

**ST. STEPHEN'S  
HUMAN SERVICES, INC.**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED  
JUNE 30, 2016**

# ST. STEPHEN'S HUMAN SERVICES, INC.

## FINANCIAL STATEMENTS

For the Year Ended June 30, 2016  
(With Comparative Information for 2015)

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CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
St. Stephen's Human Services, Inc.  
Minneapolis, Minnesota

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

We have audited the accompanying financial statements of St. Stephen's Human Services, Inc., which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to financial statements.

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

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

(Continued)

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of St. Stephen's Human Services, Inc. as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

**Other Matters**

*Report on Summarized Comparative Information*

We have previously audited St. Stephen's Human Services, Inc.'s 2015 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated October 16, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the 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 October 20, 2016, on our consideration of St. Stephen's Human Services, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 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 St. Stephen's Human Services, Inc.'s internal control over financial reporting and compliance.

*Mahoney Ulbrich  
Christiansen Russ P.A.*

Saint Paul, Minnesota  
October 20, 2016

**ST. STEPHEN'S HUMAN SERVICES, INC.**

STATEMENT OF FINANCIAL POSITION

June 30, 2016

(With Comparative Totals for 2015)

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash	\$ 1,780,607	\$ 1,943,689
Cash - restricted for participant deposits	281,746	255,720
Investments	821,532	1,105,399
Accounts receivable	26,655	33,849
Grants receivable	437,179	345,259
Pledges receivable, net	65,857	62,997
Prepaid expenses	5,353	13,849
Property and equipment, net	<u>321,862</u>	<u>350,392</u>
 Total assets	 <u>\$ 3,740,791</u>	 <u>\$ 4,111,154</u>
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 48,447	\$ 43,688
Accrued payroll and related	277,112	239,856
Participant deposits	281,746	255,720
Refundable advances	<u>70,324</u>	<u>45,571</u>
 Total liabilities	 <u>677,629</u>	 <u>584,835</u>
Net assets:		
Unrestricted:		
Board designated reserve	516,624	613,925
Other unrestricted	<u>2,228,096</u>	<u>2,603,216</u>
	2,744,720	3,217,141
Temporarily restricted	<u>318,442</u>	<u>309,178</u>
 Total net assets	 <u>3,063,162</u>	 <u>3,526,319</u>
 Total liabilities and net assets	 <u>\$ 3,740,791</u>	 <u>\$ 4,111,154</u>

See accompanying notes to financial statements.

**ST. STEPHEN'S HUMAN SERVICES, INC.**

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended June 30, 2016  
(With Comparative Totals for 2015)

	2016			2015
	Unrestricted	Temporarily Restricted	Total	
Revenues and support:				
Contributions	\$ 1,299,669	\$ 234,429	\$ 1,534,098	\$ 1,827,321
Contributions - in-kind	49,465	-	49,465	57,760
Greater Twin Cities United Way	211,789	-	211,789	198,953
Government grants and reimbursements	8,456,062	-	8,456,062	8,601,800
Board and lodge income	918,303	-	918,303	975,669
Fee income	346,695	-	346,695	321,313
Special events less direct benefits to donors of \$24,309 in 2016 and \$17,476 in 2015	47,780	-	47,780	44,591
Net assets released upon expiration of time and purpose restrictions	225,165	(225,165)	-	-
<b>Total revenues and support</b>	<b>11,554,928</b>	<b>9,264</b>	<b>11,564,192</b>	<b>12,027,407</b>
Expenses:				
Program services:				
Shelter	691,392	-	691,392	650,034
Street outreach	671,608	-	671,608	643,551
Ending long-term homelessness	3,985,386	-	3,985,386	3,977,080
Family supportive housing	827,016	-	827,016	785,429
Kateri residence	934,558	-	934,558	944,183
Prevention	214,693	-	214,693	263,470
Rapid re-housing	1,256,235	-	1,256,235	1,512,358
MHFA subsidies	1,516,416	-	1,516,416	1,419,593
Employment services	-	-	-	25,815
Community engagement	259,974	-	259,974	215,075
Rep payee	174,002	-	174,002	111,859
<b>Total program services</b>	<b>10,531,280</b>	<b>-</b>	<b>10,531,280</b>	<b>10,548,447</b>
Management and general	1,022,863	-	1,022,863	837,105
Fundraising	403,886	-	403,886	326,277
<b>Total expenses</b>	<b>11,958,029</b>	<b>-</b>	<b>11,958,029</b>	<b>11,711,829</b>
Change in net assets before investment income or loss	(403,101)	9,264	(393,837)	315,578
Interest and dividend income	3,257	-	3,257	6,083
Gain (loss) on investments, net of fees	(72,577)	-	(72,577)	77,502
<b>Change in net assets</b>	<b>(472,421)</b>	<b>9,264</b>	<b>(463,157)</b>	<b>399,163</b>
Net assets, beginning of year	3,217,141	309,178	3,526,319	3,127,156
<b>Net assets, end of year</b>	<b>\$ 2,744,720</b>	<b>\$ 318,442</b>	<b>\$ 3,063,162</b>	<b>\$ 3,526,319</b>

See accompanying notes to financial statements.

ST. STEPHEN'S HUMAN SERVICES, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2016  
(With Comparative Totals for 2015)

	2016											Total	2015		
	Program Services										Management and General			Fund-raising	
	Shelter	Street Outreach	Ending Long-Term Homelessness	Family Supportive Housing	Kateri Residence	Prevention	Rapid Re-Housing	MHFA Subsidies	Community Engagement	Rep Payee					Total Program Services
Salaries and wages	\$ 321,495	\$ 375,777	\$ 911,241	\$ 331,537	\$ 282,563	\$ 89,188	\$ 537,048	\$ 121,222	\$ 117,449	\$ 98,650	\$ 3,186,170	\$ 528,096	\$ 260,269	\$ 3,974,535	\$ 3,699,929
Payroll taxes	30,240	34,366	80,419	29,485	25,913	7,787	48,969	11,148	10,243	8,976	287,546	44,410	23,140	355,096	388,714
Employee benefits	52,219	89,018	211,134	99,615	55,823	15,917	128,313	20,121	21,536	36,172	729,868	76,979	51,085	857,932	780,266
	403,954	499,161	1,202,794	460,637	364,299	112,892	714,330	152,491	149,228	143,798	4,203,584	649,485	334,494	5,187,563	4,868,909
Office expense	1,994	723	1,367	1,812	4,270	226	725	218	211	2,382	13,928	20,726	1,758	36,412	36,013
Telephone	7,279	7,764	14,696	6,456	7,881	736	9,496	1,156	1,583	764	57,811	5,850	2,129	65,790	78,513
Postage and shipping	16	22	418	914	69	814	2,926	-	6	3,550	8,735	6,386	5,176	20,297	20,075
Equipment and maintenance	3,510	1,386	-	-	-	-	-	-	-	-	4,896	194,300	264	199,460	134,897
Insurance	3,227	-	-	-	-	-	-	-	170	-	3,397	17,132	-	20,529	17,224
Printing and publications	-	5,987	-	-	-	-	-	-	607	-	6,594	164	13,695	20,453	22,187
Travel	9,445	9,353	37,702	15,453	4,679	1,818	20,282	150	3,878	-	102,760	2,284	1,998	107,042	96,817
Conferences and meetings	3,718	5,060	9,668	6,753	1,206	569	5,062	553	1,680	50	34,319	11,560	1,047	46,926	32,884
Professional fees	633	1,201	4,083	946	28,437	203	4,570	1,240	176	8	41,497	33,287	9,495	84,279	149,631
Contracted services	49,099	-	-	-	-	-	-	-	-	-	49,099	41,972	5,780	96,851	6,641
Specific assistance to individuals	111,475	84,851	2,586,097	286,296	456,998	87,890	434,219	1,346,582	83,735	100	5,478,243	-	-	5,478,243	5,655,040
Interest	-	-	-	-	-	-	-	-	-	11,662	11,662	-	-	11,662	6,686
Depreciation	16,654	-	-	-	21,805	-	-	-	-	-	38,459	10,616	-	49,075	44,966
Occupancy	80,388	56,100	128,561	47,749	44,914	9,545	64,625	14,026	18,700	11,688	476,296	29,101	28,050	533,447	541,346
	\$ 691,392	\$ 671,608	\$ 3,985,386	\$ 827,016	\$ 934,558	\$ 214,693	\$ 1,256,235	\$ 1,516,416	\$ 259,974	\$ 174,002	\$ 10,531,280	\$ 1,022,863	\$ 403,886	\$ 11,958,029	\$ 11,711,829
Add direct benefits to donors														24,309	17,476
Total expenses														\$ 11,982,338	\$ 11,729,305

See accompanying notes to financial statements.

**ST. STEPHEN'S HUMAN SERVICES, INC.**

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2016  
(With Comparative Totals for 2015)

Increase (Decrease) in Cash

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Change in net assets	\$ (463,157)	\$ 399,163
Adjustments to reconcile the change in net assets to net cash from operating activities:		
Depreciation	49,075	44,966
Gain (loss) on investments, net of fees	72,577	(77,502)
Interest and dividends reinvested	(3,257)	(4,226)
Changes in operating assets and liabilities:		
Accounts receivable	7,194	13,671
Grants receivable	(91,920)	29,720
Pledges receivable	(2,860)	(10,030)
Prepaid expenses	8,496	(223)
Accounts payable	4,759	685
Accrued expenses	37,256	3,630
Refundable advances	24,753	42,418
	<u>(357,084)</u>	<u>442,272</u>
Cash flows from investing activities:		
Payments for property and equipment	(20,545)	-
Proceeds from the sale of investments	257,298	28,157
Purchases of investments	(42,751)	(36,754)
	<u>194,002</u>	<u>(8,597)</u>
Net cash from investing activities		
	<u>(163,082)</u>	<u>433,675</u>
Net increase (decrease) in cash		
Cash, beginning of year	<u>1,943,689</u>	<u>1,510,014</u>
Cash, end of year	<u>\$ 1,780,607</u>	<u>\$ 1,943,689</u>

See accompanying notes to financial statements.

# ST. STEPHEN'S HUMAN SERVICES, INC.

## NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2016  
(With Comparative Information for 2015)

### 1. ORGANIZATION

St. Stephen's Human Services, Inc. (Human Services) was founded by the Church of Saint Stephen (the Church) as a provider of social services programs. St. Stephen's Human Services, Inc. was incorporated as a nonprofit independent of the church in 2002. Human Services carries out its mission of ending homelessness by serving over 10,000 people (unaudited) each year through homelessness prevention assistance, street outreach, shelter, transitional and permanent housing, support services, community engagement, and systems change. These programs fulfill immediate needs, help people grow increasingly self-sufficient in order to not return to homelessness, and promote policies and systems to prevent and end homelessness.

Human Services operates the following programs:

**Shelter** – The main Shelter is offered to forty-five adult men every night year-round while we work with them to access housing and support services. A second shelter, operated November through April at River of Life Lutheran Church in North Minneapolis, offers overnight shelter for 50 additional men.

**Street Outreach** - This program provides the first contact for individuals living outside and for the community members concerned for them. Partnering with law enforcement, probation officers, neighborhood organizations, and other stakeholders, this intensive outreach connects people to shelter housing and other services.

#### **Housing Services:**

**Ending Long-Term Homelessness** - This program works with single adults who have been homeless over many years and are stuck in a cycle of shelters, jail detox, treatment programs, and living outside. The program works intensively to connect people to permanent housing with the supportive services needed to maintain housing stability.

**Family Supportive Housing** - This program works with high-barrier families who need long-term support to secure and maintain housing.

**Kateri Residence** - Kateri Residence provides sober transitional housing to American Indian women recovering from chemical dependency and their children. Kateri blends traditional recovery methods such as AA and 12-step with a focus on American Indian culture and spirituality. The program works closely with county child protective services to reconnect Kateri residents and their children.

(Continued)

**ST. STEPHEN'S HUMAN SERVICES, INC.**

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2016  
(With Comparative Information for 2015)

1. **ORGANIZATION (Continued)**

**Prevention** - This program works with families and single adults who are facing eviction, foreclosure, or loss of housing for other reasons. One-time financial support and counseling prevent them from becoming homeless.

**Rapid Re-Housing** - This program helps families and single adults transition quickly from shelter into housing with supportive services and a short-term rental subsidy.

**MHFA Subsidies** - Rental subsidies are an important tool for helping some single adults and families maintain their housing while they work toward self-sufficiency. These subsidies are provided through Minnesota Housing.

**Employment Services** - These programs work with people with histories of homelessness and minimal work experience. This program was discontinued in late 2014.

**Community Engagement** - This program engages people experiencing homelessness and other members of the community in advocating for systemic change to prevent and end homelessness. The program offers *A Day in the Life*, an experiential-learning program that gives participants an opportunity to learn directly from people experiencing homelessness; zAmya Theater Project offering educational performances about homelessness by people who have experienced homelessness and their allies; support to Homeless Against Homelessness (HAH) a self-advocacy group for people who have experienced homelessness; and legislative advocacy in collaboration with our nonprofit partners.

**Other Services:**

**Rep Payee** - This program connects people experiencing homelessness or poverty to essential resources, such as representative payee services, enabling them to effectively navigate their way through challenges.

**Other Resources** - Human Services publishes the *Handbook of the Streets* to help people navigate available services and secures birth certificates for people who lack identification documents.

The majority of revenue and support is from government agencies, contributions, and fees for services.

(Continued)

**ST. STEPHEN'S HUMAN SERVICES, INC.**

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2016  
(With Comparative Information for 2015)

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**Financial Statement Presentation** - Human Services reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Revenues and support are classified based on the presence or absence of donor restrictions and reported in the following net asset categories:

- Unrestricted net assets represent the portion of net assets that are not subject to donor restrictions.
- Temporarily restricted net assets arise from contributions that are restricted by donors for specific purposes or time periods.
- Permanently restricted net assets arise from contributions that the donor has stipulated must be maintained in perpetuity. There are no permanently restricted net assets.

**Cash - Restricted for Participant Deposits** - Human Services holds as an agent amounts collected from participants in its Alliance of the Streets Representative Payee program.

**Cash and Cash Equivalents** - For the purpose of preparing the statement of cash flows, investments with an original maturity of three months or less are considered cash equivalents. Restricted cash for participant deposits is not considered a cash equivalent.

**Investments** - Investments are recorded at fair value. Investment income or loss including gains and losses on investments, interest, and dividends, is included in the statement of activities and changes in net assets as increases in unrestricted net assets unless the income or loss is restricted by the donor.

Cash and money market accounts held in brokerage accounts is included in investments and is not considered cash for purposes of the Statement of Cash Flows.

(Continued)

**ST. STEPHEN'S HUMAN SERVICES, INC.**

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2016  
(With Comparative Information for 2015)

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

**Fair Value Measurements** - Human Services determines fair value, when necessary, based on the assumptions that market participants would use when pricing the asset or liability. Valuation techniques require using inputs which are categorized using the following hierarchy:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - inputs that are observable, directly or indirectly, other than the quoted prices included in Level 1; and
- Level 3 - unobservable inputs.

Human Services' investments are all valued using Level 1 inputs.

**Concentration of Credit Risk** - Human Services places its cash with several financial institutions. At times the amount on deposit exceeds the insured limit of the institutions and exposes Human Services to a credit risk. Human Services has not experienced any losses on its cash deposits. At June 30, 2016 and 2015, deposits exceeded the federally insured limit by \$1,321,364 and \$1,464,598, respectively.

**Receivables** - Accounts and grants receivable are stated at the amount management expects to collect. Management reviews receivable balances at year end and establishes an allowance based on expected collections. Receivables are written off as a charge to the allowance when, in management's estimation, it is probable that the receivable is worthless. No allowance was considered necessary at June 30, 2016.

**Pledges Receivable** - Pledges 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 amounts has been provided. Receivables are written off as a charge to the allowance when, in management's estimation, it is probable that the receivable is worthless.

**Property and Equipment** - Property and equipment are recorded at cost. Human Services' policy is to capitalize expenditures for these items in excess of \$5,000. Depreciation is computed using the straight-line method over the estimated useful lives of the property and equipment. Maintenance and repairs are expensed as incurred. Major renewals or betterments that extend the lives of property and equipment are capitalized.

(Continued)

**ST. STEPHEN'S HUMAN SERVICES, INC.**

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2016  
(With Comparative Information for 2015)

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

Management evaluates these assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Absent explicit donor restrictions regarding how long contributed assets must be used, Human Services reports expiration of donor restrictions when the donated or acquired assets are placed in service.

**Contributions** - Contributions are recognized when the donor makes an unconditional commitment to give. Contributions that are restricted by the donor are reported as increases in temporarily restricted net assets and transferred to unrestricted net assets when restrictions expire or the condition is met. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized.

**Government Grants and Contracts** - Government grants and contracts are generally considered exchange transactions and are recorded as revenue when earned. Revenue is earned when eligible expenditures, as defined in each grant or contract, are incurred. Funds received but not yet earned are recorded as refundable advances.

**Contributed Materials** - Contributed materials are recorded as contributions, when received, at their fair value. During 2016, Human Services received donated clothing and household items for their various programs of \$42,949, donated supplies for administration of \$790, and donated food for the Kateri residence and the shelter of \$5,726. During 2015, Human Services received donated clothing and household items for their various programs of \$53,715, donated supplies for administration of \$2,081, and donated food for the Kateri residence and the shelter of \$1,964.

**Contributed Services** - Contributed services are recorded as contributions, at their fair value, when the service creates or enhances a non-financial asset or the service requires specialized skills, is provided by an individual possessing those skills, and would need to be purchased if not provided by donation. There were no contributed services recognized in 2016 or 2015.

**Board and Lodge Income** - Board and lodge income consists of group residential housing reimbursements for residents living in housing operated by Human Services. Revenue is recognized on a monthly basis as units are occupied.

(Continued)

**ST. STEPHEN'S HUMAN SERVICES, INC.**

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2016  
(With Comparative Information for 2015)

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

**Functional Expenses** - Expenses have been allocated among program services, management and general, and fundraising classifications based upon direct expenditures and estimates made by management.

**Operating and Non-operating Activities** - The statement of activities presents the changes in net assets from operating activities and from non-operating activities. Operating revenues and expenses include all activities that are an integral part of the Human Services' programs and supporting activities. Non-operating activities consist primarily of investment income, including gains and losses.

**Comparative Total Column** - The financial statements include certain prior-year summarized comparative information in total but not by net asset class. 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 Human Services' financial statements for the year ended June 30, 2015, from which the information was derived.

**Income Taxes** - Human Services is exempt from income taxes under Internal Revenue Code Section 501(c)(3) and applicable Minnesota Statutes, except to the extent it has taxable income from activities that are not related to its exempt purpose. Management believes Human Services does not have any unrelated business income or uncertain tax positions in 2016 or 2015.

3. **CASH - RESTRICTED**

Some clients are not able to manage their own money and therefore allow Human Services to hold and manage their money for them. A liability titled "Participant Deposits" has been established for these funds.

4. **INVESTMENTS**

Investments consist of the following:

	2016	2015
Board designated (Kopp):		
Cash and money market funds	\$ 39,140	\$ 13,012
International common stock	-	8,584
U. S. common stock	477,484	592,329
Total board designated (Kopp)	516,624	613,925

(Continued)

**ST. STEPHEN'S HUMAN SERVICES, INC.**

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2016  
(With Comparative Information for 2015)

4. **INVESTMENTS (Continued)**

	<u>2016</u>	<u>2015</u>
Cash and money market funds	304,908	294,654
Mid-cap blend mutual fund	-	15,989
Large blend mutual fund	-	7,294
World stock mutual fund	-	26,279
Multi-alternative mutual fund	-	10,326
Fixed income mutual funds	-	136,932
Total investments	<u>\$ 821,532</u>	<u>\$ 1,105,399</u>

Gain (loss) on investments consists of the following:

	<u>2016</u>	<u>2015</u>
Realized gains (losses), net	\$ 8,166	\$ 8,556
Unrealized gains (losses), net	(71,536)	80,118
Investment service fees	<u>(9,207)</u>	<u>(11,172)</u>
Investment gains (loss), net	<u>\$ (72,577)</u>	<u>\$ 77,502</u>

Human Services has established a Board designated (Kopp) reserve for an unspecified period of time. A portion of the earnings from segregated reserve investments, as determined from time to time by the Board, is to be used for Human Services' social service programs. The Board of Directors has approved a quarterly withdrawal of 1.25% of the previous quarter ending date balance.

Changes in the Board designated reserve for the year ended June 30, 2016 are as follows:

Beginning of year balance	\$ 613,925
Unrealized gains (losses), net	(67,315)
Realized gains (losses), net	4,865
Interest and dividends	270
Service fees	(8,089)
Withdrawal	<u>(27,032)</u>
End of year balance	<u>\$ 516,624</u>

(Continued)

**ST. STEPHEN'S HUMAN SERVICES, INC.**

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2016  
(With Comparative Information for 2015)

5. **PLEDGES RECEIVABLE**

Pledges receivable are related to specific programs and general operations. Pledges are expected to be collected in the following periods:

Total pledges due in one year or less	\$ 68,372
Less allowance for uncollectible pledges	<u>(2,515)</u>
	<u>\$ 65,857</u>

6. **PROPERTY AND EQUIPMENT**

Property and equipment consists of the following:

	<u>2016</u>	<u>2015</u>	<u>Depreciation life in years</u>
Kateri building and improvements	\$ 376,155	\$ 376,155	15 - 27.5
Shelter building improvements	208,728	188,183	15
Administrative leasehold improvements	<u>96,526</u>	<u>96,526</u>	5 - 15
	681,409	660,864	
Less accumulated depreciation	<u>(359,548)</u>	<u>(310,472)</u>	
	<u>\$ 321,862</u>	<u>\$ 350,392</u>	

7. **LINE OF CREDIT**

Human Services has a revolving line of credit with Sunrise Bank that enables Human Services to borrow up to \$350,000. Interest accrued at a rate of 2% over the prime rate from July 2015 until October 2015 when it decreased to 1% over the prime rate, but not less than 4.95% (effectively 4.95% at June 30, 2016). The agreement expires on February 1, 2017. The line of credit is secured by all assets of Human Services. As of June 30, 2016, there were no outstanding advances on the line of credit.

(Continued)

**ST. STEPHEN'S HUMAN SERVICES, INC.**

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2016  
(With Comparative Information for 2015)

**8. RESTRICTED AND DESIGNATED NET ASSETS**

Temporarily restricted net assets consist of contributions restricted for the following:

	<u>2016</u>	<u>2015</u>
Purpose restricted:		
Shelter	\$ 102,645	\$ 171,838
Rapid-rehousing	36,098	37,160
Ending long-term homelessness	4,206	6,251
Stable families initiative	73,613	28,006
Street Outreach	13,316	-
Other	192	411
General operations (time restricted)	<u>88,372</u>	<u>65,512</u>
Total temporarily restricted net assets	<u>\$ 318,442</u>	<u>\$ 309,178</u>

The Board designated (Kopp) reserve represents investments segregated for operating support (Note 4). Income from the investments is to be used for Human Services' social service programs.

**9. RETIREMENT PLAN**

Human Services administers the St. Stephen's Human Services 401(k) retirement savings plan (the Plan). The Plan is subject to provisions of the Employee Retirement Income Security Act of 1974 (ERISA). Generally, all employees of Human Services who are over 21 years of age and who have completed twelve months of service are eligible to participate in this plan. Participants may contribute up to the maximum allowable by law and are fully vested immediately.

Human Services provided a discretionary contribution of 2% of any eligible employee's earnings to the Plan. Human Services also provides a 3% match to employees participating in the plan. Contributions to the plan were \$81,456 and \$88,189 in 2016 and 2015, respectively.

**10. LEASE**

Human Services occupies office space and a shelter under non-cancelable lease agreements. The leases require monthly payments for base rent plus operating expenses. Rent expense was \$451,038 in 2016 and \$470,180 in 2015.

(Continued)

**ST. STEPHEN'S HUMAN SERVICES, INC.**

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2016  
(With Comparative Information for 2015)

**10. LEASE (Continued)**

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

2017	\$	330,865
2018		299,287
2019		304,176
2020		309,071
2021		313,966
2022		<u>318,862</u>
	\$	<u>1,876,227</u>

**11. CONTINGENCIES**

Amounts received from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed grant costs may constitute a liability. The amount, if any, of costs that may be disallowed by the grantor agencies will be recognized in the year determined.

Human Services is a defendant in a number of legal actions. While the final outcome cannot be determined at this time, management is of the opinion that the ultimate liability, if any, from the final resolution of these matters will not have a material effect on Human Services' financial statements.

**12. ECONOMIC DEPENDENCE**

Of its revenues and support, Human Services received approximately 11% and 50% from government contracts with two government agencies in 2016 and 52%, from government contracts with one government agency in 2015. Many of those contracts are dependent on the grantor obtaining funding from various government agencies.

**13. SUBSEQUENT EVENTS**

Human Services received an anonymous donation of \$1 million in July 2016.

Management has evaluated subsequent events through October 20, 2016, the date on which the financial statements were available for issue, and identified no further significant events or transactions to disclose.

**SUPPLEMENTARY INFORMATION  
AND REPORTS**

**ST. STEPHEN'S HUMAN SERVICES, INC.**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2016

Federal Grantor/ Pass-through Grantor/ Program Title	CFDA Number	Pass-through Grantor Identifying Number	Federal Expenditures
<b>U.S. Department of Health and Human Services,</b>			
Substance Abuse and Mental Health Services Administration			
Block Grants for Prevention and Treatment of Substance Abuse:	93.959		
Pass-through program from Minnesota Department of Human Services/Chemical Health Division:			
		GRK 28598	\$ 198,849
		GRK 65971	<u>199,483</u>
Total U.S. Department of Health and Human Services			<u>398,332</u>
 <b>U.S. Department of Housing and Urban Development,</b>			
Office of Community Planning and Development			
Emergency Solutions Grant Program	14.231		
Pass-through programs from:			
Minnesota Department of Human Services		GRK 94206	50,000
Hennepin County Department of Human Services		A142247	82,827
City of Minneapolis Department of Community Planning and Economic Development:			
		C40863	9,666
		C39471	123,446
		C38269	<u>284,265</u>
			<u>550,204</u>
Supportive Housing Program	14.235		
Pass-through program from Hennepin County Department of Human Services		A131720	<u>447,364</u>
Shelter Plus Care	14.238		
Pass-through program from Hearth Connections		N/A	<u>67,328</u>
Total U.S. Department of Housing and Urban Development			<u>1,064,896</u>

(Continued)

See accompanying notes to schedule of expenditures of federal awards.

**ST. STEPHEN'S HUMAN SERVICES, INC.**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2016

<u>Federal Grantor/ Pass-through Grantor/ Program Title</u>	<u>CFDA Number</u>	<u>Pass-through Grantor Identifying Number</u>	<u>Federal Expenditures</u>
<b>U.S. Department of Veterans Affairs,</b>			
VA Health Administration Center			
Pass-through program from Minnesota Assistance Council for Veterans:	64.033		
VA Supportive Services for Veteran Families		N/A	<u>164,942</u>
Total expenditures of federal awards			<u>\$ 1,628,170</u>

See accompanying notes to schedule of expenditures of federal awards.

**ST. STEPHEN'S HUMAN SERVICES, INC.**

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2016

**Note 1: Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of St. Stephen's Human Services, Inc. under programs of the federal government for the year ended June 30, 2016. 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 St. Stephen's Human Services, Inc. it is not intended to and does not present the financial position, changes in net assets, or cash flows of St. Stephen's Human Services, Inc.

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

(1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-profit Organizations*, and the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(2) Pass-through entity identifying numbers are presented where available.

(3) St. Stephen's Human Services, Inc. has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

**Note 3: Reconciliation to the Statement of Activities:**

Expenditures of federal awards as shown on previous page	1,628,170
Revenue from state grants	6,458,150
Revenue from county grants	308,262
Revenue from city grants	<u>61,480</u>
Total government grants and reimbursements	<u><u>8,456,062</u></u>

**Note 4. City of Minneapolis ESG Grants**

During the year ended June 30, 2016, funds totaling \$284,265 under grant C38269 were received from the City of Minneapolis Department of Community Planning and Economic Development. While the grant agreement indicates that the source of the funds includes both federal (CFDA 14.231) and state awards, the grantor has not provided the organization with the amount of federal funds included. Because the federal portion of the expenditures is unknown, the full amount of the grant is included in the accompanying schedule of expenditures of federal awards.



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## 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  
St. Stephen's Human Services, Inc.  
Minneapolis, Minnesota

We have audited the financial statements of St. Stephen's Human Services, Inc., which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to financial statements, and have issued our report thereon dated October 20, 2016. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

### Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered St. Stephen's Human Services, Inc.'s internal control over financial reporting (internal control) to determine the 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 St. Stephen's Human Services, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of St. Stephen's Human Services, Inc.'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 may exist that have not been identified.

(Continued)

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether St. Stephen's Human Services, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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 St. Stephen's Human Services, Inc.'s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering St. Stephen's Human Services, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Mahoney Ulbrich  
Christiansen Russ P.A.*

Saint Paul, Minnesota  
October 20, 2016



# Mahoney Ulbrich Christiansen Russ P.A.

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## 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  
St. Stephen's Human Services, Inc.  
Minneapolis, Minnesota

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

We have audited St. Stephen's Human Services, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on St. Stephen's Human Services, Inc.'s major federal program for the year ended June 30, 2016. St. Stephen's Human Services, Inc.'s major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

### ***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and restrictions of its federal awards applicable to its federal programs.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for St. Stephen's Human Services, Inc.'s major federal program based on our audit of the types of compliance requirements referred to above. 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* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program occurred. An audit includes examining, on a test basis, evidence about St. Stephen's Human Services, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of St. Stephen's Human Services, Inc.'s compliance.

(Continued)

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

In our opinion, St. Stephen's Human Services, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2016.

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

Management of St. Stephen's Human Services, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered St. Stephen's Human Services, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of St. Stephen's Human Services, Inc.'s 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

*Mahoney Ulbrich  
Christiansen Russ P.A.*

Saint Paul, Minnesota  
October 20, 2016

**ST. STEPHEN'S HUMAN SERVICES, INC.**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

For the Year Ended June 30, 2016

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

**FINANCIAL STATEMENTS**

Type of auditor's report issued Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ yes      X   no
- Significant deficiency(s) identified? \_\_\_\_\_ yes      X   none reported

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

**FEDERAL AWARDS**

Internal control over major program:

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

Major program: CFDA Number 14.231 - Emergency Solutions Grant Program

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

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

(Continued)

**ST. STEPHEN'S HUMAN SERVICES, INC.**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

For the Year Ended June 30, 2016

**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.