

**STEPPING STONE EMERGENCY
HOUSING, INC.**
AUDITED FINANCIAL STATEMENTS
December 31, 2018 and 2017

Mark D. Harrington, CPA
Wayne A. Langer, CPA
Nichole Fairbanks, CPA
Jesse Fraley, CPA
Anna Anderson, CPA



Gregory W. Heck, CPA, CVA
Greg L. Emmerich, CPA
Michael Belknap, CPA
Bryan W. Swartz, CPA
Benjamin J. Roff, CPA, CVA

563 PHALEN BOULEVARD • ST. PAUL, MN 55130
phone 651.481.1128 • fax 651.481.0982

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Stepping Stone Emergency Housing, Inc.
Anoka, Minnesota

We have audited the accompanying financial statements of Stepping Stone Emergency Housing, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, cash flows and functional expenses for the years then ended, and the related notes to the 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Stepping Stone Emergency Housing, Inc. as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Hawington Langer & Associates

June 7, 2019

STEPPING STONE EMERGENCY HOUSING, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2018 and 2017

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 177,347	\$ 185,168
Contributions and grants receivable	73,123	65,733
Prepaid expenses	6,166	7,189
TOTAL CURRENT ASSETS	256,636	258,090
PROPERTY AND EQUIPMENT, at cost		
Building	148,278	-
Leasehold improvements	99,755	99,755
Equipment	133,877	100,277
	381,910	200,032
Less: accumulated depreciation	(86,325)	(59,676)
TOTAL PROPERTY AND EQUIPMENT, net	295,585	140,356
TOTAL ASSETS	\$ 552,221	\$ 398,446

	<u>2018</u>	<u>2017</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 18,724	\$ 15,010
Accrued expenses	<u>34,026</u>	<u>29,533</u>
TOTAL LIABILITIES	<u>52,750</u>	<u>44,543</u>
NET ASSETS		
Net assets without donor restrictions	489,585	353,903
Net assets with donor restrictions	<u>9,886</u>	<u>-</u>
TOTAL NET ASSETS	<u>499,471</u>	<u>353,903</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 552,221</u></u>	<u><u>\$ 398,446</u></u>

STEPPING STONE EMERGENCY HOUSING, INC.

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2018

(With Comparative Totals for 2017)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total 2018</u>	<u>Total 2017</u>
REVENUE AND SUPPORT				
Contributions	\$ 272,886	\$ 9,886	\$ 282,772	\$ 195,785
Government grants	126,336	-	126,336	142,491
Program service fees	789,731	-	789,731	784,011
Investment income	465	-	465	20
In-kind donations	292,043	-	292,043	156,300
Rental income	7,440	-	7,440	-
Vending income, net of expenses of \$2,623 and \$1,902, respectively	4,109	-	4,109	3,367
Event income, net of expenses of \$37,378 and \$17,436, respectively	37,865	-	37,865	33,644
Net assets released from restrictions	-	-	-	-
TOTAL REVENUE AND SUPPORT	<u>1,530,875</u>	<u>9,886</u>	<u>1,540,761</u>	<u>1,315,618</u>
EXPENSES				
Program services	1,105,299	-	1,105,299	1,046,515
Management and general	205,510	-	205,510	96,258
Fundraising	84,384	-	84,384	63,054
TOTAL EXPENSES	<u>1,395,193</u>	<u>-</u>	<u>1,395,193</u>	<u>1,205,827</u>
CHANGE IN NET ASSETS	135,682	9,886	145,568	109,791
NET ASSETS, BEGINNING OF YEAR	<u>353,903</u>	<u>-</u>	<u>353,903</u>	<u>244,112</u>
NET ASSETS, END OF YEAR	<u>\$ 489,585</u>	<u>\$ 9,886</u>	<u>\$ 499,471</u>	<u>\$ 353,903</u>

STEPPING STONE EMERGENCY HOUSING, INC.
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Contributions	\$ 195,785	\$ -	\$ 195,785
Government grants	142,491	-	142,491
Program service fees	784,011	-	784,011
Investment income	20	-	20
In-kind donations	156,300	-	156,300
Vending income, net of expenses of \$1,902	3,367	-	3,367
Event income, net of expenses of \$17,436	33,644	-	33,644
Net assets released from restrictions	-	-	-
TOTAL REVENUE AND SUPPORT	<u>1,315,618</u>	<u>-</u>	<u>1,315,618</u>
EXPENSES			
Program services	1,046,515	-	1,046,515
Management and general	96,258	-	96,258
Fundraising	63,054	-	63,054
TOTAL EXPENSES	<u>1,205,827</u>	<u>-</u>	<u>1,205,827</u>
CHANGE IN NET ASSETS	109,791	-	109,791
NET ASSETS, BEGINNING OF YEAR	<u>244,112</u>	<u>-</u>	<u>244,112</u>
NET ASSETS, END OF YEAR	<u><u>\$ 353,903</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 353,903</u></u>

STEPPING STONE EMERGENCY HOUSING, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 145,568	\$ 109,791
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	26,649	19,157
Donated fixed assets	(148,278)	-
Decrease (increase) in:		
Contributions and grants receivable	(7,390)	(37,279)
Prepaid expenses	1,023	(1,355)
Increase (decrease) in:		
Accounts payable	3,714	7,447
Accrued expenses	4,493	5,524
Deferred revenue	-	(5,275)
	25,779	98,010
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(33,600)	(21,178)
	(7,821)	76,832
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
	(7,821)	76,832
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	185,168	108,336
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 177,347	\$ 185,168
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Acquisition of property and equipment		
Cost of property and equipment	\$ 181,878	\$ 21,178
Amount donated	(148,278)	-
	\$ 33,600	\$ 21,178
Cash paid for property and equipment	\$ 33,600	\$ 21,178

STEPPING STONE EMERGENCY HOUSING, INC.**STATEMENT OF FUNCTIONAL EXPENSES**

For the Year Ended December 31, 2018

(With Comparative Totals for 2017)

	<u>Program Services</u>	<u>Management and General</u>	<u>Fund- raising</u>	<u>Total 2018</u>	<u>Total 2017</u>
Salaries	\$ 607,541	\$ 145,724	\$ 49,452	\$ 802,717	\$ 682,751
Payroll taxes	58,312	11,148	3,783	73,243	69,742
Employee benefits	61,098	14,655	4,973	80,726	58,136
Total Payroll Expenses	726,951	171,527	58,208	956,686	810,629
Professional fees	-	19,377	-	19,377	5,740
Contract services	63,570	7,479	3,739	74,788	92,830
Supplies	17,534	-	-	17,534	8,704
Telephone	9,795	911	683	11,389	17,694
Postage	1,429	1,428	-	2,857	1,868
Occupancy	51,473	4,788	3,591	59,852	55,427
Equipment	14,971	-	-	14,971	21,888
Repairs and maintenance	14,488	-	-	14,488	11,951
Dues and subscriptions	11,691	-	-	11,691	6,914
Food expenses	126,492	-	-	126,492	122,334
Client expenses	12,639	-	-	12,639	3,260
Insurance	8,982	-	-	8,982	7,465
Travel	3,244	-	-	3,244	1,085
Meetings	3,762	-	-	3,762	1,149
Staff development	3,835	-	-	3,835	7,309
Fundraising	-	-	10,097	10,097	5,544
Printing	-	-	4,074	4,074	-
Miscellaneous	7,794	-	3,992	11,786	4,879
Depreciation	26,649	-	-	26,649	19,157
Total Expenses	\$ 1,105,299	\$ 205,510	\$ 84,384	\$ 1,395,193	\$ 1,205,827

STEPPING STONE EMERGENCY HOUSING, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2017

	<u>Program Services</u>	<u>Management and General</u>	<u>Fund- raising</u>	<u>Total</u>
Salaries	\$ 579,064	\$ 64,091	\$ 39,596	\$ 682,751
Payroll taxes	61,810	4,903	3,029	69,742
Employee benefits	49,307	5,457	3,372	58,136
 Total Payroll Expenses	 690,181	 74,451	 45,997	 810,629
 Professional fees	 -	 5,740	 -	 5,740
Contract services	78,905	9,283	4,642	92,830
Supplies	8,704	-	-	8,704
Telephone	15,216	1,416	1,062	17,694
Postage	934	934	-	1,868
Occupancy	47,667	4,434	3,326	55,427
Equipment	21,888	-	-	21,888
Repairs and maintenance	11,951	-	-	11,951
Dues and subscriptions	6,914	-	-	6,914
Food expenses	122,334	-	-	122,334
Client expenses	3,260	-	-	3,260
Insurance	7,465	-	-	7,465
Travel	1,085	-	-	1,085
Meetings	1,149	-	-	1,149
Staff development	7,309	-	-	7,309
Fundraising	-	-	5,544	5,544
Miscellaneous	2,396	-	2,483	4,879
Depreciation	19,157	-	-	19,157
 Total Expenses	 <u>\$1,046,515</u>	 <u>\$ 96,258</u>	 <u>\$ 63,054</u>	 <u>\$ 1,205,827</u>

STEPPING STONE EMERGENCY HOUSING, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities:

Stepping Stone Emergency Housing, Inc. (SSEH, the Organization) provides emergency housing and support services to adults experiencing homelessness in Anoka County, Minnesota. SSEH accommodates up to 60 adults assisting with short-term housing, job and life skills, educational courses, and support in finding a place to live once they have graduated.

Basis of presentation:

The financial statements of SSEH have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"), which requires the Organization to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the Statements of Activities.

Functional Expenses:

The costs of providing various programs have been summarized on a functional basis. Accordingly, certain costs have been allocated among programs and supporting services benefited. Salaries and related expenses are allocated based on job descriptions and the best estimates of management. Expenses, other than salaries and related expenses, which are not directly identifiable by program or support services, are allocated based on the best estimates of management.

STEPPING STONE EMERGENCY HOUSING, INC.
NOTES TO FINANCIAL STATEMENTS

**NOTE 1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES
(continued)**

Support and Expenses:

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Contributed property and equipment are recorded at fair value at the date of donation. Contributions with donor-imposed stipulations regarding how long the contributed assets must be used are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without donor restrictions.

Expenses are recorded when incurred in accordance with the accrual basis of accounting.

Cash and Cash Equivalents:

For purposes of the statements of cash flows, the Organization considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Income Taxes:

The Organization operates as a charitable organization, exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and similar Minnesota statutes.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Organization and recognize a tax liability (or asset) for uncertain position that more likely than not would not be sustained upon examination by the applicable tax authorities. Federal and state tax authorities generally have the right to examine the current and three previous years of income tax returns. The Organization is not currently under examination by any taxing jurisdiction.

STEPPING STONE EMERGENCY HOUSING, INC.
NOTES TO FINANCIAL STATEMENTS

**NOTE 1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES
(continued)**

Contributions and Grants Receivable:

Bad debts are recorded on the allowance method based on historical experience and management's evaluation of outstanding contributions and grants receivable. At December 31, 2018 and 2017, management considered all outstanding amounts to be fully collectible. Accordingly, there was no allowance for doubtful accounts.

Property and Equipment:

All major expenditures for land, building and equipment greater than \$1,000 are capitalized at cost. Contributed items are recorded at fair market value at the date of donation.

Depreciation is computed using the straight-line method based on the estimated useful lives of the assets as follows:

Building	39 years
Leasehold improvements	5 to 37 years
Equipment	5 to 10 years

Accrued Vacation and Personal Leave:

The Organization follows the practice of accruing vacation pay in the period in which the employee earns such vacation. Personal leave is paid to employees and is expensed as incurred.

Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures in these financial statements. Actual results could differ from those estimates.

Grants and Contract Revenue:

The Organization recognizes contracts and government grant revenue when earned as an exchange transaction. Revenue is earned when eligible expenditures, as defined in each grant or contract, are made. Funds received but not earned are shown as grant advances. The Organization may retain unexpended funds for use in future periods provided expenses incurred are in compliance with the specified terms of the grant. Expenditures under government contracts are subject to review by the granting authority. To the extent, if any, that such a review reduces expenditures allowable under these contracts, the Organization will record such disallowance at the time it is determinable.

STEPPING STONE EMERGENCY HOUSING, INC.
NOTES TO FINANCIAL STATEMENTS

**NOTE 1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES
(continued)**

Reclassifications:

Certain prior year amounts have been reclassified to conform with the current year presentation. These reclassifications had no effect on previously reported net assets.

Subsequent Events:

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through June 7, 2019, the date the financial statements were available to be issued.

New Accounting Pronouncement:

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these financial statements accordingly. The ASU has been applied retrospectively to all periods presented.

NOTE 2. CONCENTRATION OF CREDIT RISK

The Organization maintains its cash balances at various financial institutions located in the Twin Cities area. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 as of December 31, 2018 and 2017. At December 31, 2018 and 2017, the Organization had no uninsured cash balances.

NOTE 3. MAJOR SOURCES OF SUPPORT AND REVENUE

During the years ended December 31, 2018 and 2017, the Organization received 51% and 60%, respectively, of total revenue from the state of Minnesota.

STEPPING STONE EMERGENCY HOUSING, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 4. IN-KIND CONTRIBUTIONS

In-kind contributions are recognized for donated services that require specialized skills or items that improve or enhance property and equipment. During the years ended December 31, 2018 and 2017, the Organization received the following in-kind contributions:

	2018	2017
Food and meals	\$ 94,000	\$ 94,000
Medical services	46,800	62,300
House	148,278	-
Supplies	2,965	-
	\$ 292,043	\$ 156,300

NOTE 5. OPERATING LEASE COMMITMENTS

The Organization leases office facilities under annually renewing leases with Anoka County. Rent and occupancy expenses charged to operations for the above leases amounted to \$33,101 and \$35,709 for the years ended December 31, 2018 and 2017, respectively. Under the above leasing arrangement, the Organization has future lease commitments through June 30, 2019 of \$15,900.

The Organization leases office equipment under various non-cancelable leases, which expire through May 2021. Future commitments under these leases as of December 31, 2018 are as follows:

Year Ending December 31,	Amount
2019	\$ 3,066
2020	3,066
2021	1,278
	\$ 7,410

STEPPING STONE EMERGENCY HOUSING, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 6. BORROWING ARRANGEMENTS

The Organization maintains credit card accounts of which they can borrow up to \$12,000 and \$10,000 as of December 31, 2018 and 2017, respectively. Advances on these cards accrue interest at rates of 11.00% and 16.49% as of December 31, 2018 and 2017, respectively. As of December 31, 2018 and 2017, there were outstanding advances of \$4,638 and \$0, respectively, that were included in the accounts payable balance.

NOTE 7. AVAILABILITY AND LIQUIDITY

The following represents the Organization's financial assets available to general expenditure within one year of December 31, 2018:

	2018	2017
Financial assets at year-end		
Cash and cash equivalents	\$ 177,347	\$ 185,168
Contributions and grants receivable	73,123	65,733
Total financial assets	250,470	250,901
Less amounts not available to be used within one year		
Net assets with donor restrictions	9,886	-
Less net assets with restrictions to be met in less than one year	(9,886)	-
Financial assets available to meet general expenditures within one year	\$ 250,470	\$ 250,901

The Organization's goal is generally to maintain financial assets to meet 90 days of operating expenses.

NOTE 8. NET ASSETS WITH DONOR RESTRICTIONS

At December 31, 2018 and 2017, the Organization had net assets with donor restriction of \$9,886 and \$0, respectively, that were restricted for the Organization's programs.