



Consolidated Financial Statements
June 30, 2018 and 2017

Simpson Housing Services, Inc.

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying the consolidated financial statements of Simpson Housing Services, Inc. (the Organization), which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated 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 the consolidated 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 audits. We conducted our audits 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 the Organization as of June 30, 2018 and 2017, 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 black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Minneapolis, Minnesota
November 29, 2018

Simpson Housing Services, Inc.
Consolidated Statements of Financial Position
June 30, 2018 and 2017

	2018	2017
Assets		
Current Assets		
Cash and cash equivalents	\$ 616,954	\$ 655,713
Restricted cash - other	151,015	163,144
Restricted cash - escrow and reserves	133,375	154,565
Certificates of deposit	206,904	206,592
Accounts receivable, net	-	2,331
Promises to give, net	100,000	-
Grants receivable, net	351,243	278,237
Prepaid expenses	33,991	2,586
Total current assets	1,593,482	1,463,168
Property and Equipment, Net	1,385,043	1,477,388
Total assets	\$ 2,978,525	\$ 2,940,556
Liabilities and Net Assets		
Current Liabilities		
Current portion of debt	\$ 24,657	\$ 23,457
Accounts payable	24,135	12,753
Accrued expenses	258,203	278,494
Deferred revenue	7,176	6,371
Total current liabilities	314,171	321,075
Long-Term Liabilities		
Debt, net of current portion	1,123,825	1,148,482
Total liabilities	1,437,996	1,469,557
Net Assets		
Unrestricted	1,305,480	1,322,818
Temporarily restricted	235,049	148,181
Total net assets	1,540,529	1,470,999
Total liabilities and net assets	\$ 2,978,525	\$ 2,940,556

	2018		
	Unrestricted	Temporarily Restricted	Total
Support and Revenue			
Contributions	\$ 1,205,684	\$ 119,500	\$ 1,325,184
In-kind contributions	302,704	-	302,704
Government contracts	4,630,358	-	4,630,358
Contract income	593,185	-	593,185
United Way	169,251	-	169,251
Rental income	405,129	-	405,129
Gross special event revenue	173,987	-	173,987
Less cost of direct benefits to donors	(89,225)	-	(89,225)
Net special events revenue	84,762	-	84,762
Other income	31,214	-	31,214
Net assets released from restrictions	32,632	(32,632)	-
Total support and revenue	7,454,919	86,868	7,541,787
Expenses			
Program services			
Shelters	804,077	-	804,077
Family housing	3,311,371	-	3,311,371
Single adult housing	2,617,845	-	2,617,845
Advocacy	24,153	-	24,153
Total program services	6,757,446	-	6,757,446
Support services			
Management and general	456,677	-	456,677
Fundraising	258,134	-	258,134
Total support services	714,811	-	714,811
Total expenses	7,472,257	-	7,472,257
Change in Operating Net Assets	(17,338)	86,868	69,530
Non-Operating Activity			
In-kind contributions	179,545	-	179,545
In-kind expense	(179,545)	-	(179,545)
Total non-operating activity	-	-	-
Change in Net Assets	(17,338)	86,868	69,530
Net Assets, Beginning of Year	1,322,818	148,181	1,470,999
Net Assets, End of Year	\$ 1,305,480	\$ 235,049	\$ 1,540,529

See Notes to Consolidated Financial Statements

Simpson Housing Services, Inc.
Consolidated Statements of Activities
Years Ended June 30, 2018 and 2017

	2017		
	Unrestricted	Temporarily Restricted	Total
Support and Revenue			
Contributions	\$ 1,096,714	\$ 19,638	\$ 1,116,352
In-kind contributions	299,766	-	299,766
Government contracts	4,186,627	-	4,186,627
Contract income	375,282	-	375,282
United Way	250,000	-	250,000
Rental income	315,818	-	315,818
Special event revenue	130,647	-	130,647
Less cost of direct benefits to donors	(65,728)	-	(65,728)
Net special events revenue	64,919	-	64,919
Other income	14,688	-	14,688
Net assets released from restrictions	196,091	(196,091)	-
Total support and revenue	<u>6,799,905</u>	<u>(176,453)</u>	<u>6,623,452</u>
Expenses			
Program services			
Shelters	834,402	-	834,402
Family housing	3,307,042	-	3,307,042
Single adult housing	2,122,517	-	2,122,517
Advocacy	-	-	-
Total program services	<u>6,263,961</u>	<u>-</u>	<u>6,263,961</u>
Support services			
Management and general	453,924	-	453,924
Fundraising	248,885	-	248,885
Total support services	<u>702,809</u>	<u>-</u>	<u>702,809</u>
Total expenses	<u>6,966,770</u>	<u>-</u>	<u>6,966,770</u>
Change in Operating Net Assets	<u>(166,865)</u>	<u>(176,453)</u>	<u>(343,318)</u>
Non-Operating Activity			
In-kind contributions	277,336	-	277,336
In-kind expense	(277,336)	-	(277,336)
Total non-operating activity	<u>-</u>	<u>-</u>	<u>-</u>
Change in Net Assets	(166,865)	(176,453)	(343,318)
Net Assets, Beginning of Year	<u>1,489,683</u>	<u>324,634</u>	<u>1,814,317</u>
Net Assets, End of Year	<u>\$ 1,322,818</u>	<u>\$ 148,181</u>	<u>\$ 1,470,999</u>

Expenses	Program Services				Total Program Services
	Shelters	Family Housing	Single Adult Housing	Advocacy	
Salaries	\$ 380,222	\$ 1,225,281	\$ 877,217	\$ 21,068	\$ 2,503,788
Employee benefits	66,705	202,282	122,877	-	391,864
Payroll taxes	29,024	89,984	66,288	1,531	186,827
Total salaries and related expenses	475,951	1,517,547	1,066,382	22,599	3,082,479
Rental assistance and housing support	176,089	1,279,341	1,356,688	-	2,812,118
Shelter rent expense	68,270	-	-	-	68,270
Supplies	34,792	9,556	15,769	-	60,117
Interest expense	-	129,486	-	-	129,486
Transportation	379	36,967	35,264	22	72,632
Insurance	5,043	21,810	9,000	-	35,853
Professional fees	4,975	45,217	13,450	-	63,642
Office space	2,296	27,342	49,306	-	78,944
Telephone and utilities	6,094	22,921	14,900	-	43,915
Repairs and maintenance	14,935	45,961	13,679	-	74,575
Program events	169	19,788	4,386	1,532	25,875
Printing and postage	2,829	10,702	14,978	-	28,509
Dues and subscriptions	-	1,671	4,923	-	6,594
Professional development and recruitment	1,052	4,856	4,648	-	10,556
Bank charges	-	-	-	-	-
Special events	-	-	-	-	-
Miscellaneous	4,466	45,050	14,376	-	63,892
Total operating expenses excluding depreciation	797,340	3,218,215	2,617,749	24,153	6,657,457
Simpson Housing Services depreciation	6,737	6,933	96	-	13,766
Passage Community Housing depreciation	-	86,223	-	-	86,223
	804,077	3,311,371	2,617,845	24,153	6,757,446
Less expenses included with revenues on the statement of activities	-	-	-	-	-
Total operating expenses	804,077	3,311,371	2,617,845	24,153	6,757,446
Non-operating in-kind expense	78,942	76,920	23,683	-	179,545
Total expenses	\$ 883,019	\$ 3,388,291	\$ 2,641,528	\$ 24,153	\$ 6,936,991

See Notes to Consolidated Financial Statements

Simpson Housing Services, Inc.
Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2018

Support Services			
Management and General	Fundraising	Total Support Services	Total Expenses
\$ 288,094	\$ 163,613	\$ 451,707	\$ 2,955,495
13,757	16,823	30,580	422,444
25,453	12,231	37,684	224,511
327,304	192,667	519,971	3,602,450
-	-	-	2,812,118
-	-	-	68,270
1,028	1,557	2,585	62,702
-	-	-	129,486
2,123	557	2,680	75,312
1,438	1,284	2,722	38,575
43,086	9,004	52,090	115,732
11,648	-	11,648	90,592
16,083	654	16,737	60,652
103	153	256	74,831
8,167	1,533	9,700	35,575
4,547	30,852	35,399	63,908
2,865	17,723	20,588	27,182
11,934	658	12,592	23,148
4,640	-	4,640	4,640
-	89,225	89,225	89,225
1,526	287	1,813	65,705
436,492	346,154	782,646	7,440,103
20,185	1,205	21,390	35,156
-	-	-	86,223
456,677	347,359	804,036	7,561,482
-	(89,225)	(89,225)	(89,225)
456,677	258,134	714,811	7,472,257
-	-	-	179,545
<u>\$ 456,677</u>	<u>\$ 258,134</u>	<u>\$ 714,811</u>	<u>\$ 7,651,802</u>

Expenses	Program Services			Total Program Services
	Shelters	Family Housing	Single Adult Housing	
Salaries	\$ 377,702	\$ 1,234,383	\$ 628,735	\$ 2,240,820
Employee benefits	63,170	191,871	97,808	352,849
Payroll taxes	27,416	85,188	44,412	157,016
Total salaries and related expenses	468,288	1,511,442	770,955	2,750,685
Rental assistance and housing support	178,714	1,263,796	1,149,127	2,591,637
Shelter rent expense	65,650	-	-	65,650
Supplies	30,595	21,410	20,694	72,699
Interest expense	-	130,944	-	130,944
Transportation	1,227	43,944	19,557	64,728
Insurance	5,719	29,513	8,596	43,828
Professional fees	6,279	50,024	37,629	93,932
Office space	2,077	20,173	43,912	66,162
Telephone and utilities	5,950	28,397	17,433	51,780
Repairs and maintenance	11,951	36,865	13,901	62,717
Program events	244	16,008	1,539	17,791
Printing and postage	3,849	12,644	11,333	27,826
Dues and subscriptions	-	1,677	659	2,336
Professional development and recruitment	3,406	10,495	6,016	19,917
Bank charges	2	-	-	2
Special events	-	-	-	-
Miscellaneous	6,725	33,779	19,016	59,520
Total operating expenses excluding depreciation	790,676	3,211,111	2,120,367	6,122,154
Simpson Housing Services depreciation	43,726	8,701	2,150	54,577
Passage Community Housing depreciation	-	87,230	-	87,230
	834,402	3,307,042	2,122,517	6,263,961
Less expenses included with revenues on the statement of activities	-	-	-	-
Total operating expenses	834,402	3,307,042	2,122,517	6,263,961
Non-operating in-kind expense	104,166	142,393	30,777	277,336
Total expenses	\$ 938,568	\$ 3,449,435	\$ 2,153,294	\$ 6,541,297

See Notes to Consolidated Financial Statements

Simpson Housing Services, Inc.
Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2017

Support Services			
Management and General	Fundraising	Total Support Services	Total Expenses
\$ 316,906	\$ 156,282	\$ 473,188	\$ 2,714,008
19,474	15,387	34,861	387,710
33,514	11,789	45,303	202,319
369,894	183,458	553,352	3,304,037
-	-	-	2,591,637
-	-	-	65,650
617	639	1,256	73,955
-	-	-	130,944
744	503	1,247	65,975
5,710	1,410	7,120	50,948
26,953	15,140	42,093	136,025
9,130	294	9,424	75,586
11,240	1,408	12,648	64,428
895	12,413	13,308	76,025
357	4,167	4,524	22,315
4,643	22,779	27,422	55,248
2,094	1,548	3,642	5,978
860	933	1,793	21,710
3,608	-	3,608	3,610
-	65,728	65,728	65,728
2,640	1,093	3,733	63,253
439,385	311,513	750,898	6,873,052
14,539	3,100	17,639	72,216
-	-	-	87,230
453,924	314,613	768,537	7,032,498
-	(65,728)	(65,728)	(65,728)
453,924	248,885	702,809	6,966,770
-	-	-	277,336
\$ 453,924	\$ 248,885	\$ 702,809	\$ 7,244,106

Simpson Housing Services, Inc.
Consolidated Statements of Cash Flows
For the Years Ended June 30, 2018 and 2017

	2018	2017
Operating Activities		
Change in net assets	\$ 69,530	\$ (343,318)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	86,223	159,446
Changes in operating assets and liabilities		
Accounts receivable, net	2,331	(844)
Promises to give, net	(100,000)	115,000
Grants receivable, net	(73,006)	(94,443)
Prepaid expenses	(31,405)	7,856
Accounts payable	11,382	11,903
Accrued expenses	(20,291)	15,837
Deferred revenue	805	(1,068)
Net Cash used for Operating Activities	(54,431)	(129,631)
Investing Activities		
Purchase of property and equipment	(29,034)	(1,795)
Change in restricted cash - escrows and reserves	21,190	2,523
Purchase of investments (CDs)	(206,904)	(206,592)
Redemption of investments (CDs)	206,592	205,971
Net Cash from (used for) Investing Activities	(8,156)	107
Financing Activities		
Payments on notes payable	(23,457)	(22,316)
Net Change in Cash and Cash Equivalents	(86,044)	(151,840)
Cash and Cash Equivalents, Beginning of Year	818,857	970,697
Cash and Cash Equivalents, End of Year	\$ 732,813	\$ 818,857
Supplemental Disclosures		
Cash paid for interest	\$ 4,875	\$ 6,109

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

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 30-day stay. 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

- Rapid Rehousing Program – To provide short-term rental assistance and case management services for 30 homeless families. Program emphasis is on maintaining permanent housing 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, continuing education, and employment.
- Transitional Housing Program (THP) – To provide up to two years of rental subsidy and case management services for 13 homeless families. Program emphasis is on locating permanent housing, continuing education, and employment.
- Passage Community Housing, LLC – An Organization-owned, 17-unit apartment building, providing transitional housing and case management to resident families. Program emphasis is on locating permanent housing, continuing education, and employment.
- Rental Assistance Program (RAP) – To provide long-term rental assistance and limited support services for 27 families. The program is designed to provide housing stability.
- Children and Youth Services – To provide educational support services designed to affect positive change in family dynamics and child educational success by providing parenting support, tutoring, mentoring, and direct children's services.
- ZOOM House – A permanent supportive housing project for chronically homeless families with a disabled family member. Case management services are provided for ten families at an affordable housing development owned by Zion Lutheran Church in South Minneapolis.
- Family Roots Alliance (FRA) – A permanent supportive housing collaboration between Lutheran Social Service of Minnesota and Simpson Housing Services. Forty long-term homeless families live in scattered-site housing in the West Metro and are provided rental assistance and case management services.
- 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 HUD rental certificate program Section 8 (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. Fifty-two families live in site-based and scattered-site housing in Hennepin and Carver Counties and are provided rental assistance and case management services.
- Elliot 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 15 families at a Section 8 affordable housing project owned by Sherman Associates in the West Bank neighborhood of Minneapolis.

Single Adult Housing

- Women’s Housing Partnership (WHP) and Single Adult Rental Assistance (SARA) – To provide 50 single adults with rental subsidy and case management needed to obtain and maintain permanent housing after experiencing long-term homelessness. The program includes intensive support services and weekly meetings with an advocate/case manager.
- Opportunity Housing Partnership (OHP) – A collaboration between Simpson Housing Services, Aeon, and Avivo. The partnership provides support to residents at Aeon’s OHP properties, the Lamoreaux, and the Continental. These two buildings provide 129 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 community.
- Rapid Rehousing – To provide short-term rental assistance and case management services for single adults moving directly from shelter to stable housing. Program emphasis is on locating permanent housing and employment.

Youth Housing

- Young Parent Program – To provide short-term rental assistance and case management services for 12 families. Parents must be between the ages of 18 and 24. Program emphasis is on locating permanent housing, continued education, and employment.
- Cedar View – A supportive housing project for homeless families with a youth parent. Parents must be between the ages of 18 and 24. Case management services are provided for ten families at an affordable housing project owned by Beacon Interfaith Housing Collaborative in South Minneapolis.
- 66 West – A supportive housing project for youth, ages 16-24, transitioning out of homelessness. Case management services are provided for 39 youth at an affordable housing project owned by Beacon Interfaith Housing Collaborative in Edina. Program emphasis is on setting and working toward personal goals in education, employment, and wellness.

Adult Shelter Connect

- Simpson Housing Services, in collaboration with the four other shelter providers serving single adults in Hennepin County, opened the Adult Shelter Connect office located at St. Olaf Church in Minneapolis. Single adults who are in need of emergency shelter visit Adult Shelter Connect for an assessment and placement with one of the five Minneapolis shelters and referrals to other services.

Advocacy

The focus of public policy advocacy activities at Simpson Housing is to support changes that serve the needs of the community we serve. Our program empowers staff, participants, and volunteers to speak to state legislators about funding, housing, and economic equity legislation. We pay for staff time to organize events that promote public awareness, policy change, and initiatives of the Racial Justice Task Force.

Principles of Consolidation

The consolidated financial statements include the Organization's wholly owned subsidiary, Passage Community Housing, LLC, because Simpson Housing Services, Inc. has both control of and economic interest in Passage 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

Passage 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 and grants receivable are stated at net realizable value. 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, 2018 or 2017.

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, 2018 or 2017.

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 three 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.

The Organization reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended June 30, 2018.

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 2018 and 2017 were approximately 31,800 and 37,100, 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

The Organization 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 the Organization's exemption since the Organization is the sole member of Passage Community Housing, LLC. The Organization is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Organization is subject to income tax on net income that is derived from business activities that are unrelated to the exempt purposes. The Organization 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.

The Organization 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. The Organization 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 29, 2018, 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, 2018 and 2017:

	<u>Total</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<u>June 30, 2018</u>				
Short-term investments				
Certificates of deposit	\$ 206,904	\$ 206,904	\$ -	\$ -
<u>June 30, 2017</u>				
Short-term investments				
Certificates of deposit	\$ 206,592	\$ 206,592	\$ -	\$ -

Note 3 - Restricted Cash

Certain cash balances are restricted as of June 30, 2018 and 2017, for the following purposes:

	<u>2018</u>	<u>2017</u>
Transitional housing	\$ 117,045	\$ 128,184
Shelter guest savings	15,242	17,851
Security deposits (Passage)	18,728	17,109
Escrows and reserves (Passage)	133,375	154,565
	<u>\$ 284,390</u>	<u>\$ 317,709</u>

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 \$46 and \$8,773, respectively, as of June 30, 2018, and \$46 and \$13,119, respectively, as of June 30, 2017, for property tax 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, 2018 and 2017, the replacement reserve balance totaled \$59,958 and \$53,999, 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, 2018 and 2017, the development cost escrow balance totaled \$0 and \$14,024, 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, 2018 and 2017, the replacement reserve balance totaled \$64,598 and \$73,377, respectively.

Note 4 - Property and Equipment

Property and equipment as of June 30, 2018 and 2017, consists of the following:

	2018	2017
Land	\$ 260,500	\$ 260,500
Building	1,369,500	1,369,500
Vehicles	36,363	48,967
Building improvements	1,080,898	1,073,449
Furniture and equipment	116,818	115,459
	2,864,079	2,867,875
Less accumulated depreciation	1,479,036	1,390,487
	\$ 1,385,043	\$ 1,477,388

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, 2018 and 2017:

	<u>2018</u>	<u>2017</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 Passage Community Housing, LLC. Lien Priority 1	\$ 84,752	\$ 108,209
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 Passage 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 Passage 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 Passage 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 Passage 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 Passage Community Housing, LLC. Lien Priority 6	120,500	120,500

	2018	2017
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 Passage Community Housing, LLC. Lien Priority 7	\$ 34,000 <u>1,148,482</u>	\$ 34,000 <u>1,171,939</u>
Less current portion	<u>24,657</u>	<u>23,457</u>
Long-term portion	<u><u>\$ 1,123,825</u></u>	<u><u>\$ 1,148,482</u></u>

Order of lien priority was agreed upon in the Management and Assumption Agreement between MHFA and Passage Community Housing, LLC.

Future principal payments required are as follows:

<u>Years Ending June 30,</u>	<u>Amount</u>
2019	\$ 24,657
2020	25,919
2021	27,245
2022	770,661
Thereafter	<u>300,000</u>
	<u><u>\$ 1,148,482</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, 2018 and 2017.

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>
2019	\$ 67,513	\$ 19,826	\$ 87,339
2020	-	19,826	19,826
2021	-	18,746	18,746
2022	-	17,310	17,310
2023	-	5,769	5,769
	<u>\$ 67,513</u>	<u>\$ 81,477</u>	<u>\$ 148,990</u>

Lease expense for the year ended June 30, 2018 and 2017, was \$123,265 and \$121,760, respectively.

Note 7 - Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of the following as June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Child and Youth Services	\$ 17,369	\$ 20,374
Shelter	6,289	8,004
Emerson Legacy Fund	111,391	119,803
Time Restricted for General Operations	100,000	-
	<u>\$ 235,049</u>	<u>\$ 148,181</u>

Temporarily restricted net assets released from restrictions for the year ended June 30, 2018 and 2017, consist of the following:

	2018	2017
Child and Youth Services	\$ 22,506	\$ 30,225
Shelter	1,714	5,238
Emerson Legacy Fund	8,412	603
66 West	-	38,000
Time Restricted for General Operations	-	122,025
	\$ 32,632	\$ 196,091

Note 8 - Donated Materials and Interest

The fair value of donated materials included in special event revenue and as supporting services expenses for the years ended June 30, 2018 and 2017, totaled \$59,547 and \$43,907, respectively. The fair value of donated materials included as non-operating revenue and expense for the years ended June 30, 2018 and 2017, totaled \$179,545 and \$277,336, respectively. The fair value of donated materials (primarily meals) included as program service expense for the years ended June 30, 2018 and 2017, totaled \$181,854 and \$178,916.

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, 2018 and 2017. For the years ended June 30, 2018 and 2017, 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 \$60,748 and \$59,098 for the years ended June 30, 2018 and 2017, respectively.



Supplementary Information
June 30, 2018 and 2017

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. as of and for the years ended June 30, 2018 and 2017, and our report thereon dated November 29, 2018, expressed an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The following supplementary information is presented for the purpose of additional analysis and is 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 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 taken as a whole.

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

Minneapolis, Minnesota
November 29, 2018

Simpson Housing Services, Inc.
Consolidating Statement of Financial Position
June 30, 2018

	Simpson Housing Services, Inc.	Passage Community Housing, LLC	Eliminations	Total
Assets				
Current Assets				
Cash and cash equivalents	\$ 608,012	\$ 8,942	\$ -	\$ 616,954
Restricted cash - other	132,287	18,728	-	151,015
Restricted cash - escrow and reserves	-	133,375	-	133,375
Certificates of deposit	206,904	-	-	206,904
Promises to give, net	100,000	-	-	100,000
Grants receivable	351,243	-	-	351,243
Prepaid expenses	33,991	-	-	33,991
	<u>1,432,437</u>	<u>161,045</u>	<u>-</u>	<u>1,593,482</u>
Total current assets	1,432,437	161,045	-	1,593,482
Property and Equipment, Net	<u>462,958</u>	<u>922,085</u>	<u>-</u>	<u>1,385,043</u>
Total assets	<u>\$ 1,895,395</u>	<u>\$ 1,083,130</u>	<u>\$ -</u>	<u>\$ 2,978,525</u>
Liabilities and Net Assets				
Current Liabilities				
Current portion of debt	\$ -	\$ 24,657	\$ -	\$ 24,657
Accounts payable	19,834	4,301	-	24,135
Accrued expenses	193,693	64,510	-	258,203
Deferred revenue	5,489	1,687	-	7,176
	<u>219,016</u>	<u>95,155</u>	<u>-</u>	<u>314,171</u>
Total current liabilities	219,016	95,155	-	314,171
Long-Term Liabilities				
Debt, net of current portion	<u>-</u>	<u>1,123,825</u>	<u>-</u>	<u>1,123,825</u>
Total liabilities	<u>219,016</u>	<u>1,218,980</u>	<u>-</u>	<u>1,437,996</u>
Net Assets				
Unrestricted	1,441,330	(135,850)	-	1,305,480
Temporarily restricted	<u>235,049</u>	<u>-</u>	<u>-</u>	<u>235,049</u>
Total net assets	<u>1,676,379</u>	<u>(135,850)</u>	<u>-</u>	<u>1,540,529</u>
Total liabilities and net assets	<u>\$ 1,895,395</u>	<u>\$ 1,083,130</u>	<u>\$ -</u>	<u>\$ 2,978,525</u>

Simpson Housing Services, Inc.
Consolidating Statement of Financial Position
June 30, 2017

	Simpson Housing Services, Inc.	Passage Community Housing, LLC	Eliminations	Total
Assets				
Current Assets				
Cash and cash equivalents	\$ 648,141	\$ 7,572	\$ -	\$ 655,713
Restricted cash - other	146,035	17,109	-	163,144
Restricted cash - escrow and reserves	-	154,565	-	154,565
Certificates of deposit	206,592	-	-	206,592
Accounts receivable	-	2,331	-	2,331
Promises to give, net	-	-	-	-
Grants receivable	278,237	-	-	278,237
Prepaid expenses	2,586	-	-	2,586
Total current assets	1,281,591	181,577	-	1,463,168
Property and Equipment, Net	476,529	1,000,859	-	1,477,388
Total assets	<u>\$ 1,758,120</u>	<u>\$ 1,182,436</u>	<u>\$ -</u>	<u>\$ 2,940,556</u>
Liabilities and Net Assets				
Current Liabilities				
Current portion of debt	\$ -	\$ 23,457	\$ -	\$ 23,457
Accounts payable	11,052	1,701	-	12,753
Accrued expenses	218,601	59,893	-	278,494
Deferred revenue	6,371	-	-	6,371
Total current liabilities	236,024	85,051	-	321,075
Long-Term Liabilities				
Debt, net of current portion	-	1,148,482	-	1,148,482
Total liabilities	236,024	1,233,533	-	1,469,557
Net Assets				
Unrestricted	1,373,915	(51,097)	-	1,322,818
Temporarily restricted	148,181	-	-	148,181
Total net assets	1,522,096	(51,097)	-	1,470,999
Total liabilities and net assets	<u>\$ 1,758,120</u>	<u>\$ 1,182,436</u>	<u>\$ -</u>	<u>\$ 2,940,556</u>

Simpson Housing Services, Inc.
Consolidating Statement of Activities
Year Ended June 30, 2018

	Simpson Housing Services, Inc.	Passage Community Housing, LLC	Eliminations	Total
Unrestricted Activities				
Support and Revenue				
Contributions	\$ 1,205,684	\$ -	\$ -	\$ 1,205,684
In-kind contributions	181,854	120,850	-	302,704
Government contracts	4,630,358	-	-	4,630,358
Contract income	629,965	-	(36,780)	593,185
United Way	169,251	-	-	169,251
Rental income	174,956	230,173	-	405,129
Gross special event revenue	173,987	-	-	173,987
Less cost of direct benefit to donors	(89,225)	-	-	(89,225)
Net special events revenue	84,762	-	-	84,762
Other income	27,471	3,743	-	31,214
Net assets released from restriction	32,632	-	-	32,632
Total support and revenue	<u>7,136,933</u>	<u>354,766</u>	<u>(36,780)</u>	<u>7,454,919</u>
Expenses				
Program services				
Shelters	804,077	-	-	804,077
Family housing	2,915,432	439,519	(43,580)	3,311,371
Single adult housing	2,617,845	-	-	2,617,845
Advocacy	24,153	-	-	24,153
Total program services	<u>6,361,507</u>	<u>439,519</u>	<u>(43,580)</u>	<u>6,757,446</u>
Support services				
Management and general	449,877	-	6,800	456,677
Fundraising	258,134	-	-	258,134
Total support services	<u>708,011</u>	<u>-</u>	<u>6,800</u>	<u>714,811</u>
Total expenses	<u>7,069,518</u>	<u>439,519</u>	<u>(36,780)</u>	<u>7,472,257</u>
Change in Unrestricted Operating Net Assets	<u>67,415</u>	<u>(84,753)</u>	<u>-</u>	<u>(17,338)</u>
Non-Operating Unrestricted Activity				
In-kind contributions	179,545	-	-	179,545
In-kind expense	(179,545)	-	-	(179,545)
Total unrestricted non-operating activity	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in Unrestricted Net Assets	<u>67,415</u>	<u>(84,753)</u>	<u>-</u>	<u>(17,338)</u>

Simpson Housing Services, Inc.
 Consolidating Statement of Activities
 Year Ended June 30, 2018

	<u>Simpson Housing Services, Inc.</u>	<u>Passage Community Housing, LLC</u>	<u>Eliminations</u>	<u>Total</u>
Temporarily Restricted Activity				
Support and Revenue				
Contributions	\$ 119,500	\$ -	\$ -	\$ 119,500
Net assets released from restriction	<u>(32,632)</u>	<u>-</u>	<u>-</u>	<u>(32,632)</u>
Change in Temporarily Restricted Net Assets	<u>86,868</u>	<u>-</u>	<u>-</u>	<u>86,868</u>
Change in Net Assets	154,283	(84,753)	-	69,530
Net Assets, Beginning of Year	<u>1,522,096</u>	<u>(51,097)</u>	<u>-</u>	<u>1,470,999</u>
Net Assets, End of Year	<u>\$ 1,676,379</u>	<u>\$ (135,850)</u>	<u>\$ -</u>	<u>\$ 1,540,529</u>

Simpson Housing Services, Inc.
Consolidating Statement of Activities
Year Ended June 30, 2017

	Simpson Housing Services, Inc.	Passage Community Housing, LLC	Eliminations	Total
Unrestricted Activities				
Support and Revenue				
Contributions	\$ 1,096,714	\$ -	\$ -	\$ 1,096,714
In-kind contributions	178,916	120,850	-	299,766
Government contracts	4,186,627	-	-	4,186,627
Contract income	411,422	-	(36,140)	375,282
United Way	250,000	-	-	250,000
Rental income	91,577	224,241	-	315,818
Gross special event revenue	130,647	-	-	130,647
Less cost of direct benefit to donors	(65,728)	-	-	(65,728)
Net special events revenue	64,919	-	-	64,919
Other income	18,528	2,960	(6,800)	14,688
Net assets released from restriction	196,091	-	-	196,091
Total support and revenue	<u>6,494,794</u>	<u>348,051</u>	<u>(42,940)</u>	<u>6,799,905</u>
Expenses				
Program services				
Shelters	834,402	-	-	834,402
Family housing	2,931,068	418,914	(42,940)	3,307,042
Single adult housing	2,122,517	-	-	2,122,517
Total program services	<u>5,887,987</u>	<u>418,914</u>	<u>(42,940)</u>	<u>6,263,961</u>
Support services				
Management and general	453,924	-	-	453,924
Fundraising	248,885	-	-	248,885
Total support services	<u>702,809</u>	<u>-</u>	<u>-</u>	<u>702,809</u>
Total expenses	<u>6,590,796</u>	<u>418,914</u>	<u>(42,940)</u>	<u>6,966,770</u>
Change in Unrestricted Operating Net Assets	<u>(96,002)</u>	<u>(70,863)</u>	<u>-</u>	<u>(166,865)</u>
Non-Operating Unrestricted Activity				
In-kind contributions	277,336	-	-	277,336
In-kind expense	(277,336)	-	-	(277,336)
Total unrestricted non-operating activity	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in Unrestricted Net Assets	<u>(96,002)</u>	<u>(70,863)</u>	<u>-</u>	<u>(166,865)</u>

Simpson Housing Services, Inc.
 Consolidating Statement of Activities
 Year Ended June 30, 2017

	<u>Simpson Housing Services, Inc.</u>	<u>Passage Community Housing, LLC</u>	<u>Eliminations</u>	<u>Total</u>
Temporarily Restricted Activity				
Support and Revenue				
Contributions	\$ 19,638	\$ -	\$ -	\$ 19,638
Net assets released from restriction	<u>(196,091)</u>	<u>-</u>	<u>-</u>	<u>(196,091)</u>
Change in Temporarily Restricted Net Assets	<u>(176,453)</u>	<u>-</u>	<u>-</u>	<u>(176,453)</u>
Change in Net Assets	(272,455)	(70,863)	-	(343,318)
Net Assets, Beginning of Year	<u>1,794,551</u>	<u>19,766</u>	<u>-</u>	<u>1,814,317</u>
Net Assets, End of Year	<u><u>\$ 1,522,096</u></u>	<u><u>\$ (51,097)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,470,999</u></u>