



Consolidated Financial Statements  
June 30, 2014 and 2013

# Simpson Housing Services Inc.

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## **Independent Auditor's Report**

The Board of Directors  
Simpson Housing Services Inc.  
Minneapolis, Minnesota

### **Report on the Financial Statement**

We have audited the accompanying consolidated financial statements of Simpson Housing Services Inc. and Subsidiary (the Organization), which comprise the consolidated statements of financial position as of June 30, 2014 and 2013, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

**Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Simpson Housing Services Inc. as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Minneapolis, Minnesota  
November 21, 2014

Simpson Housing Services Inc.  
Consolidated Statements of Financial Position  
June 30, 2014 and 2013

	2014	2013
Assets		
Current Assets		
Cash and cash equivalents	\$ 555,336	\$ 600,273
Restricted cash - other	178,529	61,668
Restricted cash - escrow and reserves	121,840	145,298
Temporary investments	204,742	203,976
Accounts receivable, net	4,581	835
Promises to give, net	18,000	-
Grants receivable, net	175,780	99,292
Prepaid expenses	13,923	12,883
Total current assets	1,272,731	1,124,225
Property and Equipment, Net	2,006,571	2,120,119
Total assets	\$ 3,279,302	\$ 3,244,344
Liabilities and Net Assets		
Current portion of debt	\$ 20,196	\$ 19,213
Accounts payable	19,633	24,492
Accrued salaries payable	56,547	41,472
Accrued vacation payable	64,290	64,872
Accrued interest	33,811	30,811
Accrued expenses - security deposits	18,850	17,721
Other accrued expenses	30,133	32,852
Total current liabilities	243,460	231,433
Long-Term Liabilities		
Debt, net of current portion	1,215,484	1,235,680
Total liabilities	1,458,944	1,467,113
Net Assets		
Unrestricted	1,640,455	1,727,254
Temporarily restricted	179,903	49,977
Total net assets	1,820,358	1,777,231
Total liabilities and net assets	\$ 3,279,302	\$ 3,244,344

	2014		
	Unrestricted	Temporarily Restricted	Total
<b>Support and Revenue</b>			
Contributions	\$ 984,352	\$ 169,965	\$ 1,154,317
In-kind contributions	286,259	-	286,259
Government contracts	3,023,492	-	3,023,492
Contract income	547,706	-	547,706
United Way	212,000	-	212,000
Rental income	273,393	-	273,393
Gross special event revenue	145,093	-	145,093
Less cost of direct benefits to donors	(53,338)	-	(53,338)
Net special events revenue	91,755	-	91,755
Other income	52,813	-	52,813
Net assets released from restrictions	40,039	(40,039)	-
Total support and revenue	5,511,809	129,926	5,641,735
<b>Expenses</b>			
Program services			
Shelters	952,690	-	952,690
Family housing	2,559,945	-	2,559,945
Single adult housing	1,530,393	-	1,530,393
Total program services	5,043,028	-	5,043,028
Support services			
Management and general	366,851	-	366,851
Fundraising	188,729	-	188,729
Total support services	555,580	-	555,580
Total expenses	5,598,608	-	5,598,608
Change in Operating Net Assets	(86,799)	129,926	43,127
<b>Non-Operating Activity</b>			
In-kind contributions	267,020	-	267,020
In-kind expense	(267,020)	-	(267,020)
Total non-operating activity	-	-	-
Change in Net Assets	(86,799)	129,926	43,127
Net Assets, Beginning of Year	1,727,254	49,977	1,777,231
Net Assets, End of Year	\$ 1,640,455	\$ 179,903	\$ 1,820,358

See Notes to Consolidated Financial Statements

Simpson Housing Services Inc.  
Consolidated Statements of Activities  
For the Years Ended June 30, 2014 and 2013

2013		
Unrestricted	Temporarily Restricted	Total
\$ 772,963	\$ 48,270	\$ 821,233
120,850	-	120,850
2,924,912	-	2,924,912
492,926	-	492,926
214,999	-	214,999
270,827	-	270,827
109,345	-	109,345
(52,161)	-	(52,161)
<u>57,184</u>	<u>-</u>	<u>57,184</u>
19,163	-	19,163
264,100	(264,100)	-
<u>5,137,924</u>	<u>(215,830)</u>	<u>4,922,094</u>
698,877	-	698,877
2,390,429	-	2,390,429
1,224,191	-	1,224,191
<u>4,313,497</u>	<u>-</u>	<u>4,313,497</u>
363,609	-	363,609
156,192	-	156,192
<u>519,801</u>	<u>-</u>	<u>519,801</u>
4,833,298	-	4,833,298
<u>304,626</u>	<u>(215,830)</u>	<u>88,796</u>
261,304	-	261,304
(236,304)	-	(236,304)
<u>25,000</u>	<u>-</u>	<u>25,000</u>
329,626	(215,830)	113,796
<u>1,397,628</u>	<u>265,807</u>	<u>1,663,435</u>
<u>\$ 1,727,254</u>	<u>\$ 49,977</u>	<u>\$ 1,777,231</u>

	Program Services			Total Program Services
	Shelters	Family Housing	Single Adult Housing	
Salaries	\$ 420,537	\$ 965,433	\$ 478,610	\$ 1,864,580
Employee Benefits	79,749	139,402	70,787	289,938
Payroll taxes	33,349	72,547	37,128	143,024
Total salaries and related expenses	533,635	1,177,382	586,525	2,297,542
Rental Assistance and Housing Support	209,946	896,647	852,412	1,959,005
Shelter Rent Expense	58,741	-	-	58,741
Supplies	23,174	15,266	5,265	43,705
Interest Expense	-	133,146	-	133,146
Transportation	2,362	45,369	14,553	62,284
Insurance	8,157	25,222	5,876	39,255
Professional Fees	5,158	36,790	5,993	47,941
Office Space	3,805	6,212	15,043	25,060
Telephone and Utilities	9,118	25,265	11,951	46,334
Repairs and Maintenance	7,210	36,102	6,049	49,361
Program Events	8,535	35,911	195	44,641
Printing and Postage	100	568	63	731
Dues and Subscriptions	575	1,526	500	2,601
Professional Development and Recruitment	579	3,585	1,304	5,468
Bank Charges	-	-	-	-
Special Events	-	-	-	-
Miscellaneous	2,467	11,314	6,001	19,782
Total operating expenses excluding depreciation	873,562	2,450,305	1,511,730	4,835,597
Depreciation	79,128	109,640	18,663	207,431
	952,690	2,559,945	1,530,393	5,043,028
Less Expenses Included with Revenues on the Statement of Activities	-	-	-	-
Total operating expenses	952,690	2,559,945	1,530,393	5,043,028
Non-Operating In-Kind Expense	142,887	98,676	25,457	267,020
Total expenses	\$ 1,095,577	\$ 2,658,621	\$ 1,555,850	\$ 5,310,048

See Notes to Consolidated Financial Statements

Simpson Housing Services Inc.  
Consolidated Statements of Functional Expenses  
For the Year Ended June 30, 2014

Supporting Services			
Management and General	Fundraising	Total Supporting Services	Total Expenses
\$ 234,401	\$ 119,403	\$ 353,804	\$ 2,218,384
27,180	11,280	38,460	328,398
18,450	9,098	27,548	170,572
280,031	139,781	419,812	2,717,354
-	-	-	1,959,005
-	-	-	58,741
4,100	639	4,739	48,444
-	-	-	133,146
1,089	1,408	2,497	64,781
3,401	1,059	4,460	43,715
37,155	598	37,753	85,694
1,455	494	1,949	27,009
2,669	624	3,293	49,627
3,104	6,159	9,263	58,624
3,177	-	3,177	47,818
11,854	34,210	46,064	46,795
2,597	-	2,597	5,198
440	71	511	5,979
3,381	-	3,381	3,381
10,438	42,900	53,338	53,338
4,728	424	5,152	24,934
369,619	228,367	597,986	5,433,583
7,670	3,262	10,932	218,363
377,289	231,629	608,918	5,651,946
(10,438)	(42,900)	(53,338)	(53,338)
366,851	188,729	555,580	5,598,608
-	-	-	267,020
<u>\$ 366,851</u>	<u>\$ 188,729</u>	<u>\$ 555,580</u>	<u>\$ 5,865,628</u>

	Program Services			Total Program Services
	Shelters	Family Housing	Single Adult Housing	
Salaries	\$ 415,326	\$ 854,824	\$ 385,358	\$ 1,655,508
Employee Benefits	67,080	113,307	57,731	238,118
Payroll Taxes	36,001	71,872	33,141	141,014
<b>Total salaries and related expenses</b>	<b>518,407</b>	<b>1,040,003</b>	<b>476,230</b>	<b>2,034,640</b>
Rental Assistance and Housing Support	29,357	935,404	666,965	1,631,726
Shelter Rent Expense	56,234	-	-	56,234
Supplies	23,765	14,930	12,489	51,184
Interest Expense	-	134,083	-	134,083
Transportation	1,885	48,328	12,794	63,007
Insurance	8,022	28,531	6,839	43,392
Professional Fees	3,753	32,912	4,910	41,575
Office Space	3,211	5,458	14,940	23,609
Telephone and Utilities	8,885	22,509	7,147	38,541
Repairs and Maintenance	4,296	28,380	2,273	34,949
Program Events	720	19,673	280	20,673
Printing and Postage	73	729	68	870
Dues and Subscriptions	887	1,624	965	3,476
Professional Development and Recruitment	23	1,615	224	1,862
Bank Charges	2	-	-	2
Miscellaneous	2,180	4,775	1,545	8,500
<b>Total operating expenses, excluding depreciation</b>	<b>661,700</b>	<b>2,318,954</b>	<b>1,207,669</b>	<b>4,188,323</b>
Depreciation	37,177	71,475	16,522	125,174
<b>Total operating expenses</b>	<b>698,877</b>	<b>2,390,429</b>	<b>1,224,191</b>	<b>4,313,497</b>
Non-Operating In-Kind Expense	236,304	-	-	236,304
<b>Total expenses</b>	<b>\$ 935,181</b>	<b>\$ 2,390,429</b>	<b>\$ 1,224,191</b>	<b>\$ 4,549,801</b>

See Notes to Consolidated Financial Statements

Simpson Housing Services Inc.  
Consolidated Statements of Functional Expenses  
For the Year Ended June 30, 2013

Supporting Services			
Management and General	Fundraising	Total Supporting Services	Total Expenses
\$ 234,665	\$ 105,696	\$ 340,361	\$ 1,995,869
18,252	11,828	30,080	268,198
19,297	8,900	28,197	169,211
272,214	126,424	398,638	2,433,278
-	-	-	1,631,726
-	-	-	56,234
6,978	625	7,603	58,787
-	-	-	134,083
1,958	2,159	4,117	67,124
5,566	1,464	7,030	50,422
28,970	621	29,591	71,166
639	582	1,221	24,830
1,692	697	2,389	40,930
4,102	7,636	11,738	46,687
1,966	-	1,966	22,639
18,810	11,203	30,013	30,883
2,608	-	2,608	6,084
3,426	75	3,501	5,363
3,206	-	3,206	3,208
3,896	875	4,771	13,271
356,031	152,361	508,392	4,696,715
7,578	3,831	11,409	136,583
363,609	156,192	519,801	4,833,298
6,981	45,180	52,161	288,465
<u>\$ 370,590</u>	<u>\$ 201,372</u>	<u>\$ 571,962</u>	<u>\$ 5,121,763</u>

Simpson Housing Services Inc.  
Consolidated Statements of Cash Flows  
For the Year Ended June 30, 2014 and 2013

	2014	2013
Operating Activities		
Change in net assets	\$ 43,127	\$ 113,796
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	218,363	136,583
Changes in operating assets and liabilities		
Accounts receivable, net	(3,746)	540
Promises to give, net	(18,000)	50,000
Grants receivable, net	(76,488)	(12,848)
Prepaid expenses	(1,040)	2,965
Accounts payable	(4,859)	(24,179)
Accrued payroll and related liabilities	14,493	4,683
Accrued interest	3,000	3,000
Accrued expenses - security deposits	1,129	(833)
Other accrued expenses	(2,719)	1,040
Net Cash from Operating Activities	173,260	274,747
Investing Activities		
Purchase of property and equipment	(104,815)	(511,314)
Change in restricted cash - escrows and reserves	23,458	(65,034)
Purchase of investments (CD's)	(204,742)	(1,701)
Redemption of investments (CD's)	203,976	10,050
Net Cash used for Investing Activities	(82,123)	(567,999)
Financing Activities		
Payments on notes payable	(19,213)	(18,278)
Net Change in Cash and Cash Equivalents	71,924	(311,530)
Cash and Cash Equivalents, Beginning of Year	661,941	973,471
Cash and Cash Equivalents, End of Year	\$ 733,865	\$ 661,941
Supplemental Disclosures		
Cash paid for interest	\$ 9,122	\$ 10,056

## **Note 1 - Nature of Activities and Summary of Significant Accounting Policies**

### **Organization**

Simpson Housing Services Inc. (the Organization) was incorporated on July 26, 1993, pursuant to the Minnesota Nonprofit Corporation Act. The Organization is dedicated to providing shelter and affordable housing with support services to homeless or imminently homeless families, men, women and children, to assist them in their efforts to improve their life situation and to advocate for their human and civil rights. The mission is to house, support and advocate for people experiencing homelessness. The Organization's program activities are:

#### Shelters

- The Emergency Shelter provides overnight shelter accommodations for up to 44 single men and 22 single women. The shelter also provides hot meals, shower and laundry facilities, toiletries, as well as individual advocacy and mental and physical health services. Guests are offered a 28-day stay. Five beds for women are given on a first-come, first-serve basis nightly. The shelter has a Savings Program in which guests are encouraged to save money to apply toward more stable housing when they leave the shelter.

#### Family Housing

- Family Housing Program – To provide up to two years of rental subsidy and case management services for 16 homeless families. Program emphasis is on locating permanent housing, continued education and employment.
- Transitions – To provide up to two years of rental subsidy and case management services for 15 homeless families. Program emphasis is on locating permanent housing, continued education and employment.
- THP (Transitional Housing Program) – To provide up to two years rental subsidy and case management services for 13 homeless families. Program emphasis is on locating permanent housing, continued education and employment.
- ZOOM House – Simpson Housing Services provides supportive services to ten families in the ZOOM transitional housing program in South Minneapolis. Program emphasis is on locating permanent housing, continued education and employment.
- Passages Community Housing, LLC – Simpson Housing Services Inc. owned, 17-unit apartment building, providing transitional housing and case management to resident families. Program emphasis is on locating permanent housing, continued education and employment.
- RAP (Rental Assistance Program) – To provide long-term rental assistance and limited support services for 27 homeless families. The program is designed to provide housing stability.
- SOAR – To provide an educational support program designed to affect positive change in family dynamics and child educational success by providing parenting support and direct children's services.

- FRA (Family Roots Alliance) – A collaboration between Lutheran Social Service and Simpson Housing Services. The team provides services to 40 families experiencing long-term homelessness in the Twin Cities west-metro area. The team assists families and children to move from shelter to stable, affordable housing and make sure that they get the support they need to remain stable. A rental subsidy and advocacy for both parents and children are provided.
- Third Avenue Townhomes – A permanent supportive housing project for homeless families with a disabled family member. Case-management services are provided for five families at a Section 8 affordable housing project owned by Beacon Interfaith Housing Collaborative in South Minneapolis.
- Housing First – A permanent supportive housing project for long-term homeless families with a disabled family member. Families live in scattered-site housing in Hennepin County and are provided rental assistance and case-management services. The program has a capacity of 37 families.
- Elliott Park Apartments – A permanent supportive housing project for long-term homeless families. Case-management services are provided for eight families at a Section 8 affordable housing project owned by Community Housing Development Corporation in the Elliot Park neighborhood near downtown Minneapolis.
- Riverside Plaza – A permanent supportive housing project for long-term homeless families. Case-management services are provided for fifteen families at a Section 8 affordable housing project owned by Sherman Associates in the West Bank neighborhood of Minneapolis.

#### Single Adult Housing

- WHP (Women’s Housing Partnership) and SARA (Single Adult Rental Assistance) – To provide 50 single adults with rental subsidy, services and support they need to obtain permanent housing after experiencing long-term homelessness. The primary focus of the program is to assist the most frequent guests at the Simpson Women's Shelter to locate and maintain permanent housing. The program includes intensive support services and weekly meetings with an advocate.
- COHR (Collaboration of Housing Resources) – A collaboration between Simpson Housing Services, RESOURCE chemical and mental health and St. Stephen's Human Services. Through a variety of funding sources, over 300 adults, who have experienced long-term homelessness, are assisted in finding an apartment, a housing subsidy, and offered ongoing assistance to maintain housing. The teams seek to serve those who have experienced the longest time of homelessness and those who are more vulnerable or have more serious barriers to getting and maintaining housing.
- Opportunity Housing Partnership (OHP) – A collaboration between Simpson Housing Services, Aeon, and RESOURCE chemical and mental health. The partnership provides resident support to residents at Aeon’s OHP properties. OHP is a set of Aeon buildings that provides 143 formerly homeless adults with a safe and permanent home and provides support services to help residents regain and maintain stability in their lives, homes and the community.

### **Principles of Consolidation**

The consolidated financial statements include the Organization's wholly owned subsidiary, Passages Community Housing, LLC, because Simpson Housing Services, Inc. has both control of and economic interest in Passages Community Housing, LLC. All material intercompany transactions have been eliminated. Unless otherwise noted, the consolidated entities are hereinafter referred to as the Organization.

### **Cash and Cash Equivalents**

The Organization considers all cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Restricted cash – other is considered to be cash and cash equivalents.

### **Restricted Cash – Escrows and Reserves**

Passages Community Housing, LLC has specific agreements which require the establishment of tax and insurance escrows, replacement reserves, residual receipts and development cost escrows. Restricted cash related to these items is not considered to be cash and cash equivalents.

### **Investments**

Investment purchases are recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statement of financial position. Net investment gain is reported in the statement of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less investment management and custodial fees.

### **Receivables and Credit Policies**

Accounts receivable consist primarily of noninterest-bearing promises to give and grants receivable. Management determines the allowance for uncollectable accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectable. There was no allowance recorded at June 30, 2014 or 2013.

### **Promises to Give**

Unconditional promises to give expected to be collected within one year are recorded at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statement of activities. Management determines the allowance for uncollectable promises to give based on historical experience, an assessment of economic conditions, and a review of subsequent collections. All promises to give are current and due within one year. There was no allowance recorded at June 30, 2014 or 2013.

## Property and Equipment

Property and equipment additions over \$1,500 are recorded at cost, or if donated, at fair value on the date of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 30 years. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any remaining gain or loss is included in the statement of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

## Compensated Absences

Under the Organization's policies and procedures, employees are granted vacation leave based on the number of years of experience they have at the Organization. Employees may accumulate a maximum of 80 hours of their earned paid time off (PTO) leave benefit. Unused accumulated PTO, up to 80 hours, is paid to employees upon termination.

## Net Assets

Net assets and revenues, gains, and losses are classified based on donor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted – Net assets available for use in general operations.

Temporarily Restricted – Net assets subject to donor restrictions that may or will be met by expenditures or actions of the Organization and/or the passage of time.

The Organization reports contributions restricted by donors as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted – Net assets whose use is limited by donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by action of Organization. The restrictions stipulate that resources be maintained permanently but permit the Organization to expend the income generated in accordance with the provisions of the agreements.

## Revenue and Revenue Recognition

Revenue is recognized when earned. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

### **Contributed Property and Services**

Donated services are recognized as contributions if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills and would otherwise be purchased by the Organization. Property, services and other non-cash donations are recorded as in-kind contributions at their estimated market value at the date of donation.

In addition, many individuals volunteer their time and perform a variety of tasks that assist the Organization, but these services do not meet the criteria for recognition as contributed services. Total volunteer hours for 2014 and 2013 were approximately 36,700 and 33,610, respectively.

### **Functional Allocation of Expenses**

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

### **Income Taxes**

Simpson Housing Services Inc. (Simpson) is organized as a Minnesota nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3), qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi), and has been determined not to be a private foundation under Section 509(a)(1). Passage Community Housing, LLC maintains exempt status under Simpson's exemption since Simpson is the sole member of Passage Community Housing, LLC. Simpson is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, Simpson is subject to income tax on net income that is derived from business activities that are unrelated to the exempt purposes. Simpson has determined it is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

Simpson believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. Simpson would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

### **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 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 and those differences could be material.

### **Financial Instruments and Credit Risk**

The Organization manages deposit concentration risk by placing cash and certificates of deposit with financial institutions believed by management to be creditworthy. At times, amounts on deposit may exceed insured limits. To date, the Organization has not experienced losses in any of these accounts. Credit risk associated with accounts receivable, promises to give, and grants receivable is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from governmental agencies and nonprofit organizations supportive of the Organization's mission.

### **Reclassifications**

Certain reclassifications of amounts previously reported have been made to the accompanying consolidated financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

### **Subsequent Events**

The Organization has evaluated subsequent events through November 21, 2014, the date which the consolidated financial statements were available to be issued.

### **Note 2 - Fair Value Measurements and Disclosures**

Certain assets and liabilities are reported at fair value in the consolidated financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, the Organization develops inputs using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to the Organization's assessment of the quality, risk or liquidity profile of the asset or liability.

The Organization's investment assets are classified within Level 1 because they are comprised of certificates of deposit with readily determinable fair values based on daily redemption values.

The following table presents assets measured at fair value on a recurring basis, except those measured at cost as identified below, at June 30, 2014 and 2013:

		2014			
		Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Short-term investments					
Certificates of deposit	\$	204,742	\$ 204,742	\$ -	\$ -
		2013			
		Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Short-term investments					
Certificates of deposit	\$	203,876	\$ 203,876	\$ -	\$ -

**Note 3 - Restricted Cash**

Certain cash balances are restricted as of June 30, 2014 and 2013 for the following purposes:

		2014	2013
Transitional housing	\$	129,833	\$ 13,679
Shelter guest savings		29,743	29,355
Security deposits (Passages)		18,953	18,634
Escrows and reserves (Passages)		121,840	145,298
		\$ 300,369	\$ 206,966

**Real Estate Tax and Insurance Escrow**

The Minnesota Housing Finance Agency (MHFA) mortgage agreement requires the establishment of a property tax and insurance escrow. These amounts are held by MHFA. Amounts consisted of \$207 and \$11, respectively, as of June 30, 2014, and \$35 and \$2,642, respectively, as of June 30, 2013, for property tax and insurance escrow.

**Replacement Reserve**

The MHFA mortgage agreement requires a certain amount to be set aside for maintenance work on the property. These amounts are held by MHFA. As of June 30, 2014 and 2013, the replacement reserve balance totaled \$50,631 and \$52,223, respectively.

**Development Cost Escrow**

The MHFA mortgage agreement requires a certain amount to be set aside in the event the Organization cannot meet debt service requirements. These amounts are held by MHFA. As of June 30, 2014 and 2013, the development cost escrow balance totaled \$14,004 and \$13,983, respectively.

**Residual Receipts**

The MHFA mortgage agreement requires a certain amount to be set aside for excess cash payments made among other escrow and reserve accounts. These amounts are held by MHFA. As of June 30, 2014 and 2013, the replacement reserve balance totaled \$56,987 and \$76,415, respectively.

**Note 4 - Property and Equipment**

Property and equipment as of June 30, 2014 and 2013 consists of the following:

	2014	2013
Land	\$ 260,500	\$ 260,500
Building	1,369,500	1,369,500
Vehicles	48,967	48,967
Building improvements	1,066,674	925,661
Furniture and equipment	74,658	72,595
Construction in process	-	38,261
	2,820,299	2,715,484
Less accumulated depreciation	813,728	595,365
	\$ 2,006,571	\$ 2,120,119

**Note 5 - Notes and Mortgage Payable**

The Organization has various debt agreements for interest bearing and non-interest bearing loans. The following schedule of debt reflects the balance of outstanding loans at June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
5% mortgage note payable to Minnesota Housing Finance Agency (MHFA). Payable in monthly amounts of \$2,631, including interest, with the last payment due September 2021. Secured by assets of Passages Community Housing, LLC. Lien Priority 1	\$ 171,950	\$ 191,163
0% installment note payable to MHFA is due if units are not used for low income housing through September 2021. If the Organization is not in default of the loan through that date, the note is due in one lump sum in September 2021. Secured by assets of Passages Community Housing, LLC. Lien Priority 2	35,000	35,000
0% installment note payable to City Finance Agency is due if units are not used for low income housing through September 2021. If the Organization is not in default of the loan through that date, the note is due in one lump sum in September 2021. Secured by assets of Passages Community Housing, LLC. Lien Priority 3	425,730	425,730
1% installment note payable to City Finance Agency is due if units are not used for low income housing through July 2033. If the Organization is not in default of the loan through that date, the note is due in one lump sum, including interest, in July 2033. Secured by assets of Passages Community Housing, LLC. Lien Priority 4	300,000	300,000
0% installment note payable to MHFA is due if units are not used for low income housing through September 2021. If the Organization is not in default of the loan through that date, the note is due in one lump sum in September 2021. Secured by assets of Passages Community Housing, LLC. Lien Priority 5	148,500	148,500
0% installment note payable to MHFA is due if units are not used for low income housing through September 2021. If the Organization is not in default of the loan through that date, the note is due in one lump sum, in September 2021. Secured by assets of Passages Community Housing, LLC. Lien Priority 6	120,500	120,500
0% installment note payable to Wells Fargo Bank Minnesota, NA is due if units are not used for low income housing through September 2021. If the Organization is not in default of the loan through that date, the note is due in one lump sum, in September 2021. Secured by assets of Passages Community Housing, LLC. Lien Priority 7	34,000	34,000
	<u>1,235,680</u>	<u>1,254,893</u>
Less current portion	<u>20,196</u>	<u>19,213</u>
Long-term portion	<u>\$ 1,215,484</u>	<u>\$ 1,235,680</u>

Order of lien priority was agreed upon in the Management and Assumption Agreement between Minnesota Housing Finance Agency and Passages Community Housing, LLC.

Future principal payments required are as follows:

<u>Years Ending June 30,</u>	<u>Amount</u>
2015	\$ 20,196
2016	21,229
2017	22,315
2018	23,457
2019 and thereafter	<u>1,148,483</u>
	<u><u>\$ 1,235,680</u></u>

In-kind interest expense of \$120,850 for below-market loans has been recorded as an in-kind contribution and included in interest expense for the year ended June 30, 2014 and 2013.

**Note 6 - Leases**

The Organization leases office space and office equipment under non-cancelable operating leases.

Minimum future rental payments under the non-cancelable leases for each year during the remaining lease terms are as follows:

<u>Years Ending June 30,</u>	<u>Office Space</u>	<u>Office Equipment</u>	<u>Total</u>
2015	\$ 10,496	\$ 6,468	\$ 16,964
2016	10,811	6,468	17,279
2017	-	5,390	5,390
	<u>\$ 21,307</u>	<u>\$ 18,326</u>	<u>\$ 39,633</u>

Lease expense for the year ended June 30, 2014 and 2013 was \$69,838 and \$120,850, respectively.

**Note 7 - Temporarily Restricted Net Assets**

Temporarily restricted net assets consisted of the following as June 30, 2014 and 2013:

	2014	2013
SOAR	\$ 12,630	\$ 12,252
Shelter	9,938	25,770
Heading Home Minnesota Partners Fund	5,203	1,955
Emerson Legacy Fund	125,000	-
Young Parent Program	27,132	-
Strategic Planning	-	10,000
	\$ 179,903	\$ 49,977

Temporarily restricted net assets released from restrictions for the year ended June 30, 2014 and 2013 consist of the following:

	2014	2013
SOAR	\$ 12,252	\$ 50,248
Shelter	15,832	-
Heading Home Minnesota Partners Fund	1,955	8,221
Early childhood development	-	7,756
General operating - time restricted	-	160,000
Strategic Planning	10,000	-
Case management for adults and children	-	37,875
	\$ 40,039	\$ 264,100

**Note 8 - Donated Materials and Interest**

The fair value of donated materials included as supporting services expenses for the years ended June 30, 2014 and 2013, totaled \$42,900 and \$45,180, respectively. The fair value of donated materials included as non-operating revenue and expense for the years ended June 30, 2014 and 2013 totaled \$267,020 and \$236,304, respectively. In addition for the year ended June 30, 2013, there was \$25,000 included in non-operating revenue that was capitalized as a building improvement.

The estimated value of donated interest expense on non-interest bearing or below market mortgages and notes payable has been included as program services expenses for the years ended June 30, 2014 and 2013. For the years ended June 30, 2014 and 2013, this totaled to \$120,850 for both years.

**Note 9 - Retirement Plan**

The Organization has a Simple IRA plan for all eligible employees. The annual employer's matching contribution is mandatory. The contributions made by the Organization totaled \$51,216 and \$47,170 for the years ended June 30, 2014 and 2013, respectively.

**Note 10 - Related Party Contributions**

During 2014 and 2013, Board members contributed \$34,088 and \$17,373 to the Organization, respectively, of which \$246 and \$1,559 were in-kind contributions.

**Note 11 - Contingencies**

During the year ended June 30, 2014, the Organization received a \$81,132 grant from the City of Minneapolis. This grant provided funding for certain building improvements at Passages Community Housing, LLC. Under the terms of the grant, the Organization must continue to operate Passages Community Housing, LLC as an emergency or transitional housing shelter through July 14, 2016 or must repay the grant.

During the year ended June 30, 2013, the Organization received a \$320,000 grant from the City of Minneapolis. This grant provided funding for certain building improvements at Passages Community Housing, LLC. Under the terms of the grant, the Organization must continue to operate Passages Community Housing, LLC as an emergency or transitional housing shelter through June 30, 2016 or must repay the grant.



Supplementary Information  
June 30, 2014 and 2013

# Simpson Housing Services Inc.



## Independent Auditor's Report on Supplementary Information

The Board of Directors  
Simpson Housing Services Inc.  
Minneapolis, Minnesota

We have audited the consolidated financial statements of Simpson Housing Services, Inc. and Subsidiary as of and for the years ended June 30, 2014 and 2013 and our report thereon dated November 21, 2014, which expressed an unmodified opinion on those financial statements, appears on page 1. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental schedules on pages 21-22 are presented for the purpose of additional analysis and are 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 our audits 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 taken as a whole.

A handwritten signature in black ink that reads "Eide Bailly LLP".

Minneapolis, Minnesota  
November 21, 2014

2014

	Simpson Housing Services, Inc.	Passages Community Housing, LLC	Eliminations	Total
<b>Assets</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ 528,855	\$ 26,481	\$ -	\$ 555,336
Restricted cash - other	159,576	18,953	-	178,529
Restricted cash - escrow and reserves	-	121,840	-	121,840
Temporary investments	204,742	-	-	204,742
Accounts receivable	9,728	4,581	(9,728)	4,581
Grants receivable	175,780	-	-	175,780
Prepaid expenses	-	13,923	-	13,923
Total current assets	<u>1,096,681</u>	<u>185,778</u>	<u>(9,728)</u>	<u>1,272,731</u>
Property and Equipment, Net	<u>766,019</u>	<u>1,240,552</u>	<u>-</u>	<u>2,006,571</u>
Total assets	<u>\$ 1,862,700</u>	<u>\$ 1,426,330</u>	<u>\$ (9,728)</u>	<u>\$ 3,279,302</u>
<b>Liabilities and Net Assets</b>				
<b>Current liabilities</b>				
Current portion of debt	\$ -	\$ 20,196	\$ -	\$ 20,196
Accounts payable	19,259	10,102	(9,728)	19,633
Accrued salaries payable	56,547	-	-	56,547
Accrued vacation payable	64,290	-	-	64,290
Accrued interest	-	33,811	-	33,811
Accrued expenses - security deposits	-	18,850	-	18,850
Other accrued expenses	30,133	-	-	30,133
Total current liabilities	<u>170,229</u>	<u>82,959</u>	<u>(9,728)</u>	<u>243,460</u>
<b>Long-Term Liabilities</b>				
Debt, net of current portion	<u>-</u>	<u>1,215,484</u>	<u>-</u>	<u>1,215,484</u>
Total liabilities	<u>170,229</u>	<u>1,298,443</u>	<u>(9,728)</u>	<u>1,458,944</u>
<b>Net Assets</b>				
Unrestricted	1,512,568	127,887	-	1,640,455
Temporarily restricted	<u>179,903</u>	<u>-</u>	<u>-</u>	<u>179,903</u>
Total net assets	<u>1,692,471</u>	<u>127,887</u>	<u>-</u>	<u>1,820,358</u>
Total liabilities and net assets	<u>\$ 1,862,700</u>	<u>\$ 1,426,330</u>	<u>\$ (9,728)</u>	<u>\$ 3,279,302</u>

Simpson Housing Services Inc.  
Consolidating Statement of Financial Position  
June 30, 2014 and 2013

2013			
Simpson Housing Services, Inc.	Passages Community Housing, LLC	Eliminations	Total
\$ 582,990	\$ 17,283	\$ -	\$ 600,273
43,034	18,634	-	61,668
-	145,298	-	145,298
203,976	-	-	203,976
19,426	835	(19,426)	835
99,292	-	-	99,292
-	12,883	-	12,883
948,718	194,933	(19,426)	1,124,225
899,390	1,220,729	-	2,120,119
\$ 1,848,108	\$ 1,415,662	\$ (19,426)	\$ 3,244,344
\$ -	\$ 19,213	\$ -	\$ 19,213
22,884	21,034	(19,426)	24,492
41,472	-	-	41,472
64,872	-	-	64,872
-	30,811	-	30,811
-	17,721	-	17,721
32,852	-	-	32,852
162,080	88,779	(19,426)	231,433
-	1,235,680	-	1,235,680
162,080	1,324,459	(19,426)	1,467,113
1,636,051	91,203	-	1,727,254
49,977	-	-	49,977
1,686,028	91,203	-	1,777,231
\$ 1,848,108	\$ 1,415,662	\$ (19,426)	\$ 3,244,344

2014

	Simpson Housing Services, Inc.	Passages Community Housing, LLC	Eliminations	Total
<b>Support and Revenue</b>				
Contributions	\$ 1,154,317	\$ -	\$ -	\$ 1,154,317
In-kind contributions	165,409	120,850	-	286,259
Government contracts	2,942,360	81,132	-	3,023,492
Contract income	589,846	-	(42,140)	547,706
United Way	212,000	-	-	212,000
Rental income	53,310	220,083	-	273,393
Gross special event revenue	145,093	-	-	145,093
Less cost of direct benefit to donors	(53,338)	-	-	(53,338)
Net special events revenue	91,755	-	-	91,755
Other income	49,815	2,998	-	52,813
Total support and revenue	5,258,812	425,063	(42,140)	5,641,735
<b>Expenses</b>				
Program services				
Shelters	952,690	-	-	952,690
Family housing	2,213,706	388,379	(42,140)	2,559,945
Single adult housing	1,530,393	-	-	1,530,393
Total program services	4,696,789	388,379	(42,140)	5,043,028
Support services				
Management and general	366,851	-	-	366,851
Fundraising	188,729	-	-	188,729
Total support services	555,580	-	-	555,580
Total expenses	5,252,369	388,379	(42,140)	5,598,608
Change in Operating Net Assets	6,443	36,684	-	43,127
<b>Non-Operating Activity</b>				
In-kind contributions	267,020	-	-	267,020
In-kind expense	(267,020)	-	-	(267,020)
Total non-operating activity	-	-	-	-
Change in net assets	6,443	36,684	-	43,127
Net Assets, Beginning of Year	1,686,028	91,203	-	1,777,231
Net Assets, End of Year	\$ 1,692,471	\$ 127,887	\$ -	\$ 1,820,358

Simpson Housing Services Inc.  
Consolidating Statement of Activities  
June 30, 2014 and 2013

2013			
Simpson Housing Services, Inc.	Passages Community Housing, LLC	Eliminations	Total
\$ 821,233	\$ -	\$ -	\$ 821,233
-	120,850	-	120,850
2,604,912	320,000	-	2,924,912
535,066	-	(42,140)	492,926
214,999	-	-	214,999
50,700	220,127	-	270,827
109,345	-	-	109,345
(52,161)	-	-	(52,161)
57,184	-	-	57,184
16,063	3,100	-	19,163
4,300,157	664,077	(42,140)	4,922,094
698,877	-	-	698,877
2,086,803	345,766	(42,140)	2,390,429
1,224,191	-	-	1,224,191
4,009,871	345,766	(42,140)	4,313,497
363,609	-	-	363,609
156,192	-	-	156,192
519,801	-	-	519,801
4,529,672	345,766	(42,140)	4,833,298
(229,515)	318,311	-	88,796
261,304	-	-	261,304
(236,304)	-	-	(236,304)
25,000	-	-	25,000
(204,515)	318,311	-	113,796
1,890,543	(227,108)	-	1,663,435
\$ 1,686,028	\$ 91,203	\$ -	\$ 1,777,231