended June 30, 2023  
(With Comparative Information for 2022)

**5. 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:

	2022	2021
	<hr/>	<hr/>
<b>Balance sheet:</b>		
Property and equipment, net	\$ 8,910,285	\$ 9,343,460
Cash and reserves	917,884	935,959
Receivables	46,602	224,117
Other assets	19,452	19,687
	<hr/>	<hr/>
Total assets	\$ 9,894,223	\$ 10,523,223
	<hr/>	<hr/>
Long-term debt, net	\$ 10,257,888	\$ 10,250,551
Accounts payable and accrued expenses	80,468	93,527
Construction liabilities	39,321	216,216
Other liabilities	432,139	469,678
	<hr/>	<hr/>
Total liabilities	10,809,816	11,029,972
Partners' capital (deficit)	(915,593)	(506,749)
	<hr/>	<hr/>
Total liabilities and partners' capital (deficit)	\$ 9,894,223	\$ 10,523,223
	<hr/>	<hr/>
<b>Statement of operations:</b>		
Rental and other revenues	\$ 495,102	\$ 523,284
Operating expenses	(463,434)	(415,705)
	<hr/>	<hr/>
	31,668	107,579
	<hr/>	<hr/>
Interest expense	(7,337)	(7,337)
Depreciation and amortization	(433,175)	(433,175)
	<hr/>	<hr/>
Net income (loss)	\$ (408,844)	\$ (332,933)
	<hr/>	<hr/>

(Continued)

## AGATE HOUSING AND SERVICES, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended June 30, 2023  
(With Comparative Information for 2022)

#### 6. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30:

	2023	2022	Estimated useful life in years
Land	\$ 2,532,381	\$ 975,000	-
Leasehold improvements	264,705	305,357	5 - 15
Buildings and improvements	5,060,620	3,821,657	5 - 50
Furniture and equipment	758,792	605,044	5 - 10
Construction in process	-	309,695	
	<u>8,616,498</u>	<u>6,016,753</u>	
Less accumulated depreciation	<u>(3,339,795)</u>	<u>(3,049,275)</u>	
	<u>\$ 5,276,703</u>	<u>\$ 2,967,478</u>	

Construction in process consisted 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. Land was purchased in 2023. 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 used a restricted contribution to purchase a site in 2023. The Organization may use some of the investments to pay predevelopment costs.

#### 7. 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 August 1, 2024. The line of credit is secured by all assets of the Organization. As of June 30, 2023 and 2022, 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, 2023  
(With Comparative Information for 2022)

8. **LONG-TERM DEBT**

Long-term debt consists of the following:

	<u>2023</u>	<u>2022</u>
MN Housing	\$ 525,000	\$ 525,000
MCDA	300,000	300,000
FHF	190,000	190,000
MN Housing #2	<u>2,250</u>	<u>3,000</u>
	<u>\$ 1,017,250</u>	<u>\$ 1,018,000</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.

**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.

**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.

**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.

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, 2023  
(With Comparative Information for 2022)

### 9. DONOR RESTRICTED NET ASSETS

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

	2023	2022
Purpose restricted:		
Shelter	\$ 64	\$ 975
Rapid re-housing	-	13,556
Strategic planning	-	9,672
New programming (FY2020-FY2024)	1,855,431	2,836,720
Building acquisition	-	1,500,000
Other	4,771	90,395
General operations (time restricted)	-	40,000
	<u>                    </u>	<u>                    </u>
Total net assets with donor restrictions	<u>\$ 1,860,266</u>	<u>\$ 4,491,318</u>

The board has designated a reserve and invested the funds to be able to pay off the long-term debt when it comes due.

### 10. RETIREMENT PLAN

The Organization administers the Agate Housing and Services, Inc. 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 \$144,497 and \$164,917 in 2023 and 2022, respectively.

### 11. LEASE

The Organization occupies administrative space and a shelter under non-cancelable lease agreements which expire in 2027. The leases required monthly payments for base rent plus operating expenses.

The Organization also leases equipment under various operating leases, expiring at various dates through 2028.

(Continued)

**AGATE HOUSING AND SERVICES, INC.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended June 30, 2023  
(With Comparative Information for 2022)

11. **LEASE (Continued)**

The following tables provide quantitative information concerning the Organization's leases for the year ended June 30:

Lease Cost	Classification	2023	2022
Operating - equipment	Equipment and Maintenance	\$ 18,547	\$ 18,146
Short-term leases - equipment	Equipment and Maintenance	5,810	-
Operating - building	Occupancy	432,701	432,701
Variable lease payments (CAM)	Occupancy	<u>23,551</u>	<u>-</u>
Net lease cost		<u>\$ 480,609</u>	<u>\$ 450,847</u>

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 was recorded as a deferred lease incentive and amortized over the term of the lease, using the straight-line method. The asset was combined with the right-of-use asset in the adoption of the new standard.

Lease Term and Discount Rate:	2023	2022
Weighted Average Remaining Lease Term (years)	4.25	N/A
Weighted Average Discount Rate	2.88	N/A

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

2024	\$ 452,094
2025	460,045
2026	459,803
2027	450,802
2028	<u>173,141</u>
	1,995,885
Less present value discount	<u>(118,618)</u>
	<u>\$ 1,877,267</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 \$16,338 in 2023 and \$15,100 in 2022 is recorded in fee income.

(Continued)

## AGATE HOUSING AND SERVICES, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended June 30, 2023  
(With Comparative Information for 2022)

#### 12. COMMITMENTS, CONCENTRATIONS, AND CONTINGENCIES

Of its revenues and support, the Organization received approximately 31% and 13% in 2023 from government contracts with two government agencies, and 55% in 2022 from government contracts with one government agency.

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. The Organization has unearned conditional contributions of approximately the following at June, 30:

	2023	2022
Street outreach	\$ 35,526	\$ 799,615
Shelter	699,387	509,121
Rapid re-housing	4,912,606	3,093,822
Supportive housing	1,653,705	614,286
	<u>\$ 7,301,224</u>	<u>\$ 5,016,844</u>

Funds received from the donor in advance of the conditions being met totaled \$49,189; 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 71% and 78% of all employees at June 30, 2023 and 2022, respectively. 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.

#### 13. FIRE DAMAGE

On January 26<sup>th</sup>, 2022, a fire at the Food Centre caused extensive damage. The Organization rehabilitated the building at an approximate cost of \$1,300,000. \$309,695 of insurance proceeds and costs were received and capitalized in 2022. Additionally, \$188,000 of insurance proceeds were received to pay for lost inventory and equipment at the Food Centre in 2022. \$70,000 was recorded as a liability in 2022 as the equipment was replaced in 2023. As of June 30, 2023, all insurance proceeds and costs have been received and capitalized.

(Continued)

## AGATE HOUSING AND SERVICES, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended June 30, 2023  
(With Comparative Information for 2022)

13. **FIRE DAMAGE (Continued)**

In June 2022, the Organization's on-site supportive housing building sustained fire damage to several units. As of June 30, 2022, \$26,850 of insurance proceeds have been received and recorded as a liability as management did not begin rehabilitation until 2023. As of June 30, 2023, all insurance proceeds and costs have been received and expensed.

14. **SUBSEQUENT EVENTS**

On November 8, 2023, the Organizations purchased a 38 unit building in Minneapolis. The acquired property was purchased with a loan from Hennepin County. A new entity, wholly owned by the organization, was created on October 11, 2023 to hold the building.

The Organization terminated the contract for its Day by Day program provider in December 2023, and intends to end the program.

Management has evaluated subsequent events through February 26, 2024, the date on which the consolidated financial statements were available for issue, and identified no further significant events or transactions to disclose.

**SUPPLEMENTARY INFORMATION  
AND REPORTS**

**AGATE HOUSING AND SERVICES, INC.**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2023

Federal Grantor/ Program Title/ Pass-through Grantor	Assistance Listing Number	Pass-through Grantor Identifying Number	Federal 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 Human Services and Public Health:			
		HS00000942	\$ 172,460
		HS00000649	36,965
Passed through the State of Minnesota Department of Human Services:		GRK% 184315	<u>118,642</u>
			<u>328,067</u>
Continuum of Care	14.267		
Direct Program:			
MN0009L5K002215		N/A	4,782
MN0445L5K001900		N/A	25,609
MN0009L5K002114		N/A	31,810
Passed through Hennepin County Department of Human Services:			
		HS00000773	324,066
		HS00000805	<u>326,522</u>
			<u>712,789</u>
 Total expenditures of federal awards			 <u>\$ 1,040,856</u>

**AGATE HOUSING AND SERVICES, INC.**

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2023

**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, 2023. 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 Agate Housing and 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: Reconciliation to the Statement of Activities:**

Expenditures of federal awards as shown on previous page	\$ 1,040,856
Revenue from state grants	3,199,804
Revenue from county grants	6,883,578
Revenue from city grants	<u>35,020</u>
Total government grants and reimbursements	<u>\$ 11,159,258</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, 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, the financial statements of Agate Housing and Services, Inc. (a nonprofit organization), which comprise the consolidated statement of financial position as of June 30, 2023, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to consolidated financial statements, and have issued our report thereon dated February 26, 2024. In our report on the consolidated financial statements, our opinion was qualified because, as described in the "Basis for Qualified Opinion" section of the report on the consolidated financial statements, we were unable to obtain documentation of the Day by Day program fee transactions or any related controls exercised over the billing of the Day by Day program. Although the Day by Day program fee transactions are included in the Organization's consolidated financial statements, those transactions have not been audited as part of our audit of the Organization's basic financial statements.

**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.

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

(Continued)

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. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2023-001 and 2023-004 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2023-002 and 2023-003 to be significant deficiencies.

### **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*.

### **Agate Housing and Services, Inc.'s Response to the Findings**

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

### **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*

February 26, 2024



**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, 2023. 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, 2023.

***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 2023-005 and 2023-006. 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 2023-005 and 2023-006 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*

February 26, 2024

AGATE HOUSING AND SERVICES, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2023

**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

**FINANCIAL STATEMENTS**

Type of auditor's report issued Qualified

"Going concern" emphasis-of-matter paragraph included in the auditor's report? \_\_\_\_\_ yes      X   no

Internal control over financial reporting:

- Material weakness(es) identified?   X   yes    \_\_\_\_\_
- Significant deficiency(s) identified?   X   yes    \_\_\_\_\_ none reported

Noncompliance material to financial statements noted? \_\_\_\_\_ yes      X   no

**FEDERAL AWARDS**

Internal control over major program:

- Material weakness(es) identified? \_\_\_\_\_ yes      X   no
- Significant deficiency(s) identified?   X   yes    \_\_\_\_\_ 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)?   X   yes    \_\_\_\_\_ no

Identification of major program Assistance Listing Number 14.267 – Continuum of Care

Dollar threshold used to distinguish between type A and type B programs   \$ 750,000  

Auditee qualified as low-risk auditee? \_\_\_\_\_ yes      X   no

(Continued)

**AGATE HOUSING AND SERVICES, INC.**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

For the Year Ended June 30, 2023

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

**2023-001 Audit Adjustments and Oversight of the Financial Reporting Process**

**Material Weakness**

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, 2023, 12 audit adjustments were made that, in the aggregate, were material to the financial statements. The entries mostly were to correct errors that occurred in the accounting system transition which occurred in early 2023. 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 Organization’s financial statements. We consider this to be a material weakness because a misstatement of financial statements could occur and not be prevented or detected.

Cause – Changes in the accounting systems along with several temporary employees and the change in HR director resulted in some unusual adjustments during the year that were not recorded correctly and not identified before the audit began.

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. This process should include reconciling significant statement of financial position line items to supporting schedules each month, such as bank reconciliations, receivable aging’s, depreciation schedules, etc.

Auditee's comments and response – Management agrees with the finding. Management developed and implemented a new financial review process as of February 1, 2024.

Responsible party for corrective action: Laura Straw, Finance Director

Repeat Finding: Yes, 2022-001

(Continued)

**AGATE HOUSING AND SERVICES, INC.**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

For the Year Ended June 30, 2023

**2023-002 Lack of Review on Payroll Transactions/Payroll Files**

**Significant Deficiency**

Criteria – Management is responsible for establishing and maintaining internal controls over the payroll process. A key element of internal control for payroll is the review of biweekly payroll transactions and the periodic review of personnel files.

Condition – Management discovered after the termination of a former Human Resources employee that there were significant errors in benefits. These were all corrected by year-end, but were not discovered and corrected until after her termination (i.e. Employee Benefit Plan errors, health insurance errors, life insurance errors, etc.). These errors crossed multiple years.

Cause – The HR Director the Organization inherited in the merger with House of Charities in 2021 was not qualified to do her job, but this was not obvious to management until after she left the Organization.

Effect – As a result of this condition, the Organization is exposed to an increased risk that misstatements (whether caused by error or fraud) may occur and not be prevented or detected by management on a timely basis. For example, incorrect costs may be paid due to not properly terminating benefits for former employees or not properly applying pay rate changes, or employees may not be receiving the benefits they are due because new employees were not added properly.

Recommendation – We encourage the Organization’s management to review their processes related to payroll and benefits to ensure the individual responsible for reviewing this information is qualified to perform the function and that the reviews take place timely and are documented appropriately.

Auditee's comments and response – Management agrees with the finding. Management is reviewing and assessing all of the payroll and human resources functions, and HR plans to hire additional staff. They expect to fully implement the new process by July 1, 2024.

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, 2023

**2023-003 Lack of Support for Credit Card Charges for Former Employees**

**Significant Deficiency**

Criteria – Management is responsible for establishing and maintaining internal controls over organizational credit cards in order to safeguard the assets of the Organization. A key element of internal control is the review and approval of supporting documentation submitted by employees for credit card transactions.

Condition – The Organization designed a control which required documentation, review and approval for credit card charges. However, this control was not enforced and credit card charges were paid by the Organization without any support showing the costs related to the Organization.

Cause – During the transition between Executive Directors, the Interim Executive Director waived this requirement to increase morale.

Effect – The Organization may have reimbursed costs that were not for the benefit of the Organization.

Recommendation – We recommend the Organization reinstate the policy and educate its employees regarding Organization credit card charges, and then make sure to enforce the policy. The Organization should consider reviewing and updating their policies and procedures.

Auditee's comments and response – Management agrees with the finding. Management has re-instated the credit card receipt policy and has begun to enforce this policy. Management is also taking action to review current policies and procedures surrounding employee credit cards and reimbursements.

Responsible party for corrective action: Laura Straw, Finance Director

Repeat Finding: No

**Finding 2023-004 – Lack of Documentation in Payroll Files**

**Material Weakness**

Criteria – Management is responsible for establishing and maintaining internal controls over the payroll process, including maintaining proper documentation in personnel files. Uniform Guidance and the employee benefit plan audit specifically require adequate documentation of pay rates, benefit elections, time allocations, etc. to provide reasonable assurance that the amounts paid and deducted are accurate, allowable, and properly allocated.

(Continued)

**AGATE HOUSING AND SERVICES, INC.**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

For the Year Ended June 30, 2023

Condition – During our audit, we noted that pay rates for employees were not documented in a consistent, systematic manner. Additionally, we noted that there was missing evidence of recent training, program allocation documentation, and recent annual performance evaluations.

Cause – The Organization’s policies and procedure around maintaining personnel file documentation were not followed by the Human Resources department.

Context – The number of deviations noted below for personnel file testing are as follows:

- Missing approved payrate letters for 4 of 7 employees selected.
- 2 of 7 employee selected did not have recent training in their file.
- 3 of the 7 employees did not have a program allocation documented in their file.
- 4 of the 7 employees selected did not have recent performance evaluations.

Effect – Effects could include:

- Employees may be paid using an inappropriate rate or using a rate that is disputed by the employee or employer.
- Salaries or wages may be overcharged or undercharged to grants if the proper program allocation is not documented.
- Benefits due to employees may not be appropriately paid or deducted, violating applicable laws and/or regulations
- Employees may not receive the proper training to execute program functions effectively.
- Management cannot develop expectations or standards for the program if employee performance is not being reviewed timely.

Recommendation – We recommend that the Organization implement policies and procedures around maintaining personnel files to ensure consistent and appropriate documentation for approvals of all pay rates, recent trainings, program allocations, and performance evaluations in individual personnel files to ensure that all wage rate approvals are documented in employee personnel files, recent training documentation is maintained, approved program allocations are documented, performance evaluations are performed and documented and proper benefits are paid or deducted.

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, Director of Finance and Morcine Scott-Warren, Deputy Director of HR and Dei.

Repeat Finding: Yes, 2022-003

(Continued)

**AGATE HOUSING AND SERVICES, INC.**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

For the Year Ended June 30, 2023

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

**2023-005 Allocation of Costs Based on Budgeted Numbers**

Federal Program – Continuum of Care

Assistance Listing # 14.267

Compliance & 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 – The Organization’s current method of charging some indirect costs to grants is based on budgeted allocations. Specifically, the allocation of workers compensation and facilities charges are based on budgeted allocations. Also, several individuals who work on multiple programs allocate their time to grants based on a budget allocation. The Organization 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 the change in the accounting system, the true up of these costs was not performed as required in the financial policies.

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

Recommendations – The Organization 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 – Management agrees with the finding and plans to true up budgeted allocations with actual allocations annually effective fiscal year 2024.

Responsible party for corrective action: Laura Straw, Finance Director

Repeat Finding: Yes, 2022-002

(Continued)

**AGATE HOUSING AND SERVICES, INC.**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2023

**2023-006 Reasonable Rents Documentation**

Federal Program – Continuum of Care

Assistance Listing # 14.267

Compliance & Significant Deficiency

Category of Finding – Special Tests and Provisions

Criteria – Assistance Listing 14.267 requirements state that a non-federal entity using grant funds for rents must insure the rents be reasonable in relation to rents being charged in the area for comparable space (i.e. not exceeding the HUD-determined fair market rents). Good controls around this process would ensure that the process be documented and that a review be performed by someone other than the preparer.

Condition – During our procedures for testing the reasonable rent rates, we noted files that did not have the proper compliance documentation for controls.

Cause – This occurred because there was no procedure in place to document the source of the reasonable rent check, when the reasonable rent check was performed, or who reviewed the results.

Context – We tested 4 of a population of 40 case files. None of the files had documentation of when review was performed of the rental rate check. Additional, 2 of the 4 case files tested did not have documentation around when the reasonable rent check was run.

Effect – Participants of this program may receive rents in excess of the HUD-determined fair market rents or receive rent payments that are not comparable to units in the applicable area. As a result, the Organization may be overcharging the grant for ineligible costs.

Recommendation – We recommend that the Organization adopt a policy to consistently document the source of the reasonable rent check, when the reasonable rent check was performed, and who reviewed the results of the rent check.

Auditee's comments and response – Management has reviewed the current practice and has implemented a new form for documenting the determination and approvals in the case files.

Responsible party for corrective action: Laura Straw, Finance Director and Elizabeth Machart, Director of Contracts, Compliance, & Special Initiatives

Repeat Finding: No

**AGATE HOUSING AND SERVICES, INC.**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

For the Year Ended June 30, 2023

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

Material Weaknesses

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 of the House of Charities beginning of year balances. Net assets were adjusted by approximately \$800,000.

Recommendation – We recommended 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.

Status – Ongoing. Repeat finding at 2023-001.

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

Condition – The Organization’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. The Organization did not true up these budgeted costs to actual during the year as required. The dollar value effect of this is difficult to determine.

Recommendations – The Organization 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.

Status – Ongoing. Repeat finding at 2023-005.

**2022-003 Payroll Rates Approval Documentation**

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

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

Status – Ongoing. Repeat finding at 2023-004.