



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

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
JUNE 30, 2021**



ST. STEPHEN'S HUMAN SERVICES, INC.

FINANCIAL STATEMENTS WITH SUPPLEMENTARY INFORMATION AND REPORTS

For the Year Ended June 30, 2021
(With Comparative Information for 2020)

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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, 2021, and the related statements of activities, 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, 2021, 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 2020 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated November 11, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020, 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 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 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 March 1, 2022, 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 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 St. Stephen's Human Services, Inc.'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 St. Stephen's Human Services, Inc.'s internal control over financial reporting and compliance.

*Mahoney Ulbrich
Christiansen Russ P.A.*

March 1, 2022

ST. STEPHEN'S HUMAN SERVICES, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 2021

(With Comparative Totals for 2020)

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash and cash equivalents	\$ 3,418,624	\$ 3,757,522
Cash - restricted for participant deposits	1,154,091	948,408
Investments	9,049,876	6,663,184
Accounts receivable	370	2,801
Grants receivable	1,352,461	814,287
Pledges receivable	-	192,500
Other receivables	7,361	-
Prepaid expenses and other assets	131,024	55,197
Predevelopment costs	323,913	78,057
Property and equipment, net	<u>2,612,332</u>	<u>183,550</u>
 Total assets	 <u>\$ 18,050,052</u>	 <u>\$ 12,695,506</u>
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 550,997	\$ 142,122
Accrued payroll and related	420,589	250,079
Participant deposits	1,154,091	948,408
Refundable advances	89,293	100,474
Payroll protection program loan	-	825,000
Long term debt	1,018,750	-
Accrued interest	194,563	1,031
Deferred lease incentive, net	<u>97,500</u>	<u>112,500</u>
 Total liabilities	 <u>3,525,783</u>	 <u>2,379,614</u>
Net assets:		
Without donor restrictions:	10,193,229	4,960,642
With donor restrictions	<u>4,331,040</u>	<u>5,355,250</u>
 Total net assets	 <u>14,524,269</u>	 <u>10,315,892</u>
 Total liabilities and net assets	 <u>\$ 18,050,052</u>	 <u>\$ 12,695,506</u>

See accompanying notes to financial statements.

ST. STEPHEN'S HUMAN SERVICES, INC.

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2021
(With Comparative Totals for 2020)

	2021		Total	2020
	Net assets without donor restrictions	Net assets with donor restrictions		
Revenues and support:				
Contributions	3,817,994	\$ 93,154	\$ 3,911,148	\$ 8,014,852
Contributions - in-kind	201,895	-	201,895	139,762
Government grants and reimbursements	14,642,066	-	14,642,066	10,521,649
Fee income	380,713	-	380,713	326,944
Other income	130,310	-	130,310	100
Special events less direct benefits to donors of \$0 in 2021 and \$155 in 2020	-	-	-	2,585
Net assets released upon expiration of time and purpose restrictions	1,117,364	(1,117,364)	-	-
Total revenues and support	20,290,342	(1,024,210)	19,266,132	19,005,892
Expenses:				
Program services:				
Shelter	4,703,732	-	4,703,732	1,624,747
Street outreach	1,080,047	-	1,080,047	873,205
Supportive housing	6,835,236	-	6,835,236	6,367,262
Prevention	755,993	-	755,993	530,349
Rapid re-housing	1,558,953	-	1,558,953	1,530,228
Community engagement	126,490	-	126,490	34,325
Rep payee	261,471	-	261,471	197,011
Site-based supportive housing	784,386	-	784,386	-
Food Centre	256,020	-	256,020	-
Day by Day	115,397	-	115,397	-
Total program services	16,477,725	-	16,477,725	11,157,127
Management and general	2,548,321	-	2,548,321	1,541,585
Fundraising	726,919	-	726,919	431,633
Total expenses	19,752,965	-	19,752,965	13,130,345
Change in net assets before nonoperating activity	537,377	(1,024,210)	(486,833)	5,875,547
Loss on sale of property and equipment	(19,632)	-	(19,632)	-
Forgiveness of debt	834,881	-	834,881	-
Contribution from House of Charities combination	2,693,159	532,572	3,225,731	-
Return on investments, net	654,230	-	654,230	276,727
Net assets from combination released upon expiration of purpose restrictions	532,572	(532,572)	-	-
Change in net assets	5,232,587	(1,024,210)	4,208,377	6,152,274
Net assets, beginning of year	4,960,642	5,355,250	10,315,892	4,163,618
Net assets, end of year	\$ 10,193,229	\$ 4,331,040	\$ 14,524,269	\$ 10,315,892

See accompanying notes to financial statements.

ST. STEPHEN'S HUMAN SERVICES, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2021
(With Comparative Totals for 2020)

	2021										Total program services	Management and general	Fund-raising	Total	2020
	Program Services														
	Shelter	Street outreach	Supportive housing	Prevention	Rapid re-housing	Community Engagement	Rep payee	Site-based supportive housing	Food Centre	Day by Day					
Salaries and wages	\$ 999,933	\$ 671,893	\$ 1,480,483	\$ 289,964	\$ 534,382	\$ 60,249	\$ 135,422	\$ 105,971	\$ 48,427	\$ 54,965	\$ 4,381,689	\$ 972,023	\$ 446,776	\$ 5,800,488	\$ 4,068,948
Payroll taxes	82,301	55,665	118,103	23,163	43,120	4,318	11,197	7,594	3,470	3,939	352,870	75,841	34,785	463,496	336,939
Employee benefits	132,490	132,800	314,820	45,476	119,408	6,149	19,446	10,815	4,942	5,609	791,955	154,152	87,384	1,033,491	862,783
	1,214,724	860,358	1,913,406	358,603	696,910	70,716	166,065	124,380	56,839	64,513	5,526,514	1,202,016	568,945	7,297,475	5,268,670
Office expense	1,580	906	4,901	343	2,990	10,044	3,964	17,667	8,073	9,163	59,631	59,768	7,408	126,807	108,569
Telephone	10,998	8,142	18,620	3,598	7,483	1,348	955	2,371	1,083	1,230	55,828	11,248	2,928	70,004	46,497
Postage	-	-	-	-	-	389	-	684	313	355	1,741	581	45,204	47,526	26,289
Equipment and maintenance	7,519	-	84	-	-	6,986	-	12,287	5,615	6,373	38,864	105,044	53,280	197,188	176,138
Insurance	8,073	-	-	-	-	-	9,041	-	-	-	17,114	81,922	-	99,036	37,121
Printing and publications	-	639	-	39	-	284	-	499	228	259	1,948	424	254	2,626	4,368
Food	-	-	-	-	-	-	-	-	154,351	-	154,351	-	-	154,351	-
Travel and meals	7,444	380	29,664	1,543	2,346	1,940	-	3,412	1,559	1,770	50,058	2,916	1,519	54,493	39,683
Conferences and meetings	1,229	1,345	3,498	375	1,095	150	-	264	121	137	8,214	26,619	1,072	35,905	31,530
Professional fees	58,127	-	-	-	-	21,192	-	37,275	17,034	19,334	152,962	362,492	14,908	530,362	106,271
Contracted services	111,615	7,113	13,007	-	-	2,534	51,263	4,457	2,037	2,312	194,338	266,124	1,735	462,197	346,857
Specific assistance to individuals	328,407	107,002	4,671,558	364,522	783,400	-	-	561,906	-	-	6,816,795	1,237	105	6,818,137	5,953,523
Interest	-	-	-	-	-	1,861	14,000	3,273	1,496	1,698	22,328	4,450	1,274	28,052	8,567
Depreciation	29,502	-	-	-	-	-	-	-	-	-	29,502	96,971	-	126,473	41,236
Bad debt expense	-	-	-	-	-	-	-	-	-	-	-	38,000	-	38,000	-
Miscellaneous	-	-	-	-	-	-	-	-	-	-	-	200,000	-	200,000	-
Occupancy	2,924,514	94,162	180,498	26,970	64,729	9,046	16,183	15,911	7,271	8,253	3,347,537	88,509	28,287	3,464,333	935,181
	4,703,732	1,080,047	6,835,236	755,993	1,558,953	126,490	261,471	784,386	256,020	115,397	16,477,725	2,548,321	726,919	19,752,965	13,130,500
Less: direct benefits to donors	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(155)
Total expenses	<u>\$ 4,703,732</u>	<u>\$ 1,080,047</u>	<u>\$ 6,835,236</u>	<u>\$ 755,993</u>	<u>\$ 1,558,953</u>	<u>\$ 126,490</u>	<u>\$ 261,471</u>	<u>\$ 784,386</u>	<u>\$ 256,020</u>	<u>\$ 115,397</u>	<u>\$ 16,477,725</u>	<u>\$ 2,548,321</u>	<u>\$ 726,919</u>	<u>\$ 19,752,965</u>	<u>\$ 13,130,345</u>

See accompanying notes to financial statements.

ST. STEPHEN'S HUMAN SERVICES, INC.

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2021
(With Comparative Totals for 2020)

	2021	2020
Cash flows from operating activities:		
Change in net assets	\$ 4,208,377	\$ 6,152,274
Adjustments to reconcile the change in net assets to net cash from operating activities:		
Depreciation	126,473	41,236
Contributions received from combination	(3,225,731)	-
Forgiveness of debt	(834,881)	-
Unrealized gain on investments	(639,694)	(143,697)
Donated stock	(103,517)	(5,047,632)
Loss on sale of property and equipment	19,632	-
Deferred lease incentive amortization	(15,000)	(15,000)
Changes in operating assets and liabilities:		
Accounts receivable	2,431	21,291
Grants receivable	(529,186)	(37,258)
Pledges receivable	192,500	43,500
Other receivables	(7,361)	-
Prepaid expenses	50,498	(20,540)
Accounts payable	264,314	99,811
Accrued expenses	229,452	(37,843)
Participant deposits	205,683	525,047
Refundable advances	(64,010)	29,894
Net cash from operating activities	<u>(120,020)</u>	<u>1,611,083</u>
Cash flows from investing activities:		
Cash received from combination	247,198	-
Proceeds from the sale of investments	-	133,978
Purchases of investments	(14,536)	(258,392)
Payments for predevelopment costs	<u>(245,856)</u>	<u>(36,855)</u>
Net cash from investing activities	<u>(13,195)</u>	<u>(161,269)</u>
Cash flows from financing activities:		
Proceeds from Paycheck Protection Program loan	<u>-</u>	<u>825,000</u>
Net cash from financing activities	<u>-</u>	<u>825,000</u>
Net increase (decrease)	(133,215)	2,274,814
Cash, cash equivalents, and restricted cash, beginning of year	<u>4,705,930</u>	<u>2,431,116</u>
Cash, cash equivalents, and restricted cash, end of year	<u>\$ 4,572,715</u>	<u>\$ 4,705,930</u>
Reconciliation from the Statement of Financial Position		
Cash and cash equivalents	\$ 3,418,624	\$ 3,757,522
Cash - restricted for participant deposits	1,154,091	948,408
Total cash, cash equivalents and restricted cash	<u>\$ 4,572,715</u>	<u>\$ 4,705,930</u>

See accompanying notes to financial statements.

ST. STEPHEN'S HUMAN SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2021
(With Comparative Information for 2020)

1. ORGANIZATION

St. Stephen's Human Services began in the early 1970s as initiatives to end homelessness by the congregation of St. Stephen's Church in South Minneapolis. St. Stephen's Human Services (the Organization) was incorporated as a 501(c)(3) nonprofit independent of the church in 2002. Over nearly 50 years, the Organization has been recognized as a community leader through the development and implementation of innovative programs and services that prevent and end homelessness. The mission of the Organization is ending homelessness. Our primary goal is to support people experiencing homelessness in achieving permanent, affordable housing. We meet people where they are, working together toward self-sufficiency and housing stability.

Effective January 1, 2021, the Organization merged with another non-profit corporation, House of Charity, Inc., whose mission was to feed those in need, house those experiencing homelessness, and empower individuals to achieve independence. All of House of Charity's assets and liabilities, including restricted funds and their respective restrictions, were transferred to the Organization, which is the surviving organization, on January 1, 2021. Both Organization's Board of Directors approved the merger on November 9, 2020.

The Organization operates the following programs, after adding the programs acquired in the merger:

Shelter - The Organization provides emergency shelter to up to 99 individuals experiencing homelessness each night. In addition to providing meals, access to showers, and a safe place to sleep, staff at our two shelter locations provide coordination of services to assist guests in meeting their long-term goals.

Street Outreach - The Organization's Street Outreach team works with people sleeping outside or in places unfit for human habitation. The team provides on-the-spot services to ensure safety and survival for people experiencing unsheltered homelessness, while helping clients address their barriers to housing.

Supportive Housing:

Single Adult Supportive Housing - Single adult supportive housing involves longer-term services designated for individuals identified as having the greatest needs and vulnerability.

Family Supportive Housing - Family supportive housing works with families who have the greatest needs to secure and maintain housing and offers long-term support.

(Continued)

ST. STEPHEN'S HUMAN SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2021
(With Comparative Information for 2020)

1. ORGANIZATION (Continued)

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.

Housing First Service - The Organization began participating in the Housing First through Hennepin County after the merger with House of Charities. Housing First is a national best practice model. It operates on the premise that housing is a basic human right and that people experiencing homelessness have a much higher chance of overcoming barriers when they have a safe, stable place to live. The program seeks to place clients in affordable community housing and overlay supportive services. This program integrates with and expands the Organization's existing supporting housing programs.

Housing Services - Our housing programs provide access to scattered-site, affordable housing for single adults and families experiencing and emerging from homelessness. Staff provide support in locating, accessing, and maintaining housing as our clients work toward personal goals and self-sufficiency:

Prevention - One of the most effective ways to end homelessness is to support those at risk of losing their housing. The Organization provides supportive services, housing stabilization planning, financial counseling, landlord mediation, and other assistance for families at imminent risk of homelessness.

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. Specialized services include rapid rehousing with an emphasis on employment.

Site-Based Supportive Housing - On-site supportive housing is for single adults who need safe and sober housing and are often considered chronically homeless and many of them have emotional and/or psychological issues and/or a history of chemical dependency. Case management services are required for all residents. Whether seeking further education or developing employment skills, residents within the Transitional housing program are working toward becoming productive members of the community, developing skills that will enable them to be self-sufficient. This program was acquired in the merger with House of Charities.

(Continued)

ST. STEPHEN'S HUMAN SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2021
(With Comparative Information for 2020)

1. ORGANIZATION (Continued)

Food Centre - The Food Centre is open every day of the year. Volunteers and staff prepare and serve hot, nutritious meals. The Food Centre offers two public meals: a breakfast that is open to women, children, and men with children, and a noon meal, which is open to all the general public. There is also the Shelf of Hope, a food shelf for people experiencing severe poverty. This program was acquired in the merger with House of Charities.

Day by Day Program - Day by Day Program is a comprehensive co-occurring disorder treatment program that firmly based on the belief in meeting clients where they are at, while providing wrap-around support to aid clients in meeting their personal definition of recovery. The program uses a harm reduction model to aid clients in building long-term supports that promote lasting recovery. The program is designed around evidence-based practices and prides itself in being client centered and trauma informed. Clients in the program participate in group therapy, individual counseling and have access to clinical case management services. This program was acquired in the merger with House of Charities.

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 and legislative advocacy in collaboration with our public, private and nonprofit partners.

Other Services:

Representative Payee (Rep Payee) – Social Security appoints representative payees to Social Security beneficiaries who need help managing their funds to pay rent and utility expenses, personal needs and food.

Other Resources – The Organization 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, 2021
(With Comparative Information for 2020)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation - The consolidated financial statements include St. Stephen's Human Services, Inc. (parent organization) and House of Charity Property Development LLC. All significant intercompany accounts and transactions have been eliminated.

The Organization accounts for its investment in Park7 Limited Partnership using the equity method as it has substantial influence but not control. The Organization's share of loss in 2020 reduced the Organization's investment in the partnership to zero and, as a result the Organization discontinued applying the equity method.

Financial Statement Presentation - The Organization reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. Revenues and support are classified based on the presence or absence of donor restrictions and reported in the following net asset categories:

- Net assets without donor restrictions represent the portion of net assets that are not subject to donor restrictions.
- Net assets with donor restrictions arise from contributions that are restricted by donors for specific purposes or time periods.

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.

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.

Cash - Restricted for Participant Deposits - Some clients are not able to manage their own money and therefore the Organization holds as an agent amounts collected from these participants in its Alliance of the Streets Representative Payee program and manages their money on their behalf. A liability titled "Participant Deposits" has been established for these funds. These amounts are considered restricted cash.

(Continued)

ST. STEPHEN'S HUMAN SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2021
(With Comparative Information for 2020)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable - Accounts receivable are stated at the amount management expects to collect. Management reviews receivable balances at year end and establishes an allowance for doubtful accounts 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 for doubtful account was considered necessary for the years ended June 30, 2021 and 2020.

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 as increases in net assets without donor restrictions unless the income or loss is restricted by the donor.

Fair Value Measurements - The Organization 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.

The Organization's investments are all valued using Level 1 inputs.

Concentration of Credit Risk - The Organization places its cash with several financial institutions and brokerage firms bank deposit program and money market accounts. The financial institution and the bank deposit programs are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per institution. At times the amount on deposit exceeds the insured limit of the institutions and exposes the Organization to a credit risk. The Organization has not experienced any losses on its cash deposits. At June 30, 2021 and 2020, deposits exceeded the federally insured limit by \$4,207,346 and \$4,137,213, respectively.

(Continued)

ST. STEPHEN'S HUMAN SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2021
(With Comparative Information for 2020)

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

The brokerage firms maintain insurance through the Security Investor Protection Corporation (SIPC) which provides coverage to the account holders up to \$500,000 (including up to \$250,000 in cash claims). The current brokerage firm has purchased additional policies covering up to an aggregate loss limit of \$1 billion for all client claims. Securities were fully insured for both years.

Predevelopment costs - Predevelopment costs are recorded at cost and include costs related to the possible construction of a new shelter by the Organization. Costs will continue to be recorded in predevelopment costs until a final determination to go forward or not with the project is made. If it is determined to go forward with the construction of a new shelter the costs will be transferred to work in progress and capitalized to building when placed in service. If it is determined that construction will not go forward, the predevelopment costs will be expensed in the period so determined.

Property and Equipment - Property and equipment are recorded at cost. The Organization's policy is to capitalize expenditures 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.

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, the Organization reports expiration of donor restrictions when the donated or acquired assets are placed in service.

Grants, Contracts, and Contributions - The Organization recognizes contributions when cash, securities or other assets or an unconditional promise to give are received. Conditional promises to give - 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 met. Contributions are recorded when received as net assets without donor restrictions or net assets with donor restrictions depending on the existence and/or nature of any donor restrictions. Upon expiration of the time restriction or when purpose restrictions have been met, they are reclassified to net assets without donor restrictions. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized.

(Continued)

ST. STEPHEN'S HUMAN SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2021
(With Comparative Information for 2020)

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

A portion of the Organization's revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions.

A portion of the Organization's revenue is derived from federal and state contracts and grants, which are conditioned upon certain performance requirements other than incurrence of allowable qualifying expenses. Amounts received are recognized as revenue at the rate stated in the agreements when the Organization has performed the related services required by the specific contract or grant provisions.

Revenues under government grants and contracts are subject to review by the granting authority. If, as a result of such a review, expenditures are determined to be unallowable, or services performed not in compliance, the disallowance will be recorded at the time the assessment for refund is made.

Pledges and grants receivable are stated at the amount management expects to collect from outstanding balances. Grants receivable represent expenditures made in accordance with the terms of the awards not yet reimbursed in cash or services performed but not paid. Funding received in advance of the incurrence of project expenditures or performance of required services is recorded as a refundable advance. Management provides for probable uncollectible amounts through a charge to expense and a credit to a valuation allowance based on its assessment of the current status of individual accounts.

Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to grants or contributions receivable.

As of June 30, 2021 and 2020, management has estimated that all of the grants receivable are collectable. Accordingly, no allowance has been provided.

(Continued)

ST. STEPHEN'S HUMAN SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2021
(With Comparative Information for 2020)

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

Contributions - in-kind - Contributed materials are recorded at fair value when received. 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.

The Organization received contributed legal fees of \$10,525 in 2020, and donated clothing and household items for programs as follows:

	<u>2021</u>	<u>2020</u>
Rapid re-housing	\$ -	\$ 27,354
Shelter	33,911	32,282
Family supportive housing	31,823	17,966
Street outreach	75,812	40,315
Ending long-term homelessness	27,817	11,320
Site-based supportive housing	11,782	-
Food Centre	19,158	-
Management and General	<u>1,592</u>	<u>-</u>
Total	<u>\$ 201,895</u>	<u>\$ 129,237</u>

The Organization regularly receives donated services from many volunteers. However, no amounts have been recognized for these services because they do not meet the criteria described above.

Fee Income - Fee income consists of rep payee fees, sublease of a portion of the Organization facility, Day by Day fees for client services, and various immaterial sale and service fees. Rep payee fees are recognized as revenue during the month in which the related services are provided. The performance obligation of delivering the rep payee services is simultaneously received and consumed; therefore, the revenue is recognized ratably over the month. The sublease of the facility is recognized over the term to which it relates. Other sale or service fees are recognized at the point of sale. Day by Day fees for client services are recorded at the time the services are performed.

(Continued)

ST. STEPHEN'S HUMAN SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2021
(With Comparative Information for 2020)

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

Fee income consists of fees earned as follows:

	2021	2020
Recognized at a point in time	\$ 14,876	\$ 14,655
Recognized over time	365,837	312,289

Functional Expenses - Expenses have been allocated among program services, management and general, and fundraising classifications based upon direct expenditures and allocations by management. Occupancy costs are allocated based on the number of staff members per program. Administrative expenses (office expense, telephone, postage) are allocated based on management's estimation of use by each program based on total expense for each program.

Operating and Nonoperating Activities - The statement of activities presents the changes in net assets from operating activities and from nonoperating activities. Operating revenues and expenses include all activities that are an integral part of the Organization's programs and supporting activities. Nonoperating activities consist primarily of investment income, including realized and unrealized gains and losses, debt forgiveness, and contributions from the House of Charities combination.

Comparative Total Column - The financial statements include certain prior-year summarized comparative information in total but not by net asset class or by functionalized expenses. 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 Organization's financial statements for the year ended June 30, 2020, from which the information was derived.

Income Taxes - The Organization 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 the Organization does not have any unrelated business income or uncertain tax positions in 2021 or 2020.

House of Charity Property Development LLC is a single member LLC. The LLC (limited liability company) is not a taxable entity and is included on the income tax return of the Organization.

Reclassifications - Certain reclassifications have been made to the prior year financial statements to be consistent with the current year classifications. The reclassifications did not affect net assets or the change in net assets.

(Continued)

ST. STEPHEN'S HUMAN SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2021
(With Comparative Information for 2020)

3. AVAILABILITY AND LIQUIDITY

The following reflects the Organization's financial assets as of the Statement of Financial Position date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the Statement of Financial Position date. Amounts not available include amounts held as a fiscal agent by the Organization for the Rep Payee program.

Financial assets at June 30:	2021	2020
Cash	\$ 3,418,624	\$ 3,757,522
Investments	9,049,864	6,663,184
Accounts receivable	370	2,801
Grants receivable	1,352,461	814,287
Pledges receivable	-	192,500
Other receivables	7,361	-
Total financial assets	<u>13,828,680</u>	<u>11,430,294</u>
Less amounts not available to be used within a year:		
Net assets with donor restrictions (Note 9)	<u>4,605,357</u>	<u>4,700,000</u>
	<u>4,605,357</u>	<u>4,700,000</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 9,223,323</u>	<u>\$ 6,730,294</u>

The Organization occasionally receives Legacy gifts which are given without donor restrictions. These gifts are not recorded as donor restricted but are instead internally designated. These gifts are not excluded from assets available to meet general expenditures.

The Organization regularly monitors liquidity required to meet its operating needs and other commitments. Reports reviewed by the board regularly include ratios and other information to track liquidity versus the Organization's goals. In addition to financial assets available to meet general expenditures over the next 12 months, the Corporation operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures.

(Continued)

ST. STEPHEN'S HUMAN SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2021
(With Comparative Information for 2020)

3. AVAILABILITY AND LIQUIDITY (Continued)

The Board of the Organization's goal is generally to maintain financial assets to meet 3 months of operating expenses (approximately \$5 million). The Organization's informal policy is to keep all operating funds in cash, however, Legacy gifts and stock donations are typically kept in investments. The Organization's investment policy is to be generally conservative related to how much of the financial assets are invested. Investments are intended to produce 3% on average for annual cash flow requirements. To help manage unanticipated liquidity needs, the Organization has a line of credit of \$350,000, which it could draw upon (Note 7).

4. INVESTMENTS

Investments consist of the following at June 30:

	<u>2021</u>	<u>2020</u>
Cash and money market funds	\$ 5,954,254	\$ 5,814,818
U. S. common stock	2,057,132	846,206
Mutual funds	800,837	2,160
Fixed income	130,752	-
Government securities	106,901	-
Total investments	<u>\$ 9,049,876</u>	<u>\$ 6,663,184</u>

Gain (loss) on investments consists of the following:

	<u>2021</u>	<u>2020</u>
Realized gains (losses), net	\$ 334	\$ 102,973
Interest and dividend income	66,497	33,484
Unrealized gains (losses), net	587,404	143,697
Investment service fees	(5)	(4,465)
Return on investments, net	<u>\$ 654,230</u>	<u>\$ 275,689</u>

(Continued)

ST. STEPHEN'S HUMAN SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2021
(With Comparative Information for 2020)

5. **INVESTMENTS IN UNCONSOLIDATED AFFILIATES**

The Organization is the co-owner of Park7 Limited Partnership (the Partnership) along with Trellis Co. The Partnership owns and operates a 61-unit low-income apartment building, which was placed in service in July 2020. The Organization owns 51%, but due to the management structure of the Partnership does not control the Partnership. House of Charities recorded its investment using the equity method until the value reach zero, and it was transferred in at a zero value in the combination. Condensed financial information for Park7 Limited Partnership as on December 31, 2020 is as follows:

Balance sheet:

Property and equipment, net	\$ 9,776,635
Cash and reserves	865,376
Receivables	200,593
Other assets	<u>20,476</u>
Total assets	<u>\$ 10,863,080</u>
Long-term debt, net	\$ 9,773,644
Accounts payable and accrued expenses	60,544
Construction liabilities	706,029
Other liabilities	<u>496,679</u>
Total liabilities	11,036,896
Partners' capital (deficit)	<u>(173,816)</u>
Total liabilities and partners' capital (deficit)	<u>\$ 10,863,080</u>

Statement of operations:

Rental and other revenues	\$ 131,934
Operating expenses	<u>(122,536)</u>
	9,398
Interest expense	(3,668)
Depreciation and amortization	(180,593)
Other expenses	<u>(7,150)</u>
Net income (loss)	<u>\$ (182,013)</u>

(Continued)

ST. STEPHEN'S HUMAN SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2021
(With Comparative Information for 2020)

6. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30:

	<u>2021</u>	<u>2020</u>	Estimated useful life in years
Land	\$ 975,000	\$ -	-
Shelter leasehold improvements	20,545	208,728	15
Administrative leasehold improvements	276,396	276,396	5 - 15
Buildings and improvements	3,536,591	-	5 - 50
Furniture and equipment	690,504	-	5 - 10
	<u>5,499,036</u>	<u>485,124</u>	
Less accumulated depreciation	<u>(2,886,704)</u>	<u>(301,574)</u>	
	<u>\$ 2,612,332</u>	<u>\$ 183,550</u>	

The Organization is pursuing the acquisition of a new shelter to replace the Clinton Avenue Shelter. The Organization has hired a consulting company and plans to work with several contractors to complete this project. This project is in the early stages, so an estimate of total costs has not been made as the details are still too uncertain. The Organization may use some of the investments to pay predevelopment costs and acquire a site when one is located.

7. LINE OF CREDIT

The Organization has a revolving line of credit that enables the Organization to borrow up to \$350,000. Interest accrues at a rate of 1% over the prime rate, but not less than 5.5%. The agreement expired on February 1, 2022. An extension past February 1, 2022 has been approved, but the paperwork has not been finalized as of March 1, 2022. The line of credit is secured by all assets of the Organization. As of June 30, 2021 and 2020, 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, 2021
(With Comparative Information for 2020)

8. **LONG-TERM DEBT**

Long-term debt consists of the following:

	2021	2020
MN Housing	\$ 525,000	\$ -
MCDA	300,000	-
FHF	190,000	-
MN Housing #2	3,750	-
PPP Loan	-	825,000
	<u>\$ 1,018,750</u>	<u>\$ 825,000</u>

MN Housing - Minnesota Housing Finance Agency (MN Housing) notes payable dated November 18, 1997 and September 3, 1998, secured by real estate. The loans are non-interest bearing and mature on November 18, 2027. Loan was assumed in the merger.

MCDA - Minneapolis Community Development Agency (MCDA) note payable dated November 18, 1997, secured by real estate. The loan bears interest at 1% with principal and accrued interest due on November 18, 2027. Loan was assumed in the merger.

FHF - Family Housing Fund (FHF) of Minneapolis and Saint Paul note payable dated November 18, 1997, secured by real estate. The loan bears interest at 1% with principal and accrued interest due on November 18, 2027. Loan was assumed in the merger.

MN Housing #2 - Minnesota Housing Finance Agency loan payable dated May 23, 1996, secured by real estate. The loan is non-interest bearing, matures May 23, 2026, and is forgivable starting in May 2007 at the rate of 5% of the full amount of the loan per year. In consideration of the loan, the Organization has agreed to maintain at least 25% of its housing units for the benefit of low-income persons or families. Loan was assumed in the merger.

PPP Loan - In May 2020, the Organization signed an unsecured \$825,000 note payable to Sunrise Banks, N.A. with interest at 1.0%. The note was funded through the Payroll Protection Program (PPP), a program developed by the Federal government in response to the COVID-19 pandemic. The loan and related interest was fully forgiven in June 2021.

If not forgiven, the MN Housing #2 loan matures in 2026. All other debt matures in 2027.

(Continued)

ST. STEPHEN'S HUMAN SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2021
(With Comparative Information for 2020)

9. **DONOR RESTRICTED NET ASSETS**

Net assets with donor restrictions consist of contributions restricted for the following:

	<u>2021</u>	<u>2020</u>
Purpose restricted:		
Shelter	\$ 15,794	\$ 19,026
Rapid re-housing	139,087	307,652
Prevention	23,797	-
Strategic planning	9,672	9,672
New programming	4,071,100	4,998,900
Other	56,590	20,000
General operations (time restricted)	<u>15,000</u>	<u>-</u>
Total net assets with donor restrictions	<u>\$ 4,331,040</u>	<u>\$ 5,355,250</u>

10. **RETIREMENT PLAN**

The Organization 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 the Organization 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. Former House of Charity employees were added to the plan in April 2021.

The Organization provided a discretionary contribution of 2% of any eligible employee's earnings to the Plan. The Organization also provides a 3% match to employees participating in the plan. Contributions to the plan were \$150,270 and \$113,439 in 2021 and 2020, respectively.

11. **LEASE**

The Organization occupied administrative space and two shelters under non-cancelable lease agreements. The Organization vacated the shelter on Clinton Avenue when the lease expired in April 2021. The leases required monthly payments for base rent plus operating expenses. Rent expense under these leases was \$374,147 in 2021 and \$382,391 in 2020.

(Continued)

ST. STEPHEN'S HUMAN SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2021
(With Comparative Information for 2020)

11. LEASE (Continued)

During the year ended June 30, 2018, the Organization modified its lease for the administrative space. As part of this modification, the landlord agreed to reimburse the Organization for up to \$150,000 of leasehold improvements. The \$150,000 is recorded as a deferred lease incentive and is amortized over the term of the lease, using the straight-line method. Amortization is included in occupancy expense.

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

2022	\$	337,548
2023		328,667
2024		333,562
2025		338,458
2026		343,353
Thereafter		<u>523,596</u>
	\$	<u>2,205,184</u>

A portion of the leased administrative space is subleased to an unaffiliated nonprofit organization. The sub-tenant is renting space from the Organization on a month-to-month basis. Rent revenue of \$14,876 in 2021 and \$14,655 in 2020 is recorded in fee income.

12. COMMITMENTS, CONCENTRATIONS, AND CONTINGENCIES

Of its revenues and support, the Organization received approximately 38% and 20% in 2021 from government contracts with two government agencies and 41% in 2020 from government contracts with one government agency, and 26% in 2020 from one foundation donor.

In April 2021 the Organization received a contribution of \$779,829 from a trust. This payment represented a portion of the total unknown amount to be received by the Organization from the trust. The remaining funds are expected to be paid out from the trust in the year ended June 30, 2023 and will be recorded when received.

(Continued)

ST. STEPHEN'S HUMAN SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2021
(With Comparative Information for 2020)

12. **COMMITMENTS, CONCENTRATIONS, AND CONTINGENCIES (Continued)**

The Organization has several government grants that contain donor conditions (primarily that funds be expended before they are earned or received). Since these grants represent conditional promises to give, they are not recorded as contribution revenue until donor conditions are met. Human Services has unearned conditional contributions of approximately the following at June, 30:

	2021	2020
Street outreach	\$ 192,805	\$ 320,196
Shelter	1,206,840	959,041
Rapid re-housing	871,270	3,092,804
Supportive housing	1,041,428	2,416,122
	<u>\$ 3,312,343</u>	<u>6,788,163</u>

Funds received from the donor in advance of the conditions being met totaled \$36,464; are recorded as refundable advances; and will subsequently be recognized as government grants and reimbursements revenue when donor conditions are met.

In March 2020, the state of Minnesota began to enact measures to combat the global pandemic resulting from a novel strain of the coronavirus known as COVID-19. Measures have included regulatory restrictions on activities as well as recommendations for further voluntary curtailment of activities. Direct impacts on the Organization include limiting the number of individuals allowed in shelters, the temporary closure of the shelter and moving clients to hotels, and switching the shelter operations to 24/7 beginning in March 2020. The Organization received additional funding to pay some of the additional costs related to these changes. At June 30, 2021 the shelters were reopening, though continued regulations and restrictions on activities remain in place. The future potential impact of these issues is unknown and therefore no estimate can be made at this time.

The Organization's employees are represented by AFSCME Council 5 (the Union). The Union represents approximately 78% of all employees. The union contract was ratified with an effective date of September 17, 2020, and includes, among other things, a new pay scale.

The Organization is subject to various legal proceedings covering a range of matters that arise in the course of its business activities. Management believes that any liability that may ultimately result from the resolution of these matters will not have a material adverse effect on the financial condition or results of operations of the Organization.

(Continued)

ST. STEPHEN'S HUMAN SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2021
(With Comparative Information for 2020)

13. BUSINESS COMBINATIONS

On January 1, 2021, the Organization merged with another non-profit corporation, House of Charity, Inc. The combination was to enhance services to individuals who are experiencing homelessness.

The transactions have been treated as acquisitions for accounting purposes. No consideration was exchanged in the combinations.

The fair value of recognized assets acquired and liabilities assumed in 2021:

Cash and cash equivalents	\$	247,198
Investments		1,628,945
Accounts receivable		8,989
Prepaid expenses		63,559
Other current assets		62,766
Property and equipment		2,574,886
Accounts payable and accruals		(341,112)
Notes and mortgages payable		<u>(1,019,500)</u>
Total identifiable net assets	\$	<u>3,225,731</u>

On the statement of activities and changes in net assets, the excess fair value of assets acquired over liabilities assumed is reported as contribution revenue.

14. SUBSEQUENT EVENTS

On January 26th, 2022, a fire at the Food Centre caused extensive damage, which resulted in the city condemning the building. The Organization is working with community partners to ensure their clients have access to the resources they need. They are currently working out of temporary space at First Covenant Church and are working on locating a temporary site until the Food Centre can be rebuilt. The Organization is campaigning to raise funds to both rebuild the Food Centre and help provide meals to the community in the meantime.

Management has evaluated subsequent events through March 1, 2022, 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, 2021

Federal Grantor/ Program Title/ Pass-through Grantor	Assistance Listing Number	Pass-through Grantor Identifying Number	Federal Expenditures
U.S. Department of Housing and Urban Development			
Office of Community Planning and Development			
Emergency Solutions Grant Program	14.231		
Pass-through Hennepin County Department of Human Services		HS00000336	103,129
Passed through the State of Minnesota Department of Human Services		GRK%184315	93,750
			<u>196,879</u>
 Continuum of Care	 14.267		
Passed through Hennepin County Department of Human Services:			
		HS00000338	432,651
		HS00000337	355,225
			<u>787,876</u>
Total U.S. Department of Housing and Urban Development			<u>891,005</u>
U.S. Department of Treasury			
Coronavirus Relief Fund:	21.019		
Passed through the State of Minnesota		N/A	962,823
Total U.S. Department of Treasury			<u>962,823</u>
U.S. Department of Homeland Security			
Federal Emergency Management Agency (FEMA)			
Emergency Food and Shelter National Board Program	97.024		
Passed through United Way		36-495000-028	10,239
Total U.S. Department of Homeland Security			<u>10,239</u>
U.S. Department of Veterans Affairs			
VA Health Administration Center			
VA Supportive Services for Veteran Families	64.033		
Passed through Minnesota Assistance Council for Veterans		N/A	30,537
Total U.S. Department of Veterans Affairs			<u>30,537</u>
 Total expenditures of federal awards			<u><u>\$ 1,988,354</u></u>

ST. STEPHEN'S HUMAN SERVICES, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2021

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, 2021. 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 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.

Note 3. Indirect Cost Rate

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 4: Reconciliation to the Statement of Activities:

Expenditures of federal awards as shown on previous page	\$ 1,988,354
Revenue from state grants	11,423,740
Revenue from county grants	865,998
Revenue from city grants	<u>363,974</u>
Total government grants and reimbursements	<u><u>\$ 14,642,066</u></u>



**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. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to financial statements, and have issued our report thereon dated March 1, 2022. 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) 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 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2021-001, that we consider to be a significant deficiency.

(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 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 the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Mahoney Ulbrich
Christiansen Russ P.A.*

March 1, 2022



**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, 2021. 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 conditions 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* 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, 2021.

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.*

March 1, 2022

ST. STEPHEN'S HUMAN SERVICES, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2021

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?	_____ yes	_____ <u>X</u> no	
Internal control over financial reporting:			
• Material weakness(es) identified?	_____ yes	_____ <u>X</u> no	
• Significant deficiency(s) identified?	_____ <u>X</u> yes	_____ none reported	
Noncompliance material to financial statements noted?	_____ yes	_____ <u>X</u> no	

FEDERAL AWARDS

Internal control over major program:			
• Material weakness(es) identified?	_____ yes	_____ <u>X</u> no	
• Significant deficiency(s) identified?	_____ 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)?	_____ yes	_____ <u>X</u> no	
Identification of major program	Assistance Listing Number 21.019 – Coronavirus Relief Fund		
Dollar threshold used to distinguish between type A and type B programs	<u>\$ 750,000</u>		
Auditee qualified as low-risk auditee?	_____ <u>X</u> yes	_____ no	

(Continued)

ST. STEPHEN'S HUMAN SERVICES, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2021

SECTION II - FINDINGS - FINANCIAL STATEMENTS AUDIT

2021-001 Lack of timely reconciliation and review of HOC financial statements.

Significant Deficiency

Criteria - Management is responsible for establishing and maintaining internal controls in order to safeguard the assets of the Organization. A key element of internal control is the segregation of incompatible duties and regular review of financial statements by individuals other than the preparer.

Condition - Management of the Organization has had difficulty obtaining and reviewing meaningful financial information and supporting reconciliations and other documents in a timely manner for the House of Charities books kept by a contract accountant.

Cause - The Organization combined with House of Charities on January 1, 2021. House of Charities books were kept by a contract accountant who has continued this work as the merger progressed. The merger process has been more difficult than originally anticipated, due to turn-over of key staff and unexpected complexity. Management of the Organization regularly tried to obtain financial statements and supporting documentation for review and had difficulty obtaining meaningful information from the contract accountant.

Recommendation - Management must work to either establish and enforce good timely processes with the existing contract accountant, or to exit the relationship with the contract account and bring the accounting in-house under the existing internal control processes which have historically been considered well designed and implemented.

Auditee's comments and response – The Organization acknowledges that they had some difficulty performing a meaningful review of the HOC financial statements due to some past difficulties obtaining information from the contract accountant. This has now been resolved and information is being exchanged freely and in a timely manner. Effective July 1, 2021 the accounting for HOC has been merged into the ongoing operations of the Organization.

Responsible party for corrective action: Carol Hood, Director of Finance (retired) and Laura Straw, Director of Finance

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

No matters were reported.



CORRECTIVE ACTION PLAN

For the Year Ended June 30, 2021

SECTION II - FINDINGS - FINANCIAL STATEMENTS AUDIT

2021-001 Lack of timely reconciliation and review of HOC financial statements.

Significant Deficiency

Name of contact person – Laura Straw, Director of Finance

Corrective action – The Organization has brought the House of Charity accounting inhouse.

Completion date – Management and the Board of Directors implemented the above as of 7/1/2021.

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

No matters were reported.