



**SIMPSON HOUSING SERVICES, INC.**

**CONSOLIDATED FINANCIAL STATEMENTS  
WITH SUPPLEMENTARY INFORMATION**

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



# SIMPSON HOUSING SERVICES, INC.

## CONSOLIDATED FINANCIAL STATEMENTS WITH SUPPLEMENTARY INFORMATION

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

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## INDEPENDENT AUDITOR'S REPORT

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

### Opinion

We have audited the accompanying consolidated financial statements of Simpson Housing Services, Inc. (a nonprofit organization) and its subsidiaries (Simpson), which comprise the consolidated statement of financial position as of June 30, 2023, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Simpson, as of June 30, 2023, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

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

### Responsibilities of Management for the Financial Statements

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

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

(Continued)

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

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Simpson's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Simpson's ability to continue as a going concern for a reasonable period of time.

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

## **Adoption of New Accounting Standard**

As discussed in Note 2 to the consolidated financial statements, Simpson has adopted Accounting Standards Update No. 2016-02, *Leases (Topic 842)*. Our opinion is not modified with respect to this matter.

## **Other Information Included in the Organization's Annual Report**

Management is responsible for the other information included in Simpson's Annual Report. The other information comprises of a letter from the Executive Director, summaries of accomplishments by program, and a financial summary but does not include the consolidated financial statements and our auditor's report thereon.

(Continued)

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

The consolidated financial statements of Simpson as of June 30, 2022 were audited by other auditors who expressed an unmodified opinion on those consolidated financial statements in their report dated May 15, 2023. The summarized comparative information presented herein as of and for the year ended June 30, 2022, has been derived from those consolidated financial statements.

### **Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statement of financial position as of June 30, 2023, and the consolidating statement of activities for the year ended June 30, 2023, are presented for the purposes of additional analysis rather than to present the financial position and changes in net assets of the individual entities, and are not a required part of the consolidated financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the consolidated financial statements.

The consolidating financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the consolidated financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 7, 2024 on our consideration of Simpson's internal control over reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Simpson's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Simpson's internal control over financial reporting and compliance.

February 7, 2024

*Mahoney Ulbrich*  
*Christiansen & Russ, PA*

## SIMPSON HOUSING SERVICES, INC.

### CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2023  
(With Comparative Totals for 2022)

	2023	2022
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,726,607	\$ 3,795,654
Restricted cash - other	101,057	112,575
Restricted cash - escrows	79,932	20,895
Accounts receivable	100,978	101,214
Contributions receivable, current portion	243,500	357,584
Grants receivable	414,388	469,710
Prepaid expenses	338,937	48,570
Total current assets	3,005,399	4,906,202
Cash - tenant security deposits	17,993	15,929
Investments	3,411,528	2,689,069
Certificates of deposit - cost	-	211,405
Contributions receivable, less current portion	14,667	76,250
Right of use asset, net	22,268	-
Property and equipment, net	8,824,654	6,480,769
Total assets	\$ 15,296,509	\$ 14,379,624
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Current portion of long-term debt	\$ 1,039,666	\$ 1,071,871
Accounts payable - trade	97,492	101,619
Accounts payable - construction	40,678	931,377
Accrued expenses	385,078	413,637
Lease liability	22,268	-
Agency liability	74,961	40,033
Total current liabilities	1,660,143	2,558,537
Tenant security deposits	15,752	17,328
Long-term debt, less current portion, net	4,502,664	2,774,156
Total liabilities	6,178,559	5,350,021
Net assets:		
Net assets without donor restrictions:		
Undesignated	6,849,595	5,996,025
Designated by the Board for endowment	190,330	172,686
Total net assets without donor restrictions	7,039,925	6,168,711
Net assets with donor restrictions	2,078,025	2,860,892
Total net assets	9,117,950	9,029,603
Total liabilities and net assets	\$ 15,296,509	\$ 14,379,624

See accompanying notes to consolidated financial statements.

**SIMPSON HOUSING SERVICES, INC.**

CONSOLIDATED STATEMENT OF ACTIVITIES

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

	2023			2022
	Without Donor Restrictions	With Donor Restrictions	Total	
Revenues and support:				
Contributions	\$ 1,813,013	\$ 1,568,000	\$ 3,381,013	\$ 4,794,172
Net assets released from restrictions	2,350,867	(2,350,867)	-	-
In-kind contributions	387,035	-	387,035	423,280
Government grants	6,300,164	-	6,300,164	6,029,814
Program service fees	660,632	-	660,632	653,758
Rental revenues:				
Residential rents	35,440	-	35,440	33,216
Housing assistance payments	180,594	-	180,594	157,903
Special events - contributions and earned income	175,354	-	175,354	221,294
Special events - direct benefits to donors	(106,071)	-	(106,071)	(58,679)
Net special events revenue	69,283	-	69,283	162,615
Miscellaneous income	185,666	-	185,666	125,189
Net investment return (loss)	66,684	-	66,684	(46,940)
<b>Total revenues and support</b>	<b>12,049,378</b>	<b>(782,867)</b>	<b>11,266,511</b>	<b>12,333,007</b>
Expenses:				
Program services:				
Shelters	1,960,687	-	1,960,687	1,776,854
Family housing	4,103,778	-	4,103,778	3,747,490
Single services	2,846,888	-	2,846,888	2,893,592
Advocacy	45,265	-	45,265	59,307
Total program services	8,956,618	-	8,956,618	8,477,243
Management and general	1,581,489	-	1,581,489	1,184,477
Fundraising	640,057	-	640,057	651,296
<b>Total expenses</b>	<b>11,178,164</b>	<b>-</b>	<b>11,178,164</b>	<b>10,313,016</b>
Change in net assets	871,214	(782,867)	88,347	2,019,991
Net assets, beginning of year	6,168,711	2,860,892	9,029,603	7,009,612
Net assets, end of year	<u>\$ 7,039,925</u>	<u>\$ 2,078,025</u>	<u>\$ 9,117,950</u>	<u>\$ 9,029,603</u>

See accompanying notes to consolidated financial statements.

**SIMPSON HOUSING SERVICES, INC.**

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

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

	2023								2022	
	Program services				Total program services	Management and general	Fundraising	Cost of direct benefits to donors		Total
	Shelters	Family Housing	Single Services	Advocacy						
Expenses										
Salaries	\$ 733,800	\$ 1,616,869	\$ 1,024,466	\$ 34,063	\$ 3,409,198	\$ 851,905	\$ 361,958	\$ -	\$ 4,623,061	\$ 4,415,515
Employee benefits	89,683	239,439	155,981	1,334	486,437	147,514	36,068	-	670,019	558,345
Payroll taxes	56,049	119,682	74,253	2,544	252,528	65,608	26,975	-	345,111	305,633
<b>Total salaries and related benefits</b>	<b>879,532</b>	<b>1,975,990</b>	<b>1,254,700</b>	<b>37,941</b>	<b>4,148,163</b>	<b>1,065,027</b>	<b>425,001</b>	<b>-</b>	<b>5,638,191</b>	<b>5,279,493</b>
Rental assistance and housing support	134,095	1,337,846	1,328,318	-	2,800,259	357	-	-	2,800,616	2,836,404
Supplies	276,420	26,248	24,666	89	327,423	8,974	9,276	-	345,673	279,043
Interest	38,327	162,218	-	-	200,545	-	-	-	200,545	118,395
Transportation	493	35,307	13,991	15	49,806	236	2	-	50,044	31,768
Insurance	47,400	38,447	29,479	258	115,584	14,754	6,458	-	136,796	88,710
Professional fees	181,855	99,729	46,087	326	327,997	274,784	118,453	12,868	734,102	553,409
Office space	59,377	43,796	65,783	59	169,015	10,921	1,521	-	181,457	121,960
Telephone and utilities	102,884	100,969	31,907	279	236,039	3,830	2,623	-	242,492	197,497
Repairs and maintenance	52,185	24,615	2,032	7	78,839	19,954	137	-	98,930	108,264
Depreciation	150,699	162,550	-	-	313,249	50,886	-	-	364,135	280,191
Internet / database	7,743	52,771	27,028	26	87,568	4,247	1,446	-	93,261	93,636
Property taxes	5,526	20,307	-	-	25,833	717	-	-	26,550	34,045
Program events	500	1,803	6,348	5,000	13,651	1,262	11,060	88,124	114,097	110,451
Printing and postage	1,264	2,581	2,126	12	5,983	3,740	38,576	5,079	53,378	25,200
Dues and subscriptions	11,951	9,738	4,573	3	26,265	45,341	3,790	-	75,396	81,576
Professional development and recruitment	2,582	6,015	3,629	1,250	13,476	57,122	10,579	-	81,177	29,390
Bank charges	-	216	-	-	216	8,838	-	-	9,054	38,553
Miscellaneous	7,854	2,632	6,221	-	16,707	10,499	11,135	-	38,341	63,710
	1,960,687	4,103,778	2,846,888	45,265	8,956,618	1,581,489	640,057	106,071	11,284,235	10,371,695
Less expenses included with revenues on the statement of activities:										
Cost of direct benefits to donors	-	-	-	-	-	-	-	(106,071)	(106,071)	(58,679)
	<u>\$ 1,960,687</u>	<u>\$ 4,103,778</u>	<u>\$ 2,846,888</u>	<u>\$ 45,265</u>	<u>\$ 8,956,618</u>	<u>\$ 1,581,489</u>	<u>\$ 640,057</u>	<u>\$ -</u>	<u>\$ 11,178,164</u>	<u>\$ 10,313,016</u>

See accompanying notes to consolidated financial statements.

**SIMPSON HOUSING SERVICES, INC.**

CONSOLIDATED STATEMENT OF CASH FLOWS

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

	2023	2022
Cash flows from operating activities:		
Change in net assets	\$ 88,347	\$ 2,019,991
Adjustments to reconcile the change in net assets to net cash from operating activities:		
Depreciation	364,135	280,191
Amortization of right of use asset	43,600	-
Net investment (return) loss	(63,978)	46,940
Forgiveness of long-term debt	(34,000)	-
Contributions restricted to capital campaign	(1,251,750)	(2,765,390)
Changes in operating assets and liabilities		
Accounts receivable	236	(6,586)
Contributions receivable	175,667	94,393
Grants receivable	55,322	65,756
Prepaid expenses	(290,367)	206,661
Accounts payable	(4,127)	87,286
Accrued expenses	(28,559)	(119,718)
Agency liability	34,928	15,430
Lease liability	(43,600)	-
Tenant security deposits	(1,576)	(2,259)
	<u>(955,722)</u>	<u>(77,305)</u>
Net cash from operating activities		
Cash flows from investing activities:		
Payments for property and equipment	(3,598,719)	(2,534,133)
Purchase of investments	(1,077,145)	(200,243)
Proceeds from sale of investments	418,664	-
Maturity of certificates of deposit - cost	211,405	-
	<u>(4,045,795)</u>	<u>(2,734,376)</u>
Net cash from investing activities		
Cash flows from financing activities:		
Payments on long-term debt	(611,180)	(45,616)
Proceeds from issuance of long-term debt	2,341,483	1,131,517
Contributions restricted to capital campaign	1,251,750	2,765,390
	<u>2,982,053</u>	<u>3,851,291</u>
Net cash from financing activities		
Net increase (decrease) in cash, cash equivalents, and restricted cash	(2,019,464)	1,039,610
Cash, cash equivalents, and restricted cash at beginning of year	<u>3,945,053</u>	<u>2,905,443</u>
Cash, cash equivalents, and restricted cash at end of year	<u>\$ 1,925,589</u>	<u>\$ 3,945,053</u>
Reconciliation to the consolidated statement of financial position:		
Cash and cash equivalents	\$ 1,726,607	\$ 3,795,654
Restricted cash - other	101,057	112,575
Restricted cash - escrows	79,932	20,895
Cash - tenant security deposits	17,993	15,929
	<u>\$ 1,925,589</u>	<u>\$ 3,945,053</u>
Total cash, cash equivalents, and restricted cash		
Supplemental cash flow information:		
Cash paid for interest expense	\$ 197,487	\$ 74,993
Noncash investing and financing activities:		
Property and equipment additions included in accounts payable - construction and retainage payable	\$ 40,678	\$ 931,377
Right of use asset acquired in exchange for lease liability	\$ 65,868	\$ -
Forgiveness of long-term debt	\$ 34,000	\$ -

See accompanying notes to consolidated financial statements.

# SIMPSON HOUSING SERVICES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

### 1. ORGANIZATION

Simpson Housing Services, Inc. and subsidiaries (Simpson) was incorporated on July 26, 1993, pursuant to the Minnesota Nonprofit Corporation Act. Simpson 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. Simpson's major program activities are as follows:

**Shelters** - The Emergency Shelter provides shelter accommodations for up to 70 single individuals. Staff regularly meet with guests to work towards resolving housing barriers - connecting guests to resources to support ongoing stability, including a variety of housing assistance programs and supportive housing options, Veteran's services, and services to support stability in mental, chemical, and physical health.

Guests receive access to showers, laundry, toiletries, mail, and a savings program, as well as on-site mental health services, healthcare, and Veteran's services. Guests are provided three meals each day. The shelter has a savings program in which guests are encouraged to save money to apply toward more stable housing when they leave.

#### **Family Housing:**

- 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.
- Passage Community Housing, LLC - A Simpson-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.
- Rapid Rehousing Program - To provide short-term rental assistance and case management services for 40 homeless families. Program emphasis is on maintaining permanent housing and employment. In October 2022, Simpson chose to sunset the Rapid Rehousing program.
- Cedar View, Youth Housing - 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.
- 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.
- 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.
- 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.

(Continued)

# SIMPSON HOUSING SERVICES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

### 1. ORGANIZATION (Continued)

- Rental Assistance Program (RAP) - To provide long-term rental assistance and support services for 28 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.
- 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.
- 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.
- Family Housing Support - A permanent supportive housing project for long-term homeless families with a disabled family member. Sixty families live in site-based and scattered-site housing in Hennepin, Anoka, and Carver Counties and are provided rental assistance and case management services.

#### Single Services:

- 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. In October 2022, Simpson chose to sunset the Singles Rapid Rehousing program. The individuals served in this program had barriers to housing stability that were similar to those in our permanent housing programs and would be better served through permanent housing options.
- Adult Shelter Connect (ASC) - Simpson, in collaboration with the four other shelter providers serving single adults in Hennepin County, operate 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 Hennepin County shelters and referrals to other services. In 2021, Simpson added a Diversion program at the ASC, which works to prevent homelessness by diverting potential shelter guests to other community options.
- Opportunity Housing Partnership (OHP) - A collaboration between Simpson, Aeon, and Avivo. The partnership provides support to residents at Aeon's OHP properties, the Lamoreaux, and the Continental. OHP provides 129 formerly homeless adults with a safe and permanent home, and services to help residents regain and maintain stability in their lives, homes, and community.
- 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 a case manager.

(Continued)

# SIMPSON HOUSING SERVICES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

### 1. ORGANIZATION (Continued)

- 66 West, Youth Housing - 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.
- A new partnership has begun with Trellis, who owns and manages Dale Street Place in St Paul. Simpson will provide case management and comprehensive services for up to 79 single individuals, along with tenant services coordination for the site as a whole.

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

The primary sources of revenue and support are government grants, contributions, and supportive services program service fees.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Principles of Consolidation** - The consolidated financial statements include Simpson Housing Services and its wholly owned subsidiaries: Passage Community Housing, LLC and Simpson Properties, LLC (collectively Simpson). All significant inter-entity accounts and transactions have been eliminated.

**Adoption of New Accounting Standard** - In 2023, Simpson adopted Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)* using the modified retrospective approach using July 1, 2022 as the date of initial adoption. Simpson elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed Simpson to carry forward the historical lease classification. This ASU requires lessees to record most leases on their consolidated statement of financial position as a “right of use” asset and related lease liability but recognize related expenses in a manner similar to existing accounting. As a result of implementing ASU 2016-02, Simpson recognized a right of use asset and lease liability of approximately \$66,000 in 2023. The adoption did not result in a significant effect on amounts reported in the consolidated statement of activities for the year ended June 30, 2023.

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

(Continued)

# SIMPSON HOUSING SERVICES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

**Financial Statement Presentation** - The accompanying consolidated financial statements have been prepared using the accrual basis of accounting.

Net assets, revenues and support are classified based on the presence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- Net assets without donor restrictions - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing Board has designated, from net assets without donor restrictions, net assets for a Board-designated endowment.
- Net assets with donor restrictions - Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Simpson reports contributions restricted by donors as increases in net assets without donor restrictions 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 net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions.

**Cash and Cash Equivalents** - Simpson considers all cash and highly liquid investments purchased 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, restricted cash - escrows, and tenant security deposits are considered cash for purposes of the consolidated statement of cash flows.

**Restricted Cash** - Passage Community Housing, LLC and Simpson Properties, LLC have specific agreements which require the establishment of tax and insurance escrows and construction cost escrows.

**Concentrations of Credit Risk** - Simpson manages deposit concentration by placing cash and certificates of deposit with financial institutions believed by management to be creditworthy. Simpson maintains accounts at several financial institutions which are insured by the Federal Deposit Insurance Corporation up to \$250,000 per institution. At times, amount on deposit may exceed insured limits. To date, Simpson has not experienced losses in any of these accounts. At June 30, 2023 and 2022, deposits exceeded federally insured limits by approximately \$1,355,000 and \$3,240,000.

**Accounts Receivable** - Accounts receivable are stated at net realizable value. Management determines the allowance for doubtful accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectible by management. No allowance was considered necessary at June 30, 2023 and 2022.

(Continued)

# SIMPSON HOUSING SERVICES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

**Contributions Receivable** - Contributions receivable expected to be collected within one year are recorded at net realizable value. Contributions receivable expected to be collected in greater than one year are recorded at the present value of estimated future cash flows. In subsequent years, amortization of the discounts is included in contribution revenue in the consolidated statement of activities. Management determines the allowance for uncollectible contributions receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. No allowance was considered necessary at June 30, 2023 and 2022.

**Grants Receivable** - Grants receivable are recorded at the promised amount because the difference between the promised amount and the net present value of the promise is immaterial. Management believes that all amounts will be received when due, therefore no allowance for uncollectible accounts has been provided. Receivables are written off when, in management's estimation, it is probable that the receivable is worthless. No allowance was considered necessary at June 30, 2023 and 2022.

**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 consolidated statement of financial position. Net investment gain or loss is reported in the consolidated statement of activities, consisting of interest and dividend income, realized and unrealized gains and losses, less investment management and custodial fees, as changes in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law.

**Property and Equipment** - Property and equipment additions are recorded at cost, or if donated, at the estimated fair value on the date of donation. Items costing less than \$1,500 are expensed. Depreciation is 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 consolidated statement of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed as incurred. Absent explicit donor restrictions regarding how long donated assets must be maintained, Simpson reports expiration of donor restrictions when the donated or acquired assets are placed in service.

Simpson 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 asset impairments during the years ended June 30, 2023 or 2022.

(Continued)

# SIMPSON HOUSING SERVICES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

**Leases** - Simpson assesses whether an arrangement qualifies as a lease (i.e., conveys the right to control the use of an identified asset for a period of time in exchange for consideration) at inception and only reassesses its determination if the terms and conditions of the arrangement are changed. Leases with an initial term of 12 months or less are not recorded on the consolidated statement of financial position. Simpson currently has one lease, which is classified as an operating lease.

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

Lease expense is recognized on a straight-line basis over the lease term.

**Contributions and government grants** - Contributions and government grants are recognized when the donor makes an unconditional commitment to Simpson. Contributions are recorded as with donor restrictions or without donor restrictions, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in net assets with donor restrictions. Conditional contributions and government grants, that is those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met.

Simpson's government grants are considered conditional based upon the incurrence of allowable qualifying expenses. Revenue is recognized when eligible expenditures, as defined in the agreements, are incurred.

**In-kind contributions** - Contributed goods are recorded as contributions at their estimated fair value at the date of donation. Donated professional services are recorded as contributions at their estimated fair value of the services received only if the services create or enhance a nonfinancial asset or if the services require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Fair value is determined by management at the time of the contribution using market data available. Volunteers contribute significant amounts of time to program services, administration, and fundraising and development activities; however, the consolidated financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting practices.

Simpson's policy is to sell contributed assets immediately upon receipt unless the asset is restricted for use in a specific program by the donor.

**Program Service Fees** - Revenue from program service fees is recognized over time as the services are provided. Fees received but not yet earned are shown as deferred revenue.

(Continued)

# SIMPSON HOUSING SERVICES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

**Rental Revenues** - Rent income from tenants and tenant assistance payments is recognized over the period to which it relates. Rent payments received in advance are deferred until earned. Leases are operating leases for periods of up to one year.

**Special Events** - Earned income for special events is recorded as revenue when the event takes place. A portion of special events revenue is nonreciprocal and accounted for as contributions. Earned income received but not yet earned is shown as deferred revenue.

**Functional Expenses** - The costs of program and supporting services activities have been summarized on a functional basis in the consolidated statements of activities. The consolidated 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. The consolidated financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Expenses directly attributed to a specific functional area of Simpson are reported as expenses of those functional areas while others have been allocated among the various functional areas based on the full-time employee equivalent method of allocation. The expenses that are allocated include depreciation, interest, insurance, and miscellaneous.

**Income Taxes** - Simpson Housing Services, Inc. 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 and Simpson Properties, LLC maintain exempt status under Simpson's exemption since Simpson is the sole member of Passage Community Housing, LLC and Simpson Properties, 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 does not have any unrelated trade or business activities.

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 consolidated financial statements. Simpson would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense in the period determined if such interest and penalties are incurred.

**Comparative Total Column** - The consolidated financial statements include certain prior year summarized comparative information in total, but not by functional expense. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the 2022 consolidated financial statements from which the summarized information was derived.

(Continued)

# SIMPSON HOUSING SERVICES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

**Reclassifications** - Certain accounts in the prior year consolidated financial statements have been reclassified for comparative purposes to conform to the presentation in the current year consolidated financial statements.

### 3. LIQUIDITY AND AVAILABILITY OF RESOURCES

Simpson manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. Simpson has a liquidity policy to maintain current financial assets, less current liabilities at a minimum of 90 days operating expenses.

Financial assets available to meet cash needs for general expenditures within one year consist of the following:

- Assets without donor restrictions listed below. These include Simpson's investments, other than those designated by the board as an endowment, as these are available for general use by Simpson as required.
- Contributions with donor restrictions for use in current programs which are ongoing, major, and central to its annual operations, expected to be used in the next 12 months. The capital campaign discussed in Note 7 is not considered part of this definition.

	2023	2022
Cash and cash equivalents	\$ 1,726,607	\$ 3,795,654
Certificates of deposit	-	211,405
Accounts receivable	100,978	101,214
Contributions receivable	258,167	433,834
Grants receivable	414,388	469,710
Investments	3,411,528	2,689,069
	<u>5,911,668</u>	<u>7,700,886</u>
Less: Net assets restricted for capital campaign	(1,469,527)	(2,053,576)
Less: Operating contributions receivable not expected to be received within 12 months	-	(6,000)
Less: Board designated endowment	(190,330)	(172,686)
	<u>\$ 4,251,811</u>	<u>\$ 5,468,624</u>

(Continued)

# SIMPSON HOUSING SERVICES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

### 4. CONTRIBUTIONS RECEIVABLE

Contributions receivable consists of the following as of June 30:

	2023	2022
Amount receivable within 1 year	\$ 243,500	\$ 357,584
Amount receivable in 1-5 years	14,667	76,250
	<u>\$ 258,167</u>	<u>\$ 433,834</u>

### 5. INVESTMENTS AND FAIR VALUE MEASUREMENTS

Simpson's investments are reported at fair value in the accompanying consolidated statements of financial position. The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although Simpson believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Fair value is defined as the price that would be received to sell an asset in the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date. Fair value should be based on the assumptions market participants would use when pricing an asset. Generally accepted accounting principles in the United States establishes a fair value hierarchy that prioritizes investments based on those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets (observable inputs) and the lowest priority to an entity's assumptions (unobservable inputs). Simpson groups assets at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities that Simpson 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, Simpson develops inputs using the best information available in the circumstances.

(Continued)

# SIMPSON HOUSING SERVICES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

### 5. INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

Simpson invests in mutual funds with readily determinable fair values based on daily redemption values which are classified within Level 1. Simpson invests in certificates of deposit (CDs) traded in the financial markets. Those CDs and U.S. government obligations are valued by the custodians of the securities using pricing models based on credit quality, time to maturity, stated interest rates, and market-rate assumptions and are classified within Level 2. Cash and money market funds are recorded at cost.

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. The following is a summary of the inputs used to value Simpson's investments as of:

	Fair Value	Fair Value Measurements at Reporting Date Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>June 30, 2023</b>				
Certificates of deposit	\$ 3,214,990	\$ -	\$ 3,214,990	\$ -
Mutual funds	184,593	184,593	-	-
	3,399,583	\$ 184,593	\$ 3,214,990	\$ -
Cash (at cost)	11,945			
	<b>\$ 3,411,528</b>			

(Continued)

# SIMPSON HOUSING SERVICES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

### 5. INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

	Fair Value	Fair Value Measurements at Reporting Date Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>June 30, 2022</b>				
Certificates of deposit	\$ 1,018,494	\$ -	\$ 1,018,494	\$ -
Mutual funds	1,265,347	1,265,347	-	-
	2,283,841	\$ 1,265,347	\$ 1,018,494	\$ -
Cash and money market funds (at cost)	405,228			
	\$ 2,689,069			

### 6. RESTRICTED CASH AND ESCROWS

	2023	2022
Restricted cash - other:		
Transitional housing	\$ 93,647	\$ 106,263
Shelter guest savings	7,410	6,312
	\$ 101,057	\$ 112,575
Restricted cash - escrows:		
Real estate tax escrow (Passage)	\$ 9,492	\$ 16,801
Insurance escrow (Passage)	8,094	4,094
Construction escrow (Properties)	62,346	-
	\$ 79,932	\$ 20,895

**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.

(Continued)

# SIMPSON HOUSING SERVICES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

### 7. PROPERTY AND EQUIPMENT

Property and equipment balances consists of the following:

	2023	2022
Land	\$ 2,742,559	\$ 1,678,795
Building	5,603,274	1,926,134
Building improvements	578,033	514,625
Furniture and equipment	346,263	259,698
Vehicles	36,363	36,363
Construction in progress	870,656	3,317,690
	10,177,148	7,733,305
Less: accumulated depreciation	(1,352,494)	(1,252,536)
	\$ 8,824,654	\$ 6,480,769

Currently, Simpson is developing plans to transform a site into a new shelter and housing facility with expanded services and the addition of 40 units of affordable, supportive housing. As part of these plans, Simpson has established a Comprehensive Campaign to raise the funds to support these building and service expansion plans, as well as offices and other strategic investments.

### 8. LONG-TERM DEBT

Long-term debt consist of the following:

	2023	2022
Simpson Properties:		
Bremer Bank - 160 Glenwood	\$ 1,606,350	\$ 1,648,780
Bremer Bank - 160 Glenwood construction	1,706,250	1,133,517
Haven Minnesota, LLC	1,200,000	-
Passage Community Housing:		
MHFA	35,000	35,000
Minneapolis Community Development Agency	425,730	425,730
Minneapolis Community Development Agency	300,000	300,000
MHFA	148,500	148,500
MHFA	120,500	120,500
Wells Fargo	-	34,000
	5,542,330	3,846,027
Less: current maturities	(1,039,666)	(1,071,871)
	\$ 4,502,664	\$ 2,774,156

(Continued)

# SIMPSON HOUSING SERVICES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

### 8. LONG-TERM DEBT (Continued)

**Bremer Bank - 160 Glenwood** - Mortgage note payable to Bremer Bank in the original amount of \$1,725,000 for land and building at 160 Glenwood with interest at 4.15%. Monthly principal and interest payments of \$9,250 are due through June 2027, when all outstanding principal and interest are due.

**Bremer Bank - 160 Glenwood Construction** - Mortgage note payable to Bremer Bank in the original amount of \$2,275,000 for construction of the 160 Glenwood building. Interest is payable monthly at a rate of 3% in excess of the "Change Rate Index" as defined in the mortgage agreement but will not be less than 3% per year. Principal payments are due in annual installments of \$568,750 with a final payment due in September 2025. Secured by property.

**Haven Minnesota, LLC** - Note payable to Haven Minnesota, LLC in the original amount of \$1,200,000 for purchase of the temporary shelter with interest at 4.9%. Monthly interest only payments are due through April 2025, when all outstanding principal and interest are due.

**MHFA** - Note payable to MHFA in the original amount of \$35,000 without interest. The note is due September 1, 2024, unless an event of default occurs, in which case the note is immediately due in full. If the note is not repaid in full by September 1, 2024, the note will bear interest at an annual rate of 8% beginning September 1, 2021 through the actual payoff date. Secured by assets of Passage Community Housing, LLC. Lien Priority 1.

**Minneapolis Community Development Agency** - Note payable to Minneapolis Community Development Agency in the original amount of \$425,730 without interest. The note is due in September 2023. Simpson is in the process of negotiating the assumption or restructuring of the note as part of a planned rehabilitation and recapitalization of the property. Secured by assets of Passage Community Housing, LLC. Lien Priority 2.

**Minneapolis Community Development Agency** - Note payable to Minneapolis Community Development Agency in the original amount of \$300,000 with interest at 1%. The note is due in July 2033, unless an event of default occurs, in which case the note and any accrued interest are immediately due in full. Secured by assets of Passage Community Housing, LLC. Lien Priority 3.

**MHFA** - Note payable to MHFA in the original amount of \$148,500 without interest. The note is due September 1, 2024, unless an event of default occurs, in which case the note is immediately due in full. If the note is not repaid in full by September 1, 2024, the note will bear interest at an annual rate of 8% beginning September 1, 2021 through the actual payoff date. Secured by assets of Passage Community Housing, LLC. Lien Priority 1.

(Continued)

# SIMPSON HOUSING SERVICES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

### 8. LONG-TERM DEBT (Continued)

**MHFA** - Note payable to MHFA in the original amount of \$120,500 without interest. The note is due September 1, 2024, unless an event of default occurs, in which case the note is immediately due in full. If the note is not repaid in full by September 1, 2024, the note will bear interest at an annual rate of 8% beginning September 1, 2021 through the actual payoff date. Secured by assets of Passage Community Housing, LLC. Lien Priority 1.

**Wells Fargo** - Note payable to Wells Fargo in the original amount of \$34,000 without interest. The note was forgiven in August 2022.

Order of lien priority on Passage Community Housing, LLC assets was agreed upon in the Management and Assumption Agreement between MHFA and Passage Community Housing, LLC. Bremer Bank has first lien on the 160 Glenwood building.

Future maturities of debt are as follows:

2024	\$ 1,039,666
2025	2,119,847
2026	617,840
2027	1,464,977
2028	-
Thereafter	<u>300,000</u>
	5,542,330
Less: current portion	<u>(1,039,666)</u>
	<u>\$ 4,502,664</u>

In-kind (or imputed) interest expense of \$30,129 and \$44,868 for below-market loans has been recorded as an in-kind contribution and included in interest expense for the years ended June 30, 2023 and 2022.

### 9. OFFICE LEASE

Simpson leases office space under an operating lease which requires monthly payments of \$3,733 through December 31, 2023.

Rent expense on this lease, which is included in office space, was \$44,800 in 2023 and \$44,800 in 2022. The cash paid for amounts included in the measurement of lease liabilities was \$44,800 for the year ended June 30, 2023.

(Continued)

# SIMPSON HOUSING SERVICES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

**9. OFFICE LEASE (Continued)**

The remaining lease term is 0.5 years at June 30, 2023 and the discount rate used in the calculation was 2.84%.

Future minimum office lease payments required are as follows:

2024	\$	22,400
Less: present value discount		<u>(132)</u>
	\$	<u>22,268</u>

**10. BOARD DESIGNATED ENDOWMENT**

As of June 30, 2023 and 2022, \$190,330 and \$172,686 of net assets without donor restrictions were included in an endowment created by and designated by the Board of Directors. The Board has designated this endowment for major capital expenditures or new projects or programs. All expenditures from the fund must be approved by the Board.

**11. NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions consist of the following:

	2023	2022
Subject to expenditure for specified purpose:		
Child and youth services	\$ 294,022	\$ 47,090
Shelter	-	9,478
Emerson Legacy Fund	92,226	98,141
Day 1 Family Fund	200,000	612,107
Comprehensive Campaign	1,469,527	2,053,576
Subject to the passage of time	<u>22,250</u>	<u>40,500</u>
	<u>\$ 2,078,025</u>	<u>\$ 2,860,892</u>

(Continued)

# SIMPSON HOUSING SERVICES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

### 11. NET ASSETS WITH DONOR RESTRICTIONS (Continued)

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by the occurrence of the passage of time or other events specified by the donors as follows:

	<u>2023</u>	<u>2022</u>
Subject to expenditure for specified purpose:		
Child and youth services	\$ 53,067	\$ 95,457
Shelter	9,478	1,744
Emerson Legacy Fund	5,915	1,830
Day 1 Family Fund	412,107	612,096
Comprehensive Campaign	1,835,800	1,633,220
Subject to the passage of time	34,500	47,073
	<u>\$ 2,350,867</u>	<u>\$ 2,391,420</u>

### 12. ENDOWMENT

Simpson's endowment consists of a fund established by the Board for designated purposes, which include major capital expenditures and new projects or programs (Endowment Fund). Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

**Interpretation of Relevant Law** - Simpson's Board of Directors has interpreted the Minnesota Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. At June 30, 2023 and 2022, there were no such donor stipulations. As a result of this interpretation, Simpson retains in perpetuity (a) the original value of initial and subsequent gift amounts (including promises to give at fair value) donated to the Endowment, and (b) any accumulations to the Endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA.

(Continued)

# SIMPSON HOUSING SERVICES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

### 12. ENDOWMENT (Continued)

The following factors are considered in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund.
- The purposes of Simpson and the donor-restricted endowment fund.
- General economic conditions.
- The possible effect of inflation and deflation.
- The expected total return from income and the appreciation of investments.
- Other resources of Simpson.
- The investment policies of Simpson.

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). Simpson has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At June 30, 2023 and 2022, there were no underwater endowments.

Changes in endowment net assets for the year ended June 30, 2023 follow:

	Without donor restrictions	With donor restrictions	Total
Endowment net assets, beginning of year	\$ 172,686	\$ -	\$ 172,686
Investment return:			
Investment income, net of fees	4,548	-	4,548
Appreciation (depreciation)	13,096	-	13,096
Total investment return	17,644	-	17,644
Additions	-	-	-
Appropriation for expenditure	-	-	-
Endowment net assets, end of year	\$ 190,330	\$ -	\$ 190,330

(Continued)

## SIMPSON HOUSING SERVICES, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

#### 12. ENDOWMENT (Continued)

Changes in endowment net assets for the year ended June 30, 2022 follow:

	Without donor restrictions	With donor restrictions		Total
Endowment net assets, beginning of year	\$ 57,979	\$ -		\$ 57,979
Investment return:				
Investment income, net of fees	1,114	-		1,114
Appreciation (depreciation)	(26,016)	-		(26,016)
Total investment return	(24,902)	-		(24,902)
Additions	139,609	-		139,609
Appropriation for expenditure	-	-		-
Endowment net assets, end of year	\$ 172,686	\$ -		\$ 172,686

**Investment Policies** - The purpose of the Endowment Fund is to enable Simpson to promote funding for specific needs, projects, and the overall sustainability of Simpson. The fund will support innovation and expansion in housing stability and other projects in furtherance of the mission of Simpson. The endowment assets are invested in a manner to earn a competitive total investment return while assuming a low level of investment risk. To satisfy its long-term rate-of-return objectives, Simpson relies on an investment allocation in which investments in equity funds shall comprise no less than 25% with a target of 60% of the portfolio, and fixed income securities shall comprise no less than 15% and no more than 75% with a target of 40% of the portfolio. Cash and equivalents are not expected to be a significant part of the normal asset allocation, except to the degree necessary to provide adequate liquidity for fund distributions and except during interim periods when cash is held awaiting reinvestment in equities or fixed income securities.

#### 13. RETIREMENT PLAN

Simpson has a simple IRA plan for all eligible employees. The annual employer's matching contribution is mandatory. The contributions made by Simpson totaled \$92,948 in 2023 and \$42,070 in 2022.

#### 14. RELATED PARTY TRANSACTIONS

Simpson receives contributions from Board members and other related parties. Contributions received from Board members, staff, and other related parties were \$68,016 in 2023 and \$77,987 in 2022.

(Continued)

## SIMPSON HOUSING SERVICES, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

#### 15. IN-KIND CONTRIBUTIONS

In-kind contributions recognized within the consolidated statement of activities consist of the following:

Non-Financial Contributions Category	Type of Contributions for Beneficiaries	Valuation	Monetized or utilized (*for program purposes)	2023	2022
Food, clothing, personal household, gift cards, and other items	Meals and items used at shelters	Prices of identical or similar items	Utilized*	\$ 252,232	\$ 211,024
Legal and other consulting services	Professional, services, such as legal, technology consulting, etc.	Standard industry pricing for similar services	Utilized	91,574	87,388
Interest	Interest on non-interest bearing or low-interest loans	Calculated using Applicable Federal Rate	Utilized*	30,129	44,868
Furniture and event venue	Office furniture and event space, etc.	Prices of identical or similar items	Utilized	13,100	80,000
				<u>\$ 387,035</u>	<u>\$ 423,280</u>

#### 16. SUBSEQUENT EVENTS

On December 19, 2023, Simpson signed an agreement to purchase 2730 1<sup>st</sup> Avenue South in Minneapolis for \$395,000.

On January 17, 2024, Simpson obtained a loan commitment from Community Development Financial Company, LLC (a wholly owned subsidiary of Otto Bremer Trust) in the amount of \$2,500,000. The note bears interest at 4.25% and will require annual interest-only payments beginning March 1, 2025 through March 1, 2027, when all outstanding principal and interest are due.

(Continued)

# **SIMPSON HOUSING SERVICES, INC.**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

16. **SUBSEQUENT EVENTS (Continued)**

Management has evaluated subsequent events through February 7, 2024, the date on which the consolidated financial statements were available for issue, and identified no further significant events or transactions to disclose.

## **SUPPLEMENTARY INFORMATION**

**SIMPSON HOUSING SERVICES, INC.**

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

June 30, 2023

	Simpson Housing Services, Inc.	Passage Community Housing, LLC	Simpson Properties, LLC	Eliminations	Total
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ 231,430	\$ 1,737	\$ 1,493,440	\$ -	\$ 1,726,607
Restricted cash - other	101,057	-	-	-	101,057
Restricted cash - escrows	-	17,586	62,346	-	79,932
Accounts receivable	661,458	12,097	67,556	(640,133)	100,978
Contributions receivable, current portion	161,000	-	82,500	-	243,500
Grants receivable	414,388	-	-	-	414,388
Prepaid expenses	303,259	73	35,605	-	338,937
Total current assets	<u>1,872,592</u>	<u>31,493</u>	<u>1,741,447</u>	<u>(640,133)</u>	<u>3,005,399</u>
Cash - tenant security deposits	-	17,993	-	-	17,993
Investments	3,411,528	-	-	-	3,411,528
Certificates of deposit - cost	-	-	-	-	-
Contributions receivable, less current portion	-	-	14,667	-	14,667
Right of use asset, net	22,268	-	-	-	22,268
Property and equipment, net	<u>428,272</u>	<u>523,216</u>	<u>7,873,166</u>	<u>-</u>	<u>8,824,654</u>
Total assets	<u>\$ 5,734,660</u>	<u>\$ 572,702</u>	<u>\$ 9,629,280</u>	<u>\$ (640,133)</u>	<u>\$ 15,296,509</u>
<b>LIABILITIES AND NET ASSETS</b>					
Current liabilities:					
Current portion of long-term debt	\$ -	\$ 425,730	\$ 613,936	\$ -	\$ 1,039,666
Accounts payable - trade	141,598	31,765	564,262	(640,133)	97,492
Accounts payable - construction	-	-	40,678	-	40,678
Accrued expenses	317,392	67,686	-	-	385,078
Lease liability	22,268	-	-	-	22,268
Agency liability	74,961	-	-	-	74,961
Total current liabilities	<u>556,219</u>	<u>525,181</u>	<u>1,218,876</u>	<u>(640,133)</u>	<u>1,660,143</u>
Tenant security deposits	-	15,752	-	-	15,752
Long-term debt, less current portion, net	-	604,000	3,898,664	-	4,502,664
Total liabilities	<u>556,219</u>	<u>1,144,933</u>	<u>5,117,540</u>	<u>(640,133)</u>	<u>6,178,559</u>
Net assets:					
Net assets without donor restrictions:					
Undesignated	4,379,613	(572,231)	3,042,213	-	6,849,595
Designated by the Board for endowment	190,330	-	-	-	190,330
Total net assets without donor restrictions	<u>4,569,943</u>	<u>(572,231)</u>	<u>3,042,213</u>	<u>-</u>	<u>7,039,925</u>
Net assets with donor restrictions	<u>608,498</u>	<u>-</u>	<u>1,469,527</u>	<u>-</u>	<u>2,078,025</u>
Total net assets	<u>5,178,441</u>	<u>(572,231)</u>	<u>4,511,740</u>	<u>-</u>	<u>9,117,950</u>
Total liabilities and net assets	<u>\$ 5,734,660</u>	<u>\$ 572,702</u>	<u>\$ 9,629,280</u>	<u>\$ (640,133)</u>	<u>\$ 15,296,509</u>

See independent auditor's report.

**SIMPSON HOUSING SERVICES, INC.**

CONSOLIDATING STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2023

	Simpson Housing Services, Inc.	Passage Community Housing, LLC	Simpson Properties, LLC	Eliminations	Total
<b>Support and revenues:</b>					
Contributions	\$ 2,129,263	\$ -	\$ 1,251,750	\$ -	\$ 3,381,013
In-kind contributions	283,958	30,129	72,948	-	387,035
Government grants	6,300,164	-	-	-	6,300,164
Program service fees	704,732	-	-	(44,100)	660,632
<b>Rental revenues:</b>					
Residential rents	-	35,440	-	-	35,440
Housing assistance payments	-	180,594	-	-	180,594
Special events - contributions and earned income	175,354	-	-	-	175,354
Special events - direct benefits to donors	(106,071)	-	-	-	(106,071)
Net special events revenue	69,283	-	-	-	69,283
Miscellaneous income	89,051	35,680	60,935	-	185,666
Net investment return	66,684	-	-	-	66,684
<b>Total revenues and support</b>	<b>9,643,135</b>	<b>281,843</b>	<b>1,385,633</b>	<b>(44,100)</b>	<b>11,266,511</b>
<b>Expenses:</b>					
<b>Program services:</b>					
Shelters	1,822,118	-	138,569	-	1,960,687
Family housing	3,585,263	346,076	216,539	(44,100)	4,103,778
Single services	2,846,888	-	-	-	2,846,888
Advocacy	45,265	-	-	-	45,265
Total program expenses	8,299,534	346,076	355,108	(44,100)	8,956,618
Management and general	1,476,198	1,715	103,576	-	1,581,489
Fundraising	555,057	-	85,000	-	640,057
Total expenses	10,330,789	347,791	543,684	(44,100)	11,178,164
Change in net assets	(687,654)	(65,948)	841,949	-	88,347
Net assets, beginning of year	5,690,740	(506,283)	3,845,146	-	9,029,603
Interfund transfers	175,355	-	(175,355)	-	-
Net assets, end of year	\$ 5,178,441	\$ (572,231)	\$ 4,511,740	\$ -	\$ 9,117,950

See independent auditor's report.

**SIMPSON HOUSING SERVICES, INC.**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2023

Federal Grantor/ Program Title/ Pass-through Grantor/ Grant Identifying Number	Assistance Listing Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>Department of Housing and Urban Development</b>			
Continuum of Care Program	14.267		
Direct Programs:			
Award No. MN0025L5K002114		N/A	\$ 150,297
Award No. MN0025L5K002013		N/A	27,763
Award No. MN0326L5K002107		N/A	124,752
Award No. MN0017L5K002114		N/A	67,946
Award No. MN0017L5K002215		N/A	8,784
Passed through Hennepin County:			
Family Rapid Rehousing Services		HS00000801	182,801
Employment Enriched Family Rapid Rehousing		HS00000838	143,767
			<u>706,110</u>
Emergency Solutions Grant (ESG) Program	14.231		
Passed through Hennepin County:			
COVID-19: Emergency Shelter Diversion Services		HS00000650	68,655
COVID-19: 24-Hour Emergency Shelter Diversion Services		HS00000646	40,354
Shelter Housing Case Manager		HS00001257	32,828
Passed through City of Minneapolis:			
Essential Services		COM0004919	159,840
			<u>301,677</u>
 Total Department of Housing and Urban Development			 <u>1,007,787</u>
<b>Department of Homeland Security</b>			
Emergency Food and Shelter National Board Program	97.024		
Passed through United Way:			
Award # LRO 49500-018		LRO 495000-18	103,500
 Total Department of Homeland Security			 <u>103,500</u>
<b>Department of Health and Human Services</b>			
Maternal, Infant and Early Childhood Home Visiting Grant	93.870		
Passed through Minnesota Department of Health:			
Award #210898		210898	130,485
 Total Department of Health and Human Services			 <u>130,485</u>
<b>Department of the Treasury</b>			
Coronavirus State and Local Fiscal Recovery Funds			
Passed through Catholic Charities:			
Fiscal Recovery Shelter Survey Funds	21.027	N/A	8,700
 Total Department of the Treasury			 <u>8,700</u>
 Total expenditures of federal awards			 <u>\$ 1,250,472</u>

See accompanying notes to schedule.

## SIMPSON HOUSING SERVICES, INC.

### NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2023

#### **Note 1. Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Simpson Housing Services, Inc. and subsidiaries (Simpson) under programs of the federal government for the year ended June 30, 2023. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Simpson, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Simpson.

#### **Note 2. Summary of Significant Accounting Policies**

Expenditures reported in the Schedule are reported on the accrual basis of accounting. When applicable, such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. No federal assistance has been provided to a subrecipient.

#### **Note 3. Indirect Cost Rate**

Simpson has not elected to use the 10% de minimis cost rate allowed under the Uniform Guidance. Simpson's indirect cost rate for the COVID-19: Emergency Shelter Diversion Services grant and the COVID-19: 24-Hour Emergency Shelter Services grant is an amount not to exceed 10% of direct costs.



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

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

We have audited the financial statements of Simpson Housing Services, Inc. (a nonprofit organization), and subsidiaries (Simpson) which comprise the consolidated statement of financial position as of June 30, 2023, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to consolidated financial statements, and have issued our report thereon dated February 7, 2024. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

**Report on Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Simpson’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Simpson’s internal control. Accordingly, we do not express an opinion on the effectiveness of Simpson’s internal control.

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

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

(Continued)

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

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

### **Purpose of This Report**

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

*Mahoney Ulbrich*  
*Christiansen & Russ, PA*

February 7, 2024



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

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

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

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

We have audited Simpson Housing Services, Inc. and subsidiaries' (Simpson's) compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on Simpson's major federal program for the year ended June 30, 2023. Simpson's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, Simpson complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2023.

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

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

(Continued)

### ***Responsibilities of Management for Compliance***

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

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

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Simpson's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Simpson's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Simpson's internal control over compliance. Accordingly, no such opinion is expressed.

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

### ***Other Matters***

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance, and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2023-001. Our opinion on the major federal program is not modified with respect to this matter.

(Continued)

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

### **Report on Internal Control Over Compliance**

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

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in Simpson's internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2023-001 to be a significant deficiency.

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

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

*Mahoney Ulbrich*  
*Christiansen & Russ, PA*

February 7, 2024

**SIMPSON HOUSING SERVICES, INC.**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

For the Year Ended June 30, 2023

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

**Financial Statements**

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

**Federal Awards**

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

(Continued)

**SIMPSON HOUSING SERVICES, INC.**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

For the Year Ended June 30, 2023

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

No matters were reported.

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

**2023-001: Filing of Single Audit Report**

Federal Departments: All departments  
Assistance Listing #: All programs  
Internal Controls Significant Deficiency & Compliance  
Category of Finding – Reporting

Criteria - Pursuant to 2 CFR section 200.512(a), the reporting package shall be submitted within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period.

Condition - Simpson did not submit the Single Audit Reporting Package for the year ended June 30, 2022 within nine months after the end of the audit period (March 31, 2023).

Cause - Simpson faced turnover and short staffing within the accounting department during fiscal year 2022. As a result, the audit was not completed until after the March 31, 2023 deadline.

Effect - Failure to submit the required Single Audit Reporting Package timely automatically results in Simpson not qualifying for low-risk auditee status for the subsequent year's Single Audit.

Recommendation - We recommend that Simpson develop, document, and implement policies and procedures for to ensure timely submission of the Single Audit Reporting Package.

Auditee's comments and response - Simpson management hired additional staff to allow management the additional time necessary to prepare and review internal financial statements in a timely and efficient manner so that the audit can begin and be completed in a timely and efficient manner. Management believes their processes are properly designed to ensure timely filing of the Single Audit Reporting Package in future years.

Responsible party for corrective action: David Senior, Director of Finance

**SIMPSON HOUSING SERVICES, INC.**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

For the Year Ended June 30, 2023

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

**2022-001: Preparation of the Consolidated Financial Statements and Material Audit Adjustments**

Condition - Simpson does not have an internal control system designed to provide for the preparation of the consolidated financial statements, including accompanying footnotes, as required by GAAP, and the auditors were requested to draft the consolidated financial statements and accompanying notes to the consolidated financial statements. In addition, material audit adjustments were proposed.

Recommendation - The prior auditor recommended that management continue reviewing operating procedures in order to obtain the maximum internal control over financial reporting, including month-end and year-end closing procedures to enable staff to draft the financial statements internally.

Current Status - With the implementation of the 2018 Yellow Book, the requirements regarding this were reevaluated. Simpson has the expertise and controls to be able to review and approve the financial statements, as required by the 2018 Yellow Book. Additionally, no material audit adjustments were proposed as part of the June 30, 2023 audit.

**2022-002: Preparation of the Consolidated Schedule of Expenditures of Federal Awards**

Cause - Simpson has a process for preparing the Schedule, but the controls did not identify the errors. Additionally, Simpson is unable to tie federal program expenditures reported on the Schedule directly to the expenses reported in the consolidated financial statements.

Recommendation - A thorough review of the Schedule should take place prior to the beginning of the audit to ensure that generally accepted accounting principles have been followed, proper cut off of transactions has occurred, amount reported on the Schedule tie directly to expenses reported in the consolidated financial statements, and there are no adjustments to be made to the Schedule.

Current Status - Additional review processes were added in the current year, and no similar issues were noted in the June 30, 2023 audit.

(Continued)

**SIMPSON HOUSING SERVICES, INC.**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

For the Year Ended June 30, 2023

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

**2022-003: Procurement, Suspension, and Debarment**

Condition - Simpson has documented procurement procedures that conform to applicable federal standards; however, the procedures were not followed regarding maintaining documentation of obtaining three bids for simplified acquisition small purchases and the conclusion as to which item was selected. In addition, Simpson was not testing vendors for suspension and debarment.

Recommendation - The prior auditor recommended that Simpson enhance internal control to ensure all transactions under federal awards follow their written procurement policy and suspension and debarment verification procedures are performed prior to entering into the transactions.

Current Status - Additional accounting staff were hired to ensure that these procedures are followed, and no similar issues were noted during the June 30, 2023 audit.

**2022-004: Earmarking**

Condition - For the two earmarking calculations, there was no formal documentation of a secondary review of the earmarking calculation.

Recommendation - The prior auditor recommended that the procedures related to earmarking be reviewed with applicable program employees to ensure proper documentation and review is properly supported and the documentation is retained.

Current Status - Additional accounting staff were hired to ensure that these procedures are followed, and no similar issues were noted during the June 30, 2023 audit.