



Consolidated Financial Statements  
June 30, 2011

# Simpson Housing Services Inc.

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## Independent Auditor's Report

The Board of Directors  
Simpson Housing Services Inc.  
Minneapolis, Minnesota

We have audited the accompanying consolidated statement of financial position of Simpson Housing Services Inc. (the Organization) as of June 30, 2011, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated financial statements of the Organization as of June 30, 2010, which are presented for comparative purposes only, were audited by other auditors, whose report dated September 27, 2010, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express such an opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Simpson Housing Services Inc., as of June 30, 2011, and the results of its consolidated operations and its consolidated cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Eide Bailly LLP*

Minneapolis, Minnesota  
November 10, 2011

Simpson Housing Services Inc.  
Consolidated Statement of Financial Position  
June 30, 2011 (with Comparative Totals for 2010)

	2011	2010
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 677,626	\$ 750,117
Restricted cash - other	40,550	38,843
Restricted cash - escrow & reserves	68,942	105,460
Temporary investments	200,000	200,000
Accounts receivable	2,933	1,118
Pledges receivable	190,000	75,000
Grants receivable	51,813	111,399
Prepaid expenses	14,090	14,192
Total current assets	1,245,954	1,296,129
 Property and Equipment, Net	 1,753,881	 1,754,953
<b>Other Assets</b>		
Investments	10,000	10,000
Pledges receivable	-	15,000
Total other assets	10,000	25,000
Total assets	\$ 3,009,835	\$ 3,076,082
<b>Liabilities and Net Assets</b>		
Notes payable	\$ 17,388	\$ 16,542
Accounts payable	41,537	270
Accrued salaries payable	29,209	91,167
Accrued vacation payable	68,918	59,899
Accrued interest	48,561	21,770
Accrued expenses - security deposits	18,964	17,414
Other accrued expenses	18,914	17,394
Total current liabilities	243,491	224,456
 Long-term Liabilities		
Debt, net of current portion	1,273,171	1,290,559
Total liabilities	1,516,662	1,515,015
<b>Net Assets</b>		
Unrestricted		
Undesignated	1,408,099	1,398,385
Designated	17,682	17,682
Total unrestricted	1,425,781	1,416,067
Temporarily restricted	57,392	135,000
Permanently restricted	10,000	10,000
Total net assets	1,493,173	1,561,067
Total liabilities and net assets	\$ 3,009,835	\$ 3,076,082

Simpson Housing Services Inc.  
Consolidated Statement of Activities and Changes in Net Assets  
Year Ended June 30, 2011 (with Comparative Totals for 2010)

	2011			2010	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Support and Revenue					
Contributions	\$ 875,086	\$ 50,623	\$ -	\$ 925,709	\$ 1,110,055
In-kind contributions	142,378	-	-	142,378	99,789
Government contracts	1,988,740	-	-	1,988,740	2,026,464
Contract income	543,070	-	-	543,070	517,126
United Way	196,928	-	-	196,928	196,930
Rental income	237,620	-	-	237,620	238,274
Other income	39,496	-	-	39,496	11,498
Net assets released from restrictions	128,231	(128,231)	-	-	-
Total support and revenue	<u>4,151,549</u>	<u>(77,608)</u>	<u>-</u>	<u>4,073,941</u>	<u>4,200,136</u>
Expenses					
Program services					
Shelters	691,481	-	-	691,481	680,586
Family housing	2,029,383	-	-	2,029,383	1,880,788
Single adult housing	964,399	-	-	964,399	866,199
Total program services	<u>3,685,263</u>	<u>-</u>	<u>-</u>	<u>3,685,263</u>	<u>3,427,573</u>
Support services					
Management and general	235,534	-	-	235,534	223,700
Fundraising	221,038	-	-	221,038	201,028
Total support services	<u>456,572</u>	<u>-</u>	<u>-</u>	<u>456,572</u>	<u>424,728</u>
Total expenses	<u>4,141,835</u>	<u>-</u>	<u>-</u>	<u>4,141,835</u>	<u>3,852,301</u>
Change in Net Assets	9,714	(77,608)	-	(67,894)	347,835
Non-Operating Activity					
In-kind contributions	186,921	-	-	186,921	224,151
In-kind expense	(186,921)	-	-	(186,921)	(224,151)
Total non-operating activity	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Assets, Beginning of Year	<u>1,416,067</u>	<u>135,000</u>	<u>10,000</u>	<u>1,561,067</u>	<u>1,213,232</u>
Net Assets, End of Year	<u>\$ 1,425,781</u>	<u>\$ 57,392</u>	<u>\$ 10,000</u>	<u>\$ 1,493,173</u>	<u>\$ 1,561,067</u>

Simpson Housing Services Inc.  
Consolidated Statement of Functional Expenses  
Year Ended June 30, 2011 (with Comparative Totals for 2010)

	2011							2010
	Program Services			Supporting Services			Total Expenses	
	Shelter	Family Housing	Single Adult Housing	Total Program	Management and General	Fundraising		
Salaries	\$ 431,334	\$ 772,275	\$ 365,854	\$ 1,569,463	\$ 159,690	\$ 136,921	\$ 1,866,074	\$ 1,794,648
Employee benefits	58,139	119,759	52,054	229,952	18,022	10,901	258,875	244,127
Payroll taxes	39,387	65,862	30,285	135,534	13,498	11,904	160,936	128,752
<b>Total salaries and related expenses</b>	<b>528,860</b>	<b>957,896</b>	<b>448,193</b>	<b>1,934,949</b>	<b>191,210</b>	<b>159,726</b>	<b>2,285,885</b>	<b>2,167,527</b>
Rental assistance	82,312	700,748	463,423	1,246,483	123	-	1,246,606	1,172,375
Supplies	19,991	6,366	5,193	31,550	1,084	42,798	75,432	28,142
Interest expense	-	138,373	-	138,373	-	-	138,373	115,387
Transportation	1,226	39,503	9,533	50,262	2,876	272	53,410	53,990
Insurance	7,619	23,410	5,703	36,732	4,400	1,179	42,311	51,467
Professional fees	5,399	27,988	3,299	36,686	8,618	604	45,908	46,425
Office space	5,564	14,903	4,176	24,643	4,551	860	30,054	28,846
Telephone	6,304	16,223	5,109	27,636	399	262	28,297	27,792
Equipment repairs and maintenance	2,081	17,794	1,117	20,992	6,182	46	27,220	21,334
Program events	-	14,847	128	14,975	4,685	984	20,644	14,282
Printing	298	510	178	986	60	10,926	11,972	17,344
Postage	1,334	2,296	1,096	4,726	1,709	383	6,818	9,431
Dues and subscriptions	1,236	2,982	789	5,007	683	60	5,750	6,855
Professional development	362	980	200	1,542	700	35	2,277	2,985
Food	5,115	-	-	5,115	-	-	5,115	1,505
Client medical services	5,503	-	-	5,503	-	-	5,503	2,471
Utilities	-	5,578	-	5,578	-	-	5,578	2,701
Bank Charges	-	-	-	-	3,156	-	3,156	2,013
Miscellaneous	949	-	2,898	3,847	4,040	138	8,025	21,746
<b>Total expenses before depreciation</b>	<b>674,153</b>	<b>1,970,397</b>	<b>951,035</b>	<b>3,595,585</b>	<b>234,476</b>	<b>218,273</b>	<b>4,048,334</b>	<b>3,794,618</b>
Depreciation	17,328	58,986	13,364	89,678	1,058	2,765	93,501	57,683
	<u>\$ 691,481</u>	<u>\$ 2,029,383</u>	<u>\$ 964,399</u>	<u>\$ 3,685,263</u>	<u>\$ 235,534</u>	<u>\$ 221,038</u>	<u>\$ 4,141,835</u>	<u>\$ 3,852,301</u>

Simpson Housing Services Inc.  
Consolidated Statement of Cash Flows  
Year Ended June 30, 2011 (with Comparative Totals for 2010)

	2011	2010
Operating Activities		
Change in net assets	\$ (67,894)	\$ 347,835
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	93,501	57,683
Change in assets and liabilities		
Accounts receivable	(1,815)	11,605
Pledges receivable	(100,000)	125,000
Grants receivable	59,586	30,450
Prepaid expenses	102	(14,192)
Accounts payable	41,267	(4,404)
Accrued payroll liabilities	(52,939)	12,793
Accrued interest	26,791	-
Accrued expenses - security deposits	1,550	3,022
Other accrued expenses	1,520	5,021
Net Cash from Operating Activities	1,669	574,813
Investing Activities		
Purchase of property and equipment	(92,429)	(262,401)
Change in restricted cash - escrows & reserves	36,518	(105,460)
Purchase of investments (CD's)	(100,000)	(210,000)
Redemption of investments (CD's)	100,000	410,000
Net Cash used for Investing Activities	(55,911)	(167,861)
Financing Activities		
Payments on notes payable	(16,542)	(15,737)
Net Change in Cash and Cash Equivalents	(70,784)	391,215
Cash and Cash Equivalents, Beginning of Year	788,960	397,745
Cash and Cash Equivalents, End of Year	\$ 718,176	\$ 788,960

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

### **Organization**

Simpson Housing Services Inc. (the Organization) was incorporated on July 26, 1993, pursuant to the Minnesota Nonprofit Corporation Act. The Organization is dedicated to providing shelter and affordable housing with support services to homeless or imminently homeless families, men, women and children, to assist them in their efforts to improve their life situation and to advocate for their human and civil rights. The mission is to house, support and advocate for people experiencing homelessness. The Organization's program activities are:

#### Shelters

- The Emergency Shelter provides overnight shelter accommodations for up to 44 single men. The shelter also provides hot meals, shower and laundry facilities, toiletries, as well as individual advocacy and mental and physical health services. Guests are offered a 28-day stay. The shelter has a Savings Program in which guests are encouraged to save money to apply toward more stable housing when they leave the shelter.
- The Secure Waiting Shelter provides overnight shelter accommodations for up to 22 single women. The shelter also provides hot meals, shower and laundry facilities, toiletries, and referrals. "Secure Waiting" accommodations are on a first-come, first-serve daily basis. Guests may also participate in the Shelter Savings Program.

#### Family Housing

- Family Housing Program – To provide up to two years of transitional housing and case management services for 16 homeless families. Program emphasis is on locating permanent housing, continued education and employment.
- Transitions – To provide up to two years of residential subsidy and case management services for ten homeless families. Program emphasis is on locating permanent housing, continued education and employment.
- THP (Transitional Housing Program) – To provide up to two years transitional housing and case management services for 14 homeless families. Program emphasis is on locating permanent housing, continued education and employment.
- ZOOM House – A family advocate from Simpson Housing Services provides supportive services to ten families in the ZOOM transitional housing program in South Minneapolis. This program is a part of the transitional housing program.
- Passages Community Housing, LLC – A SHS owned, 17-unit apartment building, providing transitional housing, case management and advocacy services to resident families. Program emphasis is on locating permanent housing, continued education and employment.

- RAP (Rental Assistance Program) – To provide long-term rental assistance and limited support services for 30 homeless families. The program is designed to provide housing stability.
- SOAR – To provide an educational program designed to affect positive change in family dynamics by providing parenting classes and direct children's services.
- FRA (Family Roots Alliance) – A collaboration between Lutheran Social Service and Simpson Housing Services. The team provides services to a minimum of 40 families experiencing long-term homelessness in the Twin Cities west-metro area. The team assists families and children to move from shelter to stable, affordable housing and make sure that they get the support they need to remain stable. The team works with the families as long as necessary with the goal of breaking the cycle of homelessness. A rental subsidy and advocacy for both parents and children are provided.
- Third Avenue Townhomes – A permanent supportive housing project for homeless families with a disabled family member. Case-management services are provided for five families at a Section 8 affordable housing project in South Minneapolis.
- Housing First – A permanent supportive housing project for long-term homeless families with a disabled family member. Families live in scattered-site housing in Hennepin County and are provided rental assistance and case-management services. The program has a capacity of 22 families.
- Elliott Park Apartments – This Section-8 development is owned by the Community Housing Development Corporation and is located in the Elliott Park neighborhood near downtown Minneapolis. The Organization provides housing placement and intensive services to eight or nine long-term homeless families.

#### Single Adult Housing

- SARAP (Single Adult Rental Assistance Program and WHP) – To provide 42 single adults with rental subsidy, services and support they need to obtain permanent housing after experiencing long-term homelessness. This program also coordinates the Women's Housing Partnership assisting the most frequent guests at the Simpson Women's Shelter by locating and maintaining permanent housing. The program includes intensive support services and weekly meetings with an advocate.
- COHR (Collaboration of Housing Resources) – A collaboration between Simpson Housing Services, Spectrum Community Mental Health, St. Stephen's Human Services, and the American Indian Community Development Corporation. Through a variety of funding sources, 199 adults, who have experienced long-term homelessness, are assisted in finding an apartment, a housing subsidy, and offered ongoing assistance to maintain housing. The teams seek to serve those who have experienced the longest time of homelessness and those who are more vulnerable or have more serious barriers to getting and maintaining housing.

### **Basis of Consolidation**

The consolidated financial statements include the Organization's wholly owned subsidiary, Passages Community Housing, LLC. All material intercompany transactions have been eliminated.

### **Basis of Presentation**

Net assets and revenues, gains, and losses are classified based on donor imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted – Resources over which the Board of Directors has discretionary control.

Temporarily Restricted – Those resources subject to donor imposed restrictions which will be satisfied by actions of the Organization or passage of time.

Permanently Restricted – Those resources subject to a donor imposed restriction that they be maintained permanently by the Organization. The donors of these resources permit the Organization to use all or part of the income earned, including capital appreciation, or related investments for unrestricted or temporarily restricted purposes.

The Organization has elected to present temporarily restricted contributions which are fulfilled in the same time period within the unrestricted net asset class.

### **Comparative Financial Information**

The consolidated 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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2010, from which the summarized information was derived.

### **Estimates**

Management uses estimates and assumptions in preparing consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

### **Cash and Cash Equivalents**

For purposes of the statement of cash flows, the Organization considers all unrestricted cash and other highly liquid investments in debt securities purchased with an original maturity of three months or less to be cash equivalents. Restricted cash - other is considered to be cash and cash equivalents.

### **Restricted Cash – Escrows and Reserves**

Passages Community Housing, LLC has specific agreements which require the establishment of tax and insurance escrows, replacement reserves, residual receipts and development cost escrows. Restricted cash related to these items is not considered to be cash and cash equivalents.

### **Accounts Receivable**

Accounts receivable consists primarily of pledges and grants receivable. All pledges and grants receivable amounts as of June 30, 2011 are expected to be fully collectible and no allowance has been provided. If needed, the Organization provides an allowance for doubtful accounts based on management's judgment using historical information and an evaluation of each individual receivable balance. The Organization does not charge interest on past due accounts. When all collection efforts have been exhausted, the accounts are written-off against the related allowance.

### **Property and Equipment**

Expenditures for the acquisition of property and equipment greater than \$1,500 are capitalized at cost, and donated property and equipment is capitalized at fair value. Depreciation is computed on the straight-line method over the following useful lives:

Building	30 years
Vehicles	5 years
Building improvements	2-6 years
Furniture and equipment	3-5 years

### **Investments**

The Organization carries investments at cost plus accrued interest. The investment holdings as of June 30, 2011 of \$210,000 consist entirely of certificates of deposit. Investment earnings are included in interest income in the consolidated statements of activity and changes in net assets.

Temporary investments include investments with an original maturity date between three and twelve months.

Long-term investments include investments with an original maturity date equal to or greater than twelve months.

### **Fair Value Measurements**

The Organization has determined the fair value of certain assets and liabilities in accordance with the provisions of Accounting Standards Codification Topic (ASC) 820-10, *Fair Value Measurements*, which provides a framework for measuring fair values under generally accepted accounting principles.

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs.

The Organization applies a fair value hierarchy, which prioritizes the valuation inputs into three broad levels. Level 1 inputs consist of quoted prices in active markets of identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the related asset or liability. Level 3 inputs are unobservable inputs related to the asset or liability. All investments are recognized as Level 1 inputs at June 30, 2011.

### **Compensated Absences**

Under the Organization's policies and procedures, employees are granted vacation leave based on the number of years of experience they have at the Organization. Employees may accumulate a maximum of 80 hours of their earned paid time off (PTO) leave benefit. Unused accumulated PTO, up to 80 hours, is paid to employees upon termination.

### **Support and Revenue Recognition**

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions.

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. 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. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Program service fees are recorded when earned.

### **Functional Allocation of Expenses**

The costs of providing the various programs and activities have been summarized on a functional basis in the consolidated statement of functional expense. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

### **Income Tax Status**

The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and has been classified as an organization that is not a private foundation under Section 509(a).

The Organization evaluates accounting for uncertainty in income taxes and undergoes an annual analysis of its activities and various tax authorities. As of June 30, 2011, no amounts were recorded as a result of this analysis.

The Organization will recognize any future accrued interest and penalties related to unrecognized tax or expense as incurred. The Organization is no longer subject to Federal or state tax examinations by tax authorities for years before 2008.

### Contributed Property and Services

Donated services are recognized as contributions if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills and would otherwise be purchased by the Organization. Property, services and other non-cash donations are recorded as in-kind contributions at their estimated market value at the date of donation.

In addition, many individuals volunteer their time and perform a variety of tasks that assist the Organization, but these services do not meet the criteria for recognition as contributed services. Total volunteer hours for 2011 were 25,670.

### Reclassifications

Certain reclassifications have been made to the 2010 financial statements to conform to the 2011 presentations. These reclassifications had no change in previously reported net income or changes in net assets or net assets but were changed to agree with classifications used in the 2011 financial statements.

### Subsequent Events

The Organization has evaluated subsequent events through November 10, 2011, the date which the financial statements were available to be issued.

### Note 2 - Restricted Cash

Certain cash balances are restricted as of June 30, 2011 for the following purposes:

Transitional Housing	\$ 24,263
Shelter Guest Savings	16,287
Escrows & Reserves (Passages)	<u>68,942</u>
	<u>\$ 109,492</u>

### Real Estate Tax and Insurance Escrow

The Minnesota Housing Finance Agency (MHFA) mortgage agreement requires the establishment of a property tax and insurance escrow. These amounts are held by MHFA. Amounts consisted of \$55 and \$408, respectively, as of June 30, 2011, for property tax and insurance escrow.

### Replacement Reserve

The MHFA mortgage agreement requires a certain amount to be set aside for maintenance work on the property. These amounts are held by MHFA. As of June 30, 2011, the replacement reserve balance totaled \$27,715.

### Development Cost Escrow

The MHFA mortgage agreement requires a certain amount to be set aside in the event the Organization cannot meet debt service requirements. These amounts are held by MHFA. As of June 30, 2011, the development cost escrow balance totaled \$14,113.

**Residual Receipts**

The MHFA mortgage agreement requires a certain amount to be set aside for excess cash payments made among other escrow and reserve accounts. These amounts are held by MHFA. As of June 30, 2011, the replacement reserve balance totaled \$26,651.

**Note 3 - Leases**

The Organization leases office space and office equipment under noncancelable operating leases.

Minimum future rental payments under the non-cancelable leases for each year during the remaining lease terms are as follows:

<u>Years Ending June 30,</u>	<u>Shelter Space</u>	<u>Office Equipment</u>	<u>Total</u>
2012	\$ 37,897	\$ 5,671	\$ 43,568
2013	2,892	4,512	7,404
2014	-	4,092	4,092
2015	-	4,092	4,092
2016 and thereafter	-	1,364	1,364
	<u>\$ 40,789</u>	<u>\$ 19,731</u>	<u>\$ 60,520</u>

Lease expense for the year ended June 30, 2011 was \$87,406.

**Note 4 - Retirement Plan**

The Organization has a Simple IRA plan for all eligible employees. The annual employer's matching contribution is mandatory. The contributions made by the Organization totaled \$38,088 for the year ended June 30, 2011.

**Note 5 - Endowment**

**Board-designated Endowment**

The Board of Directors of the Organization has designated \$17,682 of unrestricted net assets as a general endowment fund to support Passages Community Housing, LLC. Since that amount resulted from an internal designation and is not donor-restricted, it is classified and reported as unrestricted net assets and is not subject to Universal Prudent Management of Institutional Funds Act (UPMIFA) as described in a following paragraph.

The Board of Directors has elected that endowment assets are invested in federally insured accounts, including either money market accounts or certificates of deposit that have a maturity date of one year or less.

### **Donor-designated Endowment (Minnesota UPMIFA)**

The endowment consists of one individual fund established to support the Organization's programs. Its endowment consists of a donor-restricted endowment fund. Net assets associated with the endowment fund are classified and reported based on the existence or absence of donor-imposed restrictions.

### **Interpretation of Relevant Law**

The Board of Directors of the Organization has interpreted the Minnesota adopted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment by changes in the consumer price index as identified in the endowment agreements. In accordance with Minnesota UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the organization
- (7) The investment policies of the organization

Endowment net asset is composed of donor-restricted endowment funds. There were no changes in the permanently restricted endowment net assets for the fiscal year ended June 30, 2011.

As required by UPMIFA, the Organization classifies the portion of their donor-restricted endowment funds that are not classified as permanently restricted net assets as temporarily restricted net assets (time restricted) until appropriated for expenditure.

### **Funds with Deficiencies**

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or Minnesota UPMIFA requires the Organization to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2011.

### **Return Objectives and Risk Parameters**

The Organization has invested the endowment assets solely in certificates of deposit that are federally insured deposits to maintain a low level of investment risk. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period(s).

**Strategies Employed for Achieving Objectives**

Endowment assets are invested in federally insured accounts, including either money market accounts or certificates of deposit that have a maturity date of one year or less. The certificates of deposit are invested in a staggered manner. The diversification of investments are managed to maximize rate of return so as to not expose the fund to unacceptable levels of risk.

**Spending Policy and how the Investment Objectives Relate to Spending Policy**

The Organization has a policy of appropriating for distribution all investment earnings. These earnings are considered temporarily restricted until approved for spending.

The composition of Endowment Net Assets by fund type as of June 30, 2011 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ -	\$ 10,000	\$ 10,000
Board-designated endowment funds	<u>17,682</u>	<u>-</u>	<u>-</u>	<u>17,682</u>
	<u>\$ 17,682</u>	<u>\$ -</u>	<u>\$ 10,000</u>	<u>\$ 27,682</u>

Changes in endowment net assets for the year ended June 30, 2011 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 17,682	\$ -	\$ 10,000	\$ 27,682
Investment income Appropriation of endowment	<u>(185)</u>	<u>-</u>	<u>185</u>	<u>-</u>
	<u>185</u>	<u>-</u>	<u>(185)</u>	<u>-</u>
Endowment net assets, end of year	<u>\$ 17,682</u>	<u>\$ -</u>	<u>\$ 10,000</u>	<u>\$ 27,682</u>

The components of endowment funds classified as permanently restricted net assets as of June 30, 2011 are as follows:

Permanently Restricted Net Assets

The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA	<u>\$ 10,000</u>
Total endowment funds classified as permanently restricted net assets	<u>\$ 10,000</u>

**Note 6 - Property and Equipment**

Property and equipment as of June 30, 2011 consists of the following:

Land	\$ 260,500
Building	1,369,500
Vehicles	34,529
Building improvements	345,343
Furniture and equipment	96,644
Construction in process	<u>39,900</u>
	2,146,416
Less accumulated depreciation	<u>392,535</u>
	<u><u>\$ 1,753,881</u></u>

Construction in progress at June 30, 2011 is for a project occurring at Passages Community Housing, LLC. The estimated total cost of the project is \$52,200 with an expected completion date of 2012.

**Note 7 - Notes and Mortgage Payable**

The Organization has various debt agreements for interest bearing and non-interest bearing loans. The following schedule of debt reflects the balance of outstanding loans at June 30, 2011:

<p>5% mortgage note payable to Minnesota Housing Finance Agency (MHFA). Payable in monthly amounts of \$2,631, including interest, with the last payment due September 2021. Secured by assets.</p>	Lien Priority 1	\$ 226,829
<p>0% installment note payable to MHFA is due if units are not used for low income housing through September 2021. If the Organization is not in default of the loan through that date, the note is due in one lump sum, in September 2021. Secured by assets.</p>	Lien Priority 2	35,000
<p>0% installment note payable to City Finance Agency is due if units are not used for low income housing through September 2021. If the Organization is not in default of the loan through that date, the note is due in one lump sum, in September 2021. Secured by assets.</p>	Lien Priority 3	425,730
<p>1% installment note payable to City Finance Agency is due if units are not used for low income housing through July 2033. If the Organization is not in default of the loan through that date, the note is due in one lump sum, including interest, in July 2033. Secured by assets.</p>	Lien Priority 4	300,000
<p>0% installment note payable to MHFA is due if units are not used for low income housing through September 2021. If the Organization is not in default of the loan through that date, the note is due in one lump sum, in September 2021. Secured by assets.</p>	Lien Priority 5	148,500
<p>0% installment note payable to MHFA is due if units are not used for low income housing through September 2021. If the Organization is not in default of the loan through that date, the note is due in one lump sum, in September 2021. Secured by assets.</p>	Lien Priority 6	120,500
<p>0% installment note payable to Wells Fargo Bank Minnesota, NA is due if units are not used for low income housing through September 2021. If the Organization is not in default of the loan through that date, the note is due in one lump sum, in September 2021. Secured by assets.</p>	Lien Priority 7	34,000
		1,290,559
Less current portion		17,388
Long-term portion		\$ 1,273,171

Order of lien priority was agreed upon in the Management and Assumption Agreement between Minnesota Housing Finance Agency and Passages Community Housing, LLC.

Future principal payments required are as follows:

Years Ending June 30,	Amount
2012	\$ 17,388
2013	18,278
2014	19,213
2015	20,196
2016 and thereafter	1,215,484
	\$ 1,290,559

In-kind interest expense of \$99,789 for below-market loans has been recorded as an in-kind contribution and included in interest expense for the year ended June 30, 2011.

**Note 8 - Temporarily Restricted Net Assets**

Temporarily restricted net assets consisted of the following as June 30, 2011:

Shelter	\$ 2,623
SOAR	15,000
Heading Home Minnesota Partners Fund	18,000
Early childhood development	21,769
	\$ 57,392

Temporarily restricted net assets released from restrictions for the year ended June 30, 2011 consist of the following:

SOAR	\$ 75,000
Women's Housing Partnership	45,000
Early childhood development	8,231
	\$ 128,231

**Note 9 - Significant Concentrations of Credit Risk**

The Organization provides services within the St. Paul and Minneapolis, Minnesota area. The amounts due for services provided are from governmental agencies, foundations and other nonprofit organizations, substantially all of which are local organizations or governmental bodies. The amounts receivable are not collateralized. At June 30, 2011, the Organization held cash or cash equivalent deposits at financial institutions in excess of federally insured limits.

**Note 10 - Donated Materials and Interest**

The fair value of donated materials included as supporting services expenses for the year ended June 30, 2011, totaled \$42,589. The fair value of donated materials included as non-operating revenue and expense for the year ended June 30, 2011, totaled \$186,921.

The estimated value of donated interest expense on non-interest bearing or below market mortgages and notes payable has been included as program services expenses for the year ended June 30, 2011. For the year ended June 30, 2011, this totaled to \$99,789.



Supplementary Information  
June 30, 2011

## Simpson Housing Services Inc.



## Independent Auditor's Report on Supplementary Information

The Board of Directors  
Simpson Housing Services Inc.  
Minneapolis, Minnesota

We have audited the consolidated financial statements of Simpson Housing Services, Inc. and subsidiaries as of and for the year ended June 30, 2011 and our report thereon dated November 10, 2011, which expressed an unqualified opinion on those financial statements, appears on page 1. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information in the following supplementary schedules is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual organizations, and it is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

A handwritten signature in black ink that reads "Eide Bailly LLP".

Minneapolis, Minnesota  
November 10, 2011

	<u>Simpson Housing Services, Inc.</u>	<u>Passages Community Housing</u>	<u>Eliminations</u>	<u>Total</u>
Assets				
Current Assets				
Cash and cash equivalents	\$ 566,286	\$ 111,340	\$ -	\$ 677,626
Restricted cash - other	40,550	-	-	40,550
Restricted cash - escrow & reserves	-	68,942	-	68,942
Temporary investments	200,000	-	-	200,000
Accounts receivable	-	2,933	-	2,933
Pledges receivable	190,000	-	-	190,000
Grants receivable	51,813	-	-	51,813
Prepaid expenses	-	14,090	-	14,090
Total current assets	<u>1,048,649</u>	<u>197,305</u>	<u>-</u>	<u>1,245,954</u>
Property and Equipment, Net	<u>826,259</u>	<u>927,622</u>	<u>-</u>	<u>1,753,881</u>
Other Assets				
Investments	<u>10,000</u>	<u>-</u>	<u>-</u>	<u>10,000</u>
 Total assets	 <u>\$ 1,884,908</u>	 <u>\$ 1,124,927</u>	 <u>\$ -</u>	 <u>\$ 3,009,835</u>

Simpson Housing Services Inc.  
Supplementary Consolidating Balance Sheets  
June 30, 2011

	Simpson Housing Services, Inc	Passages Community Housing	Eliminations	Total
<b>Liabilities and Net Assets</b>				
<b>Current liabilities</b>				
Notes payable	\$ -	\$ 17,388	\$ -	\$ 17,388
Accounts payable	-	41,537	-	41,537
Accrued salaries payable	29,209	-	-	29,209
Accrued vacation payable	68,918	-	-	68,918
Accrued interest	-	48,561	-	48,561
Accrued expenses - security deposits	2,000	16,964	-	18,964
Other accrued expenses	19,118	(204)	-	18,914
<b>Total current liabilities</b>	<u>119,245</u>	<u>124,246</u>	<u>-</u>	<u>243,491</u>
<b>Long-term Liabilities</b>				
Debt, net of current portion	-	1,273,171	-	1,273,171
<b>Total liabilities</b>	<u>119,245</u>	<u>1,397,417</u>	<u>-</u>	<u>1,516,662</u>
<b>Net Assets</b>				
<b>Unrestricted</b>				
Undesignated	1,680,589	(272,490)	-	1,408,099
Designated	17,682	-	-	17,682
<b>Total unrestricted</b>	<u>1,698,271</u>	<u>(272,490)</u>	<u>-</u>	<u>1,425,781</u>
Temporarily restricted	57,392	-	-	57,392
Permanently restricted	10,000	-	-	10,000
<b>Total net assets</b>	<u>1,765,663</u>	<u>(272,490)</u>	<u>-</u>	<u>1,493,173</u>
<b>Total liabilities and net assets</b>	<u>\$ 1,884,908</u>	<u>\$ 1,124,927</u>	<u>\$ -</u>	<u>\$ 3,009,835</u>

Simpson Housing Services Inc.  
Supplementary Consolidating Statements of Activity and Changes in Net Assets  
June 30, 2011

	Simpson Housing Services, Inc	Passages Community Housing	Eliminations	Total
<b>Support and Revenue</b>				
Contributions	\$ 925,709	\$ -	\$ -	\$ 925,709
In-kind contributions	42,589	99,789	-	142,378
Government contracts	1,988,740	-	-	1,988,740
Contract income	579,350	-	(36,280)	543,070
United Way	196,928	-	-	196,928
Rental income	29,738	207,882	-	237,620
Other income	36,398	3,098	-	39,496
Total support and revenue	<u>3,799,452</u>	<u>310,769</u>	<u>(36,280)</u>	<u>4,073,941</u>
<b>Expenses</b>				
Program services				
Shelters	691,481	-	-	691,481
Family housing	1,724,423	341,240	(36,280)	2,029,383
Single adult housing	964,399	-	-	964,399
Total program services	<u>3,380,303</u>	<u>341,240</u>	<u>(36,280)</u>	<u>3,685,263</u>
Support services				
Management and general	235,534	-	-	235,534
Fundraising	221,038	-	-	221,038
Total support services	<u>456,572</u>	<u>-</u>	<u>-</u>	<u>456,572</u>
Total expenses	<u>3,836,875</u>	<u>341,240</u>	<u>(36,280)</u>	<u>4,141,835</u>
Change in Operating Net Assets	(37,423)	(30,471)	-	(67,894)
<b>Non-Operating Activity</b>				
In-kind contributions	186,921	-	-	186,921
In-kind expense	(186,921)	-	-	(186,921)
Total non-operating activity	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Assets, Beginning of Year	<u>1,803,086</u>	<u>(242,019)</u>	<u>-</u>	<u>1,561,067</u>
Net Assets, End of Year	<u>\$ 1,765,663</u>	<u>\$ (272,490)</u>	<u>\$ -</u>	<u>\$ 1,493,173</u>