



SIMPSON HOUSING SERVICES, INC.

**CONSOLIDATED FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION**

**FOR THE YEAR ENDED
JUNE 30, 2024**



SIMPSON HOUSING SERVICES, INC.

CONSOLIDATED FINANCIAL STATEMENTS WITH SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2024
(With Comparative Totals for 2023)

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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, 2024, 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, 2024, 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.

Report on Summarized Comparative Information

We have previously audited Simpson's 2023 consolidated financial statements and we expressed an unmodified opinion on those audited financial statements in our report dated February 7, 2024. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2023, is consistent, in all material respects, with the audited financial statements from which it has been derived.

(Continued)

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, 2024, and the consolidating statement of activities for the year ended June 30, 2024, 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 December 19, 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.

December 19, 2024

Mahoney Ulbrich
Christiansen & Russ, PA

SIMPSON HOUSING SERVICES, INC.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2024
(With Comparative Totals for 2023)

	2024	2023
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,270,172	\$ 1,726,607
Restricted cash - other	21,096,827	101,057
Restricted cash - escrows and reserves	1,633,369	79,932
Accounts receivable	151,324	100,978
Contributions receivable, current portion	77,666	243,500
Grants receivable	2,978,766	414,388
Prepaid expenses	275,953	338,937
Total current assets	27,484,077	3,005,399
Cash - tenant security deposits	19,941	17,993
Investments	1,067,726	3,411,528
Contributions receivable, less current portion	-	14,667
Right of use asset, net	-	22,268
Property and equipment, net	12,456,101	8,824,654
Loan receivable	18,407,900	-
Total assets	\$ 59,435,745	\$ 15,296,509
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of long-term debt	\$ 8,816,681	\$ 1,039,666
Accounts payable - trade	72,994	97,492
Accounts payable - construction	758,673	40,678
Accrued expenses	399,671	385,078
Lease liability	-	22,268
Agency liability	114,602	74,961
Total current liabilities	10,162,621	1,660,143
Tenant security deposits	19,617	15,752
Long-term debt, less current portion	38,327,982	4,502,664
Finance fees, net	(397,819)	-
Total liabilities	48,112,401	6,178,559
Net assets:		
Net assets without donor restrictions:		
Undesignated	7,055,942	6,849,595
Designated by the Board for endowment	213,470	190,330
Total net assets without donor restrictions	7,269,412	7,039,925
Net assets with donor restrictions	4,053,932	2,078,025
Total net assets	11,323,344	9,117,950
Total liabilities and net assets	\$ 59,435,745	\$ 15,296,509

See accompanying notes to consolidated financial statements.

SIMPSON HOUSING SERVICES, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2024
(With Comparative Totals for 2023)

	2024			2023
	Without Donor Restrictions	With Donor Restrictions	Total	
Revenues and support:				
Contributions	\$ 1,655,325	\$ 652,579	\$ 2,307,904	\$ 3,381,013
Net assets released from restrictions	1,550,282	(1,550,282)	-	-
In-kind contributions	555,440	-	555,440	387,035
Government grants	7,330,920	2,873,610	10,204,530	6,300,164
Program service fees	1,043,633	-	1,043,633	660,632
Rental revenues:				
Residential rents	30,095	-	30,095	35,440
Housing assistance payments	180,472	-	180,472	180,594
Special events - contributions and earned income	263,403	-	263,403	175,354
Special events - direct benefits to donors	(184,341)	-	(184,341)	(106,071)
Net special events revenue	79,062	-	79,062	69,283
Miscellaneous income	91,552	-	91,552	185,666
Net investment return	152,198	-	152,198	66,684
Total revenues and support	12,668,979	1,975,907	14,644,886	11,266,511
Expenses:				
Program services:				
Shelters	2,101,972	-	2,101,972	1,960,687
Family housing	4,720,581	-	4,720,581	4,103,778
Single services	3,467,963	-	3,467,963	2,846,888
Advocacy	35,920	-	35,920	45,265
Total program services	10,326,436	-	10,326,436	8,956,618
Management and general	1,455,437	-	1,455,437	1,581,489
Fundraising	657,619	-	657,619	640,057
Total expenses	12,439,492	-	12,439,492	11,178,164
Change in net assets	229,487	1,975,907	2,205,394	88,347
Net assets, beginning of year	7,039,925	2,078,025	9,117,950	9,029,603
Net assets, end of year	<u>\$ 7,269,412</u>	<u>\$ 4,053,932</u>	<u>\$ 11,323,344</u>	<u>\$ 9,117,950</u>

See accompanying notes to consolidated financial statements.

SIMPSON HOUSING SERVICES, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2024
(With Comparative Totals for 2023)

	2024									2023
	Program services				Total program services	Management and general	Fundraising	Cost of direct benefits to donors	Total	
	Shelters	Family Housing	Single Services	Advocacy						
Expenses										
Salaries	\$ 794,588	\$ 1,896,636	\$ 1,047,909	\$ 29,449	\$ 3,768,582	\$ 930,344	\$ 407,997	\$ -	\$ 5,106,923	\$ 4,623,061
Employee benefits	106,323	307,604	150,643	2,116	566,686	147,327	61,409	-	775,422	670,019
Payroll taxes	59,425	137,229	77,304	2,251	276,209	69,137	30,270	-	375,616	345,111
Total salaries and related benefits	960,336	2,341,469	1,275,856	33,816	4,611,477	1,146,808	499,676	-	6,257,961	5,638,191
Rental assistance and housing support	72,511	1,389,625	1,956,441	-	3,418,577	1,740	-	-	3,420,317	2,800,616
Supplies	359,529	59,426	14,976	798	434,729	2,972	3,479	-	441,180	345,673
Interest	111,157	188,981	-	-	300,138	-	-	-	300,138	200,545
Transportation	714	41,956	24,784	27	67,481	1,580	376	-	69,437	50,044
Insurance	56,088	64,490	30,998	337	151,913	2,652	8,966	-	163,531	136,796
Professional fees	88,431	137,582	65,376	520	291,909	69,566	45,009	10,884	417,368	734,102
Office space	111,352	47,773	39,263	71	198,459	11,097	3,041	-	212,597	181,457
Telephone and utilities	68,153	91,763	27,001	284	187,201	9,420	7,164	-	203,785	242,492
Repairs and maintenance	59,036	27,914	3,004	23	89,977	18,035	844	-	108,856	98,930
Depreciation	191,731	209,444	-	-	401,175	61,607	-	-	462,782	364,135
Internet / database	4,739	63,470	18,430	23	86,662	1,689	605	-	88,956	93,261
Property taxes	9,013	18,700	-	-	27,713	2,458	-	-	30,171	26,550
Program events	-	2,403	-	-	2,403	-	5,483	156,694	164,580	114,097
Printing and postage	828	2,212	1,320	9	4,369	236	22,072	16,763	43,440	53,378
Dues and subscriptions	7,341	10,232	3,991	12	21,576	40,451	36,194	-	98,221	75,396
Professional development and recruitment	820	15,592	2,051	-	18,463	58,678	3,786	-	80,927	81,177
Bank charges	-	234	-	-	234	11,338	-	-	11,572	9,054
Miscellaneous	193	7,315	4,472	-	11,980	15,110	20,924	-	48,014	38,341
	2,101,972	4,720,581	3,467,963	35,920	10,326,436	1,455,437	657,619	184,341	12,623,833	11,284,235
Less expenses included with revenues on the consolidated statement of activities:										
Cost of direct benefits to donors	-	-	-	-	-	-	-	(184,341)	(184,341)	(106,071)
	\$ 2,101,972	\$ 4,720,581	\$ 3,467,963	\$ 35,920	\$ 10,326,436	\$ 1,455,437	\$ 657,619	\$ -	\$ 12,439,492	\$ 11,178,164

See accompanying notes to consolidated financial statements.

SIMPSON HOUSING SERVICES, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2024
(With Comparative Totals for 2023)

	2024	2023
Cash flows from operating activities:		
Change in net assets	\$ 2,205,394	\$ 88,347
Adjustments to reconcile the change in net assets to net cash from operating activities:		
Depreciation	462,782	364,135
Interest expense - amortization of finance fees	4,283	-
Reduction of right of use asset	22,268	43,600
Net investment return	(152,198)	(63,978)
Forgiveness of long-term debt	-	(34,000)
Contributions restricted to capital campaign	(617,579)	(1,251,750)
Changes in operating assets and liabilities:		
Accounts receivable	(50,346)	236
Contributions receivable	180,501	175,667
Grants receivable	(2,564,378)	55,322
Prepaid expenses	62,984	(290,367)
Accounts payable	(24,498)	(4,127)
Accrued expenses	14,593	(28,559)
Agency liability	39,641	34,928
Lease liability	(22,268)	(43,600)
Tenant security deposits	3,865	(1,576)
Net cash from operating activities	(434,956)	(955,722)
Cash flows from investing activities:		
Payments for property and equipment	(3,376,234)	(3,598,719)
Purchase of investments	-	(1,077,145)
Proceeds from sale of investments	2,496,000	418,664
Funding of loans receivable	(18,407,900)	-
Maturity of certificates of deposit - cost	-	211,405
Net cash from investing activities	(19,288,134)	(4,045,795)
Cash flows from financing activities:		
Payments on long-term debt	(1,536,000)	(611,180)
Proceeds from issuance of long-term debt	43,138,333	2,341,483
Payments of finance fees	(402,102)	-
Contributions restricted to capital campaign	617,579	1,251,750
Net cash from financing activities	41,817,810	2,982,053
Net increase (decrease) in cash, cash equivalents, and restricted cash	22,094,720	(2,019,464)
Cash, cash equivalents, and restricted cash at beginning of year	1,925,589	3,945,053
Cash, cash equivalents, and restricted cash at end of year	\$ 24,020,309	\$ 1,925,589
Reconciliation to the consolidated statement of financial position:		
Cash and cash equivalents	\$ 1,270,172	\$ 1,726,607
Restricted cash - other	21,096,827	101,057
Restricted cash - escrows and reserves	1,633,369	79,932
Cash - tenant security deposits	19,941	17,993
Total cash, cash equivalents, and restricted cash	\$ 24,020,309	\$ 1,925,589
Supplemental cash flow information:		
Cash paid for interest expense	\$ 297,203	\$ 197,487
Noncash investing and financing activities:		
Property and equipment additions included in accounts payable - construction	\$ 758,673	\$ 40,678
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, 2024
(With Comparative Totals for 2023)

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 empower people impacted by homelessness. Simpson's major program activities are as follows:

Shelters - The Extended-Stay Shelter provides shelter accommodation for up to 64 single individuals. Relationships and building trust are core to the success of all SHS programs, including shelter operations. Simpson provides individualized attention to each shelter guest and, as a smaller capacity shelter, Simpson shelter is in a unique position to do so. Staff partner with guests to resolve 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.

The shelter is open 24 hours per day, seven days per week and guests are provided three meals each day. Guests receive access to showers, laundry, toiletries, mail, and a savings program. 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 - Provides up to two years of rental subsidy and case management services for 15 families experiencing and transitioning out of homelessness. 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, and employment.
- Rapid Rehousing Program - Provides short-term rental assistance and case management services for 58 families experiencing homelessness. Program emphasis is on maintaining permanent housing and employment.
- Cedar View, Youth Housing - A supportive housing project for families experiencing homelessness led by 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 - Provides 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.
- 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.

(Continued)

SIMPSON HOUSING SERVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended June 30, 2024
(With Comparative Totals for 2023)

1. ORGANIZATION (Continued)

- Third Avenue Townhomes - A non-time limited supportive housing project for families experiencing homelessness where one family member has a disability. Case management services are provided for five families at a HUD rental certificate program Section 8 affordable housing project owned by Beacon Interfaith Housing Collaborative in South Minneapolis.
- Transitional Housing Program (THP) - Provides up to two years of rental subsidy and case management services for 13 families experiencing homelessness. Program emphasis is on locating and maintaining permanent housing and employment.
- Rental Assistance Program (RAP) - Provides rental assistance and support services for 12 families. The program is designed to promote housing stability.
- Children and Youth Services - Provides 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. Also, provides early childhood support and services for families from prenatal through pre-kindergarten so children can enter kindergarten ready to succeed.
- Riverside Plaza - A non-time limited supportive housing project for families who have experienced long-term homelessness. 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 non-time limited supportive housing project for families who have experienced long-term homelessness. Case management services are provided for eight families at a Section 8 affordable housing project owned by Trellis in the Elliot Park neighborhood near downtown Minneapolis.
- Family Housing Support - A non-time limited supportive housing project for families who have experienced long-term homelessness and have a disabled family member. 80 families live in site-based and scattered-site housing in Hennepin, Anoka, Ramsey, and Carver Counties and are provided rental assistance and case management services.
- Belfry - A non-time limited supportive housing project for families and singles transitioning out of homelessness. In December 2023, the Belfry opened in Minneapolis. Located near George Floyd Square in the former Calvary Church, this site is a partnership between Trellis Co., the owner, and Simpson, the service provider. The entire site is deeply affordable housing with rental subsidies of either Section 8 or Housing Support. At capacity, Simpson will provide case management to 25 households at the Belfry with 15 units utilizing Housing Support, and the remaining 10 units utilizing Section 8 with services paid by HUD. Simpson also has a full-time Resident Connections coordinator on site.

Single Services:

- Women's Housing Partnership (WHP) - Provides 103 single adults with rental subsidy and case management needed to obtain and maintain stable 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, 2024
(With Comparative Totals for 2023)

1. ORGANIZATION (Continued)

Single Services:

- Adult Shelter Connect (ASC) - Simpson, in collaboration with the six other shelter providers serving single adults in Hennepin County, operate the Adult Shelter Connect office previously located at St. Olaf Church in Minneapolis. In January 2024 Simpson moved the ASC to Simpson's administrative office in Minneapolis. Single adults who are in need of emergency shelter contact Adult Shelter Connect for an assessment and placement with one of the Hennepin County shelters and referrals to other services.
- 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 adults transitioning out of homelessness with a safe and long-term home, and services to help residents regain and maintain stability in their lives, homes, and community.
- Dale Street Place - A collaboration with Trellis in St Paul. The partnership provides deeply affordable housing and supportive services to 150 single adults at a site in Ramsey County, many of whom have experienced long-term homelessness.
- Ramsey County Housing Support for Singles - Provides rental subsidy and comprehensive case management services to 13 adults at scattered sites in Ramsey County.

Advocacy - The focus of public policy advocacy activities at Simpson is to support changes that serve the needs of the community we serve. Simpson empowers staff, participants, and volunteers to speak to state legislators and local government officials about funding, housing, and economic equity legislation.

On October 5, 2023, Simpson Real Estate Holding Company (REHC) was formed by the Simpson Board of Directors as a support organization under the Internal Revenue Code that will be operated exclusively for the benefit of, to support the functions of, and to assist in carrying out the purposes of Simpson.

REHC has acquired certain real estate and is in the process of constructing an emergency shelter facility located at 2740 1st Avenue South, Minneapolis, Minnesota 55408 (the Project). Simpson has incurred certain costs and expenses with respect to the Project and REHC intends to reimburse Simpson for a portion of such costs and expenses pursuant to established inter-company agreements. The Project is a new shelter with affordable housing on the legacy church site. Its features will include 72 shelter beds, an on-site health clinic, a commercial kitchen and dining room, access to private green space, and more. The Project building will also include 42 supportive housing units on the upper three floors which will be owned and operated by Project for Pride in Living.

The Project is designed to better meet the short-term housing needs of shelter guests through comprehensive on-site services, with hopes that guests achieve increased stability and better housing outcomes as a result.

(Continued)

SIMPSON HOUSING SERVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended June 30, 2024
(With Comparative Totals for 2023)

1. ORGANIZATION (Continued)

Simpson's 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, Inc. and its wholly owned subsidiaries: Passage Community Housing, LLC, Simpson Properties, LLC, and REHC (collectively Simpson). All significant inter-entity accounts and transactions have been eliminated.

Adoption of New Accounting Standard - Effective July 1, 2023, Simpson adopted Accounting Standards Update (ASU) 2016-13, *Financial Instruments - Measurement of Credit Losses on Financial Instruments (Topic 326)*. ASU 2016-13 requires entities to utilize an "expected losses" model for estimating most credit losses. The adoption did not result in a significant change in amounts reported in the consolidated statement of activities and there was no cumulative-effect adjustment to net assets at the time of adoption.

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.

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.

(Continued)

SIMPSON HOUSING SERVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended June 30, 2024
(With Comparative Totals for 2023)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, Simpson Properties, LLC, and REHC 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, 2024 and 2023, deposits exceeded federally insured limits by approximately \$23,108,000 and \$1,355,000.

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, 2024 and 2023.

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, 2024 and 2023.

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, 2024 and 2023.

(Continued)

SIMPSON HOUSING SERVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended June 30, 2024
(With Comparative Totals for 2023)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Costs incurred to develop the emergency shelter project for interest, property taxes, and insurance are capitalized only during periods in which activities necessary to prepare the property for its intended use are in progress. 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, 2024 or 2023.

Loan Receivable - Simpson provided a commercial loan to an investment fund to help finance the new shelter building. The loan is stated at its unpaid principal balance, less an allowance for loan losses. The amount of allowance is based on management's evaluation of the collectability of the loan, based on the nature of the loan, credit concentrations, economic conditions, access to collateral, and other risks inherent in the loan. No allowance was considered necessary at June 30, 2024. Interest on the loan is recognized over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding.

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 does not have any arrangements which qualify as leases as of June 30, 2024.

(Continued)

SIMPSON HOUSING SERVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended June 30, 2024
(With Comparative Totals for 2023)

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

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.

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.

(Continued)

SIMPSON HOUSING SERVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended June 30, 2024
(With Comparative Totals for 2023)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 statement of activities. The consolidated statement 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.

REHC is a nonprofit organization. REHC is annually required to file a Form 990 with the IRS.

Simpson believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the 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 2023 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, 2024
(With Comparative Totals for 2023)

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 60 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.

Receivables from government grants to be used for the purposes of construction or financing of the new shelter building are also not considered to be available for general expenditures.

	<u>2024</u>	<u>2023</u>
Cash and cash equivalents	\$ 1,270,172	\$ 1,726,607
Accounts receivable	151,324	100,978
Contributions receivable	77,666	258,167
Grants receivable	2,978,766	414,388
Investments	1,067,726	3,411,528
	<u>5,545,654</u>	<u>5,911,668</u>
Less: Net assets restricted for capital campaign	(916,240)	(1,469,527)
Less: Grants receivable related to the construction or financing of the new shelter building	(2,340,427)	-
Less: Board designated endowment	(213,470)	(190,330)
	<u>\$ 2,075,517</u>	<u>\$ 4,251,811</u>

(Continued)

SIMPSON HOUSING SERVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended June 30, 2024
(With Comparative Totals for 2023)

4. CONTRIBUTIONS RECEIVABLE

Contributions receivable consists of the following as of June 30:

	2024	2023
Amount receivable within 1 year	\$ 77,666	\$ 243,500
Amount receivable in 1-5 years	-	14,667
	<u>\$ 77,666</u>	<u>\$ 258,167</u>

5. INVESTMENTS AND FAIR VALUE MEASUREMENTS

Simpson's investments are reported at fair value in the accompanying consolidated statement 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, 2024
(With Comparative Totals for 2023)

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)
June 30, 2024				
Certificates of deposit	\$ 841,098	\$ -	\$ 841,098	\$ -
Mutual funds	202,509	202,509	-	-
	1,043,607	\$ 202,509	\$ 841,098	\$ -
Cash (at cost)	24,119			
	\$ 1,067,726			

(Continued)

SIMPSON HOUSING SERVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended June 30, 2024
(With Comparative Totals for 2023)

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)
June 30, 2023				
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			
	<u>\$ 3,411,528</u>			

6. RESTRICTED CASH, ESCROWS, AND RESERVES

	2024	2023
Restricted cash - other:		
Construction disbursements (REHC)	\$ 20,999,067	\$ -
Transitional housing	93,833	93,647
Shelter guest savings	3,927	7,410
	<u>\$ 21,096,827</u>	<u>\$ 101,057</u>
Restricted cash - escrows and reserves:		
BH CDE reserve (REHC)	\$ 863,238	\$ -
Sunrise CDE reserve (REHC)	271,552	-
Interest reserve (Properties)	447,373	-
Real estate tax escrow (Passage)	3,594	9,492
Insurance escrow (Passage)	-	8,094
Construction escrow (Properties)	47,612	62,346
	<u>\$ 1,633,369</u>	<u>\$ 79,932</u>

(Continued)

SIMPSON HOUSING SERVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended June 30, 2024
(With Comparative Totals for 2023)

6. RESTRICTED CASH, ESCROWS, AND RESERVES (Continued)

BH CDE Reserve (REHC) - The BH CDE loan agreements require the establishment of a reserve to be used for payment of a portion of interest on the BH CDE loans and a loan servicing and compliance fee. The loan servicing and compliance fee is in the annual amount of \$37,500 paid in equal quarterly installments beginning June 5, 2024.

Sunrise CDE Reserve (REHC) - The Sunrise CDE loan agreements require the establishment of a reserve to be used for payment of a portion of interest on the Sunrise CDE loans as described in the loan agreements.

Interest Reserve (Properties) - The Sunrise Banks bridge loans require the establishment of an interest reserve to be used for payments of interest on those loans.

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.

7. PROPERTY AND EQUIPMENT

Property and equipment balances consists of the following:

	2024	2023
Land	\$ 3,137,559	\$ 2,742,559
Building	5,603,274	5,603,274
Building improvements	1,061,662	578,033
Furniture and equipment	358,410	346,263
Vehicles	36,363	36,363
Construction in progress	4,074,109	870,656
	14,271,377	10,177,148
Less: accumulated depreciation	(1,815,276)	(1,352,494)
	<u>\$ 12,456,101</u>	<u>\$ 8,824,654</u>

Currently, Simpson is working to transform a site into a new shelter and housing facility with expanded services and the addition of 42 units of affordable, supportive housing. As part of this project, 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.

Simpson has entered into a contract with a general contractor for construction of the new shelter. The contract, including change orders, totals \$17,634,855. As of June 30, 2024, \$1,745,339 has been incurred on the contract. Additionally, interest expense of \$162,066 was capitalized in 2024.

(Continued)

SIMPSON HOUSING SERVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended June 30, 2024
(With Comparative Totals for 2023)

8. LOAN RECEIVABLE

Chase NMTC Simpson Investment Fund, LLC (Chase Investment Fund) - Simpson has a loan receivable related to the financing of the new shelter in the original amount of \$18,407,900 with interest at 1.0%. The note requires quarterly interest payments beginning June 30, 2024 through June 30, 2031. Commencing September 15, 2031, principal and interest payments of \$191,616 are due quarterly through December 31, 2058, when all outstanding principal and interest are due. Secured by a pledge of Chase Investment Fund's interest in BH New Markets Sub-CDE 28, LLC (BH CDE), Sunrise New Markets Fund XLVII, LLC (Sunrise CDE), and CNMC Sub-CDE 242, LLC (CNMC CDE).

9. LONG-TERM DEBT

Long-term debt consists of the following:

	2024	2023
Simpson Properties:		
Bremer Bank - 160 Glenwood	\$ 1,562,283	\$ 1,606,350
Bremer Bank - 160 Glenwood construction	1,137,500	1,706,250
Haven Minnesota, LLC	1,200,000	1,200,000
Otto Bremer Trust	2,500,000	-
Sunrise Banks Bridge Loan A	13,075,150	-
Sunrise Banks Bridge Loan B	1,500,000	-
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
Simpson Real Estate Holding Company:		
BH CDE Note A1	10,962,000	-
BH CDE Note B1	3,888,000	-
Sunrise CDE Note A2	5,010,600	-
Sunrise CDE Note B2	1,779,400	-
CNMC CDE Note A3	2,435,300	-
CNMC CDE Note B3	1,064,700	-
	47,144,663	5,542,330
Less: current maturities	(8,816,681)	(1,039,666)
	\$ 38,327,982	\$ 4,502,664

(Continued)

SIMPSON HOUSING SERVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended June 30, 2024
(With Comparative Totals for 2023)

9. 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.

Otto Bremer Trust - Note payable to Community Development Financial Company, LLC (a wholly owned subsidiary of Otto Bremer Trust) in the original amount of \$2,500,000 with interest at 4.25%. The note requires interest only payments beginning March 1, 2025 through March 1, 2027, when all outstanding principal and interest are due.

Sunrise Banks Bridge Loan A - \$13,608,333 note payable to Sunrise Banks with interest at 7.0%. The note requires monthly payments of interest through November 14, 2026, when all outstanding principal and interest are due. Secured by an assignment of certain grants and rebates related to the new shelter project.

Sunrise Banks Bridge Loan B - \$1,500,000 note payable to Sunrise Banks with interest at 3.125%. The note requires monthly payments of interest through November 14, 2026, when all outstanding principal and interest are due. Secured by an assignment of certain grants and rebates related to the new shelter project.

As amended, the aggregate principal of the two Sunrise Banks notes shall be reduced to an aggregate amount not greater than \$12,812,200 by September 30, 2024, \$8,000,000 by March 31, 2025, \$1,000,000 by September 30, 2025, and \$500,000 by March 31, 2026. Payments shall be applied to the principal amount outstanding first on Note A, until Note A is paid in full, and then to the principal amount outstanding on Note B.

MHFA - Note payable to MHFA in the original amount of \$35,000 without interest. The note is due September 1, 2025, 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, 2025, 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, 2024
(With Comparative Totals for 2023)

9. LONG-TERM DEBT (Continued)

Minneapolis Community Development Agency - Note payable to Minneapolis Community Development Agency in the original amount of \$425,730 without interest. The note was 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, 2025, 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, 2025, 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.

MHFA - Note payable to MHFA in the original amount of \$120,500 without interest. The note is due September 1, 2025, 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, 2025, 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.

BH CDE Note A1 - \$10,962,000 note payable to BH CDE with interest at 1.22%. The note requires quarterly payments of interest through June 30, 2031. Commencing September 1, 2031, quarterly principal and interest payments of \$117,479 are due through December 31, 2058, when all outstanding principal and interest are due. Secured by the shelter building.

BH CDE Note B1 - \$3,888,000 note payable to BH CDE with interest at 1.22%. The note requires quarterly payments of interest through June 30, 2031. Commencing September 1, 2031, quarterly principal and interest payments of \$41,667 are due through December 31, 2058, when all outstanding principal and interest are due. Secured by the shelter building.

(Continued)

SIMPSON HOUSING SERVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended June 30, 2024
(With Comparative Totals for 2023)

9. LONG-TERM DEBT (Continued)

Sunrise CDE Note A2 - \$5,010,600 note payable to Sunrise CDE with interest at 1.22%. The note requires quarterly payments of interest through June 30, 2031. Commencing September 1, 2031, quarterly principal and interest payments of \$53,698 are due through December 31, 2058, when all outstanding principal and interest are due. Secured by the shelter building.

Sunrise CDE Note B2 - \$1,779,400 note payable to Sunrise CDE with interest at 1.22%. The note requires quarterly payments of interest through June 30, 2031. Commencing September 1, 2031, quarterly principal and interest payments of \$19,070 are due through December 31, 2058, when all outstanding principal and interest are due. Secured by the shelter building.

CNMC CDE Note A3 - \$2,435,300 note payable to CNMC CDE with interest at 1.22%. The note requires quarterly payments of interest through June 30, 2031. Commencing September 1, 2031, quarterly principal and interest payments of \$26,099 are due through December 31, 2058, when all outstanding principal and interest are due. Secured by the shelter building.

CNMC CDE Note B3 - \$1,064,700 note payable to CNMC CDE with interest at 1.22%. The note requires quarterly payments of interest through June 30, 2031. Commencing September 1, 2031, quarterly principal and interest payments of \$11,410 are due through December 31, 2058, when all outstanding principal and interest are due. Secured by the shelter building.

Future maturities of long-term debt are as follows:

2025	\$ 8,816,681
2026	8,421,840
2027	4,466,142
2028	-
2029	-
Thereafter	25,440,000
	<hr/>
	47,144,663
Less: current portion	(8,816,681)
	<hr/>
	\$ 38,327,982
	<hr/>

In-kind (or imputed) interest expense of \$36,174 and \$30,129 for below-market loans has been recorded as an in-kind contribution and included in interest expense for the years ended June 30, 2024 and 2023.

(Continued)

SIMPSON HOUSING SERVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended June 30, 2024
(With Comparative Totals for 2023)

10. OFFICE LEASE

Simpson leased office space under an operating lease which required monthly payments of \$3,733 through December 31, 2023, the termination of the lease.

Rent expense on this lease, which is included in office space, was \$22,400 in 2024 and \$44,800 in 2023. The cash paid for amounts included in the measurement of lease liabilities was \$22,400 and \$44,800 for the years ended June 30, 2024 and 2023, respectively.

The discount rate used in the calculation was 2.84%.

11. BOARD DESIGNATED ENDOWMENT

As of June 30, 2024 and 2023, \$213,470 and \$190,330 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.

12. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following:

	2024	2023
Subject to expenditure for specified purpose:		
Child and youth services	\$ 173,006	\$ 294,022
Emerson Legacy Fund	91,076	92,226
Day 1 Family Fund	-	200,000
Comprehensive Campaign	916,240	1,469,527
New shelter construction	2,873,610	-
Subject to the passage of time	-	22,250
	<u>\$ 4,053,932</u>	<u>\$ 2,078,025</u>

(Continued)

SIMPSON HOUSING SERVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended June 30, 2024
(With Comparative Totals for 2023)

12. 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:

	2024	2023
Subject to expenditure for specified purpose:		
Child and youth services	\$ 156,016	\$ 53,067
Shelter	-	9,478
Emerson Legacy Fund	1,150	5,915
Day 1 Family Fund	200,000	412,107
Comprehensive Campaign	1,170,866	1,835,800
Subject to the passage of time	22,250	34,500
	<u>\$ 1,550,282</u>	<u>\$ 2,350,867</u>

13. 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, 2024 and 2023, 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, 2024
(With Comparative Totals for 2023)

13. 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, 2024 and 2023, there were no underwater endowments.

Changes in endowment net assets for the year ended June 30, 2024 follow:

	Without donor restrictions	With donor restrictions	Total
Endowment net assets, beginning of year	\$ 190,330	\$ -	\$ 190,330
Investment return:			
Investment income, net of fees	5,225	-	5,225
Appreciation (depreciation)	17,915	-	17,915
Total investment return	23,140	-	23,140
Additions	-	-	-
Appropriation for expenditure	-	-	-
Endowment net assets, end of year	\$ 213,470	\$ -	\$ 213,470

(Continued)

SIMPSON HOUSING SERVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended June 30, 2024
(With Comparative Totals for 2023)

13. ENDOWMENT (Continued)

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

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.

14. 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 \$114,739 in 2024 and \$92,948 in 2023.

15. RELATED PARTY TRANSACTIONS

Simpson receives contributions from Board members and other related parties. Contributions received from Board members, staff, and other related parties were \$52,445 in 2024 and \$68,016 in 2023.

(Continued)

SIMPSON HOUSING SERVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended June 30, 2024
(With Comparative Totals for 2023)

16. 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)	2024	2023
Food, clothing, personal household, gift cards, and other items	Meals and items used at shelters	Prices of identical or similar items	Utilized*	\$ 320,858	\$ 252,232
Legal and other consulting services	Professional, services, such as legal, technology consulting, etc.	Standard industry pricing for similar services	Utilized	163,719	91,574
Interest	Interest on non-interest bearing or low-interest loans	Calculated using Applicable Federal Rate	Utilized*	36,174	30,129
Event advertising and food services	Professional advertising and food services	Standard industry pricing for similar services	Utilized	29,814	-
Furniture and event venue	Office furniture and event space, etc.	Prices of identical or similar items	Utilized	4,875	13,100
				<u>\$ 555,440</u>	<u>\$ 387,035</u>

(Continued)

SIMPSON HOUSING SERVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended June 30, 2024
(With Comparative Totals for 2023)

17. NEW MARKETS TAX CREDITS

Simpson used the New Markets Tax Credit (NMTC) program to partially finance the construction of the new shelter. The NMTC program requires a complex investment and ownership structure. To earn the tax credit, an investor must remain invested for a seven-year period. At the end of the seven-year period, the NMTC investor can exercise a put option to sell its interest. If the investor does not exercise the put option, Simpson can exercise a call option to purchase the investment.

REHC closed on \$25,140,000 of NMTC financing for the new shelter project on May 14, 2024 (Note 9). As part of the NMTC financing, Simpson Properties has a loan receivable for \$18,407,900. The seven-year compliance period is expected to end in May 2031.

18. COMMITMENTS

Simpson has agreed to pay the investor in the new shelter project for any recapture of New Markets Tax Credits through 2031. The maximum amount of exposure to Simpson is \$9,945,000.

Simpson has several government grants that contain donor conditions (primarily that funds be expended for eligible costs before they are earned). Since these grants represent conditional promises to give, they are not recorded as revenue until the donor conditions are met. Simpson has unearned conditional contributions from cost-reimbursable grants of the following at June 30, 2024:

Family housing programs	\$	1,960,882
Shelter programs		806,394
Single service programs		323,323
New shelter construction		14,245,759
		<hr/>
	\$	17,336,358
		<hr/> <hr/>

19. PUT AND CALL AGREEMENT

Simpson entered into a Put and Call Agreement which is intended to facilitate ownership restructuring at the end of the NMTC compliance period while protecting the NMTC investors' tax benefits. In general, the investor and/or financial institution may "put" their interests in the project to Simpson for a pre-determined price. Simpson also has an option to purchase (or "call") the investor and/or financial institution's interest at fair market value. Usually, when puts or calls are exercised, Simpson will recognize gain on NMTC financing and must obtain a new mortgage loan.

The investor in the new shelter project has a put option for \$1,000 which may be exercised at the end of the NMTC compliance period (2031). Simpson also has an option to purchase (or "call") the investor's interest at fair market value.

(Continued)

SIMPSON HOUSING SERVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended June 30, 2024
(With Comparative Totals for 2023)

20. SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 19, 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, 2024

	Simpson Housing Services, Inc.	Passage Community Housing, LLC	Simpson Properties, LLC	Simpson Real Estate Holding Company	Eliminations	Total
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 1,067,748	\$ 562	\$ 201,862	\$ -	\$ -	\$ 1,270,172
Restricted cash - other	97,760	-	-	20,999,067	-	21,096,827
Restricted cash - escrows and reserves	-	3,594	494,985	1,134,790	-	1,633,369
Accounts receivable	1,882,177	28,205	-	-	(1,759,058)	151,324
Contributions receivable, current portion	55,000	-	22,666	-	-	77,666
Grants receivable	638,339	-	2,340,427	-	-	2,978,766
Prepaid expenses	269,959	1,094	4,900	-	-	275,953
Total current assets	<u>4,010,983</u>	<u>33,455</u>	<u>3,064,840</u>	<u>22,133,857</u>	<u>(1,759,058)</u>	<u>27,484,077</u>
Cash - tenant security deposits	-	19,941	-	-	-	19,941
Investments	1,067,726	-	-	-	-	1,067,726
Property and equipment, net	145,116	659,309	8,531,135	3,314,291	(193,750)	12,456,101
Loan receivable	-	-	18,407,900	-	-	18,407,900
Total assets	<u>\$ 5,223,825</u>	<u>\$ 712,705</u>	<u>\$ 30,003,875</u>	<u>\$ 25,448,148</u>	<u>\$ (1,952,808)</u>	<u>\$ 59,435,745</u>
LIABILITIES AND NET ASSETS						
Current liabilities:						
Current portion of long-term debt	\$ -	\$ 425,730	\$ 8,390,951	\$ -	\$ -	\$ 8,816,681
Accounts payable - trade	68,824	136,793	1,626,435	-	(1,759,058)	72,994
Accounts payable - construction	-	92,572	59,817	606,284	-	758,673
Accrued expenses	292,889	71,365	35,417	-	-	399,671
Agency liability	114,602	-	-	-	-	114,602
Total current liabilities	<u>476,315</u>	<u>726,460</u>	<u>10,112,620</u>	<u>606,284</u>	<u>(1,759,058)</u>	<u>10,162,621</u>
Tenant security deposits	-	19,617	-	-	-	19,617
Long-term debt, less current portion	-	604,000	12,583,982	25,140,000	-	38,327,982
Finance fees, net	-	-	(124,219)	(273,600)	-	(397,819)
Total liabilities	<u>476,315</u>	<u>1,350,077</u>	<u>22,572,383</u>	<u>25,472,684</u>	<u>(1,759,058)</u>	<u>48,112,401</u>
Net assets:						
Net assets without donor restrictions:						
Undesignated	4,269,958	(637,372)	3,641,642	(24,536)	(193,750)	7,055,942
Designated by the Board for endowment	213,470	-	-	-	-	213,470
Total net assets without donor restrictions	<u>4,483,428</u>	<u>(637,372)</u>	<u>3,641,642</u>	<u>(24,536)</u>	<u>(193,750)</u>	<u>7,269,412</u>
Net assets with donor restrictions	264,082	-	3,789,850	-	-	4,053,932
Total net assets	<u>4,747,510</u>	<u>(637,372)</u>	<u>7,431,492</u>	<u>(24,536)</u>	<u>(193,750)</u>	<u>11,323,344</u>
Total liabilities and net assets	<u>\$ 5,223,825</u>	<u>\$ 712,705</u>	<u>\$ 30,003,875</u>	<u>\$ 25,448,148</u>	<u>\$ (1,952,808)</u>	<u>\$ 59,435,745</u>

See independent auditor's report.

SIMPSON HOUSING SERVICES, INC.

CONSOLIDATING STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2024

	Simpson Housing Services, Inc.	Passage Community Housing, LLC	Simpson Properties, LLC	Simpson Real Estate Holding Company	Eliminations	Total
Revenues and support:						
Contributions	\$ 1,690,325	\$ -	\$ 617,579	\$ -	\$ -	\$ 2,307,904
In-kind contributions	383,230	36,174	136,036	-	-	555,440
Government grants	7,330,920	-	2,873,610	-	-	10,204,530
Program service fees	1,075,133	-	-	-	(31,500)	1,043,633
Rental revenues:						
Residential rents	-	30,095	-	-	-	30,095
Housing assistance payments	-	180,472	-	-	-	180,472
Special events - contributions and earned income	263,403	-	-	-	-	263,403
Special events - direct benefits to donors	(184,341)	-	-	-	-	(184,341)
Net special events revenue	79,062	-	-	-	-	79,062
Miscellaneous income	34,484	3,573	33,042	20,453	-	91,552
Developer fee	193,750	-	-	-	(193,750)	-
Net investment return	152,198	-	-	-	-	152,198
Total revenues and support	10,939,102	250,314	3,660,267	20,453	(225,250)	14,644,886
Expenses:						
Program services:						
Shelters	1,688,045	-	373,834	40,093	-	2,101,972
Family housing	4,121,175	314,630	316,276	-	(31,500)	4,720,581
Single services	3,467,963	-	-	-	-	3,467,963
Advocacy	35,920	-	-	-	-	35,920
Total program expenses	9,313,103	314,630	690,110	40,093	(31,500)	10,326,436
Management and general	1,399,311	825	50,405	4,896	-	1,455,437
Fundraising	657,619	-	-	-	-	657,619
Total expenses	11,370,033	315,455	740,515	44,989	(31,500)	12,439,492
Change in net assets	(430,931)	(65,141)	2,919,752	(24,536)	(193,750)	2,205,394
Net assets, beginning of year	5,178,441	(572,231)	4,511,740	-	-	9,117,950
Net assets, end of year	\$ 4,747,510	\$ (637,372)	\$ 7,431,492	\$ (24,536)	\$ (193,750)	\$ 11,323,344

See independent auditor's report.

SIMPSON HOUSING SERVICES, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2024

Federal Grantor/ Program Title/ Pass-through Grantor/ Grant Identifying Number	Assistance Listing Number	Pass-Through Entity Identifying Number	Federal Expenditures
Department of Housing and Urban Development			
Continuum of Care Program	14.267		
Direct Programs:			
Award No. MN0025L5K002114		N/A	\$ 32,193
Award No. MN0326L5K002107		N/A	10,701
Award No. MN0326L5K002208		N/A	140,800
Award No. MN0017L5K002215		N/A	66,145
Award No. MN0025L5K002215		N/A	139,647
Award No. MN0017L5K002316		N/A	5,984
Award No. MN0561L5K002300		N/A	1,250
Passed through Hennepin County:			
Family Rapid Rehousing Services		HS00000801	33,010
Employment Enriched Family Rapid Rehousing Rapid Rehousing Services		HS00000838 HS00001421	35,348 168,685
			<u>633,763</u>
Emergency Solutions Grant (ESG) Program	14.231		
Passed through Hennepin County:			
Shelter Housing Case Manager		HS00001257	128,260
Passed through City of Minneapolis:			
Essential Services		COM0004919	2,014
			<u>130,274</u>
Total Department of Housing and Urban Development			<u>764,037</u>
Department of Homeland Security			
Emergency Food and Shelter National Board Program	97.024		
Passed through United Way:			
Award # LRO 49500-018		LRO 495000-18	7,500
Total Department of Homeland Security			<u>7,500</u>
Department of Health and Human Services			
Maternal, Infant and Early Childhood Home Visiting Grant	93.870		
Passed through Minnesota Department of Health:			
Award #210898		210898	337,726
Medical Assistance Program	93.778		
Passed through Minnesota Department of Health:			
Housing Stabilization Services		N/A	13,268
Total Department of Health and Human Services			<u>350,994</u>
Department of the Treasury			
Coronavirus State and Local Fiscal Recovery Funds	21.027		
Passed through City of Minneapolis:			
Emergency Shelter Construction		COM0007638	1,579,109
Total Department of the Treasury			<u>1,579,109</u>
Total expenditures of federal awards			<u>\$ 2,701,640</u>

See accompanying notes to schedule.

SIMPSON HOUSING SERVICES, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2024

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, 2024. 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.



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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States 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, 2024, 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 December 19, 2024.

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.

December 19, 2024

Mahoney Ulbrich
Christiansen & Russ, PA



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, 2024. 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, 2024.

Basis for Opinion on the 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 the 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.

(Continued)

Report on Internal Control Over Compliance

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.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

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.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

December 19, 2024

*Mahoney Ulbrich
Christiansen & Russ, PA*

SIMPSON HOUSING SERVICES, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2024

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> </u> yes	<u> X </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> </u> yes	<u> X </u> no	
Identification of major program:	Assistance Listing Number 21.027 – Coronavirus State & Local Recovery Funds		
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, 2024

SECTION II - FINDINGS - FINANCIAL STATEMENTS AUDIT

No matters were reported.

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

No matters were reported.

SIMPSON HOUSING SERVICES, INC.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Year Ended June 30, 2024

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

2023-001: Filing of Single Audit Report

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).

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

Current Status - The Single Audit Reporting Package for the year ended June 30, 2023 was submitted timely. This finding has been cleared.