

HOMELESS CONNECTIONS, INC.

FINANCIAL STATEMENTS

Year Ended December 31, 2015

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Homeless Connections, Inc.
Appleton, Wisconsin

We have audited the accompanying financial statements of Homeless Connections, Inc. (the Organization), which comprise the statement of financial position as of December 31, 2015, and the related statements of activities, functional expenses, and cash flows for the year 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 the financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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 auditors' 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 auditors consider internal control relevant to the Organization'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 Organization'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 Homeless Connections, Inc. as of December 31, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal and state awards is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 27, 2016 on our consideration of Homeless Connections, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Homeless Connections, Inc.'s internal control over financial reporting and compliance.

Report on Summarized Comparative Information

We have previously audited Homeless Connections, Inc.'s financial statements as of and for the year ended December 31, 2014, and our report dated July 22, 2015, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Certified Public Accountants

Appleton, Wisconsin
July 27, 2016

HOMELESS CONNECTIONS, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2015
With Comparative Totals as of December 31, 2014

ASSETS	<u>2015</u>	<u>2014</u>
<u>Current assets</u>		
Cash and cash equivalents (Note 8)	\$ 555,804	\$ 521,919
Government grants receivable	62,374	84,072
Contributions and other grants receivable	210,800	193,600
Prepaid expenses and other assets	<u>20,140</u>	<u>20,610</u>
Total current assets	849,118	820,201
Property and equipment, net	1,129,211	1,101,179
<u>Other assets</u>		
Beneficial interest in assets held by Community Foundation	<u>528,972</u>	<u>581,319</u>
Total assets	<u>\$ 2,507,301</u>	<u>\$ 2,502,699</u>
LIABILITIES AND NET ASSETS		
<u>Current liabilities</u>		
Accounts payable	\$ 45,680	\$ 50,260
Accrued payroll and benefits	45,584	44,934
Other liabilities	<u>7,963</u>	<u>4,298</u>
Total current liabilities	99,227	99,492
Long-term liability - refundable advance	<u>-</u>	<u>75,000</u>
Total liabilities	<u>99,227</u>	<u>174,492</u>
<u>Net assets</u>		
Unrestricted (Note 8)	1,602,056	1,536,369
Temporarily restricted (Note 9)	211,917	197,862
Permanently restricted (Note 9)	<u>594,101</u>	<u>593,976</u>
Total net assets	<u>2,408,074</u>	<u>2,328,207</u>
Total liabilities and net assets	<u>\$ 2,507,301</u>	<u>\$ 2,502,699</u>

See notes to financial statements.

HOMELESS CONNECTIONS, INC.

STATEMENT OF ACTIVITIES
 Year Ended December 31, 2015
 With Comparative Totals for the Year Ended December 31, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>	
				<u>2015</u>	<u>2014</u>
<u>Support and other revenue</u>					
Contributions and grants:					
Contributions	\$ 425,528	\$ -	\$ 125	\$ 425,653	\$ 458,154
Bequest contributions	-	-	-	-	40,000
In-kind contributions	196,655	-	-	196,655	181,152
United Way Fox Cities	-	165,800	-	165,800	148,600
Nongovernment grants	396,932	1,117	-	398,049	340,258
Government grants	359,163	45,000	-	404,163	370,659
Emergency Solutions rent assistance government grant (Note 10)	<u>40,241</u>	<u>-</u>	<u>-</u>	<u>40,241</u>	<u>66,589</u>
Total contributions and grants	<u>1,418,519</u>	<u>211,917</u>	<u>125</u>	<u>1,630,561</u>	<u>1,605,412</u>
Fundraising events revenue	150,772	-	-	150,772	129,778
Less: Costs of direct benefits to donors	<u>(11,742)</u>	<u>-</u>	<u>-</u>	<u>(11,742)</u>	<u>(12,442)</u>
Net revenues from fundraising events	<u>139,030</u>	<u>-</u>	<u>-</u>	<u>139,030</u>	<u>117,336</u>
Other revenue:					
Return on beneficial interest in assets held by Community Foundation	(24,184)	-	-	(24,184)	14,224
Rent income	24,045	-	-	24,045	14,675
Interest income	2,400	-	-	2,400	2,687
Loss on disposal of assets	-	-	-	-	(1,138)
Other income	<u>10,706</u>	<u>-</u>	<u>-</u>	<u>10,706</u>	<u>5,000</u>
Total other revenue	<u>12,967</u>	<u>-</u>	<u>-</u>	<u>12,967</u>	<u>35,448</u>
Net assets released from donor restrictions	<u>197,862</u>	<u>(197,862)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total support and other revenue	<u>1,768,378</u>	<u>14,055</u>	<u>125</u>	<u>1,782,558</u>	<u>1,758,196</u>
<u>Expenses</u>					
Program services	1,389,996	-	-	1,389,996	1,399,421
Supporting activities:					
Management and general	147,993	-	-	147,993	143,974
Fundraising	<u>164,702</u>	<u>-</u>	<u>-</u>	<u>164,702</u>	<u>191,118</u>
Total expenses	<u>1,702,691</u>	<u>-</u>	<u>-</u>	<u>1,702,691</u>	<u>1,734,513</u>
Change in net assets	<u>65,687</u>	<u>14,055</u>	<u>125</u>	<u>79,867</u>	<u>23,683</u>
Net assets, beginning	<u>1,536,369</u>	<u>197,862</u>	<u>593,976</u>	<u>2,328,207</u>	<u>2,304,524</u>
Net assets, ending	<u>\$ 1,602,056</u>	<u>\$ 211,917</u>	<u>\$ 594,101</u>	<u>\$ 2,408,074</u>	<u>\$ 2,328,207</u>

See notes to financial statements.

HOMELESS CONNECTIONS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2015

With Comparative Totals for the Year Ended December 31, 2014

	Program Services	Supporting Activities		Totals	
		Management and General	Fund- Raising	2015	2014
Salaries and wages	\$ 596,746	\$ 76,467	\$ 94,297	\$ 767,510	\$ 736,637
Employee benefits	172,189	22,618	18,595	213,402	204,516
Employee training	14,240	2,777	1,063	18,080	17,860
Program mileage	1,946	-	-	1,946	3,483
Contracted social services	59,155	-	-	59,155	61,405
Food - purchased	4,349	-	-	4,349	7,780
Food - donated	115,000	-	-	115,000	107,000
Rent assistance	21,448	-	-	21,448	33,915
Emergency Solutions rent assistance (Note 10)	40,241	-	-	40,241	66,589
Transportation assistance	30,217	-	-	30,217	38,547
Personal care items - donated	36,196	-	-	36,196	31,000
Medical assistance - purchased	22,888	-	-	22,888	17,996
Medical assistance - donated	375	-	-	375	3,139
Other resident assistance	45,743	-	-	45,743	46,739
Office expense	34,689	16,293	12,688	63,670	48,581
Professional fees	-	16,695	-	16,695	17,360
Public relations	-	-	18,643	18,643	18,655
Branding	-	-	-	-	33,547
Fundraising events - printing, supplies and other	-	-	13,876	13,876	21,591
Maintenance and supplies	79,268	1,792	443	81,503	85,740
Utilities	51,737	1,035	1,124	53,896	57,667
Insurance	13,700	5,486	900	20,086	18,986
Interest	-	48	-	48	737
Depreciation	45,649	1,712	1,066	48,427	46,537
Miscellaneous	<u>4,220</u>	<u>3,070</u>	<u>2,007</u>	<u>9,297</u>	<u>8,506</u>
Total functional expenses	<u>\$ 1,389,996</u>	<u>\$ 147,993</u>	<u>\$ 164,702</u>	<u>\$ 1,702,691</u>	<u>\$ 1,734,513</u>

See notes to financial statements.

HOMELESS CONNECTIONS, INC.

STATEMENT OF CASH FLOWS
Year Ended December 31, 2015

With Comparative Totals for the Year Ended December 31, 2014

	<u>2015</u>	<u>2014</u>
<u>Cash flows from operating activities</u>		
Change in net assets	\$ 79,867	\$ 23,683
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Depreciation	48,427	46,537
Return on beneficial interest in assets held by Community Foundation	24,184	(14,224)
Contributions restricted for long-term purposes	(17,321)	(9,865)
Loss on disposal of assets	-	1,138
Forgiveness of refundable advance	(75,000)	(25,000)
Changes in operating assets and liabilities:		
Government grants receivable	21,698	(16,560)
Contributions and other grants receivable	(17,200)	(3,100)
Prepaid expenses and other assets	470	(12,404)
Accounts payable	(4,580)	19,993
Accrued payroll and benefits	650	(2,272)
Other liabilities	<u>3,665</u>	<u>(10,229)</u>
Net cash provided by (used for) operating activities	<u>64,860</u>	<u>(2,303)</u>
<u>Cash flows from investing activities</u>		
Purchase of property and equipment	(76,459)	(56,056)
Purchase of beneficial interest in assets held by Community Foundation	(125)	(125)
Distribution from beneficial interest in assets held by Community Foundation	<u>28,288</u>	<u>27,626</u>
Net cash used for investing activities	<u>(48,296)</u>	<u>(28,555)</u>
<u>Cash flows from financing activities</u>		
Proceeds on line of credit	55,000	105,209
Payments on line of credit	(55,000)	(105,209)
Proceeds from contributions restricted for long term purposes	<u>17,321</u>	<u>9,865</u>
Net cash provided by financing activities	<u>17,321</u>	<u>9,865</u>
<u>Cash and cash equivalents</u>		
Net increase (decrease)	33,885	(20,993)
Beginning	<u>521,919</u>	<u>542,912</u>
Ending	<u>\$ 555,804</u>	<u>\$ 521,919</u>
<u>Supplemental cash flow information</u>		
Cash paid for interest	\$ 48	\$ 737

See notes to financial statements.

HOMELESS CONNECTIONS, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

Note 1 - Nature of activities and significant accounting policies

A. Nature of activities

Homeless Connections, Inc. (formerly known as Emergency Shelter of the Fox Valley, Inc.) (Organization) is a not-for-profit organization providing temporary shelter to homeless individuals and families in a safe environment, while providing guidance that promotes independence to those both homeless and at-risk. The Organization is supported primarily through contributions and grants and various fundraising events.

The Organization's programs are:

Prevention program - The Prevention Program, operated in collaboration with partner agency LEAVEN, INC., provides financial assistance, connection to community resources, and follow-up services to individuals and families who are at high-risk of losing their community housing. Most people who are helped by Prevention maintain their community housing and do not return within one year for additional financial assistance.

Shelter program - The Shelter Program provides safe, temporary shelter to individuals and families experiencing homelessness. Participants are also provided with personal care items and meals to meet their basic needs. The Shelter Program has been a core program of Homeless Connections since 1981.

Case Management program - The Case Management Program provides personal guidance to individuals and families in the Shelter Program. Case Managers assess each individual, identifying barriers to self-sufficiency. Individuals then work with their case managers to develop a plan with goals to address these barriers and connect to community resources like workforce development, health care, and housing providers. The Organization's extensive on-site services also include mental and physical health services, vocational skills training, housing counseling and placement, legal services, and economic support services through community partners.

Outreach program - The Outreach Program connects individuals who are acutely homeless with mental illness and/or addiction challenges to community resources and housing. Outreach also assists those who are eligible for social security income with the application process. The Outreach Program is operated in collaboration with the Fox Valley Warming Shelter.

B. Basis of accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting, and accordingly, reflect all significant receivables, payables, and other liabilities.

C. Basis of presentation

The Organization is required to report information regarding its financial position and its activities in the following three classes of net assets:

HOMELESS CONNECTIONS, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED
December 31, 2015

Note 1 - Nature of activities and significant accounting policies, continued

C. Basis of presentation, continued

Unrestricted net assets - net assets that are neither temporarily nor permanently restricted by donor-imposed stipulations.

Temporarily restricted net assets - net assets that result from contributions whose use by the Organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations.

Permanently restricted net assets - net assets resulting from contributions whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled and removed by actions of the Organization.

D. Estimates

Management uses estimates and assumptions in preparing financial statements. 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 differ from those estimates.

E. Cash and cash equivalents

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

F. Contributions receivable

Unconditional promises to give are recognized as revenue in the period the promise is received. Conditional contributions receivable are recognized only when the conditions on which they depend are substantially met. The Organization considers all contributions receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required.

G. Property and equipment and depreciation

All acquisitions and improvements of property and equipment in excess of \$2,000 are capitalized while all expenditures for repairs and maintenance that do not materially prolong the useful lives of assets are expensed. Purchased property and equipment is carried at cost. Donated property and equipment is carried at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets.

H. Contribution and bequest recognition

Unconditional contributions are recognized as revenue when they are promised or received, as applicable, and are available for unrestricted use unless specifically restricted by donor. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted

HOMELESS CONNECTIONS, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED
December 31, 2015

Note 1 - Nature of activities and significant accounting policies, continued

H. Contribution and bequest recognition, continued

contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions received with donor conditions are accounted for as refundable advances until the conditions have been substantially met.

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. Numerous volunteers of the Organization provided services throughout the year that have not been recognized as contributions in the financial statements since the recognition criteria were not met. The Organization estimates 18,582 volunteer hours were contributed during the year ended December 31, 2015 that contributed to carrying out the valuable mission of the Organization.

I. Grant recognition

Government grants are generally considered exchange transactions. Accordingly, government grant revenue is generally recognized when earned, which is usually when eligible expenditures are incurred. However, grants that are not conditional on eligible expenditures are treated as unconditional contributions receivable and reported as income when the Organization is notified the grants are approved. Grants are subject to audit by the providing agency. The Organization does not believe that any resulting disallowed costs would be material to the financial statements. Since the grants are subject to annual appropriation by the provider agencies, continued receipt of funding in future years cannot be assured.

J. Functional allocation of expenses

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

K. Income tax status

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. The Organization had no unrelated business taxable income for the year ended December 31, 2015. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(1). The Organization is also exempt from Wisconsin income taxes.

HOMELESS CONNECTIONS, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED
December 31, 2015

Note 1 - Nature of activities and significant accounting policies, continued

L. Summarized financial information

The financial statements include certain prior-year summarized 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 December 31, 2014, from which the summarized information was derived.

M. Subsequent events

The Organization has evaluated events and transactions for potential recognition of disclosure in the financial statements through July 27, 2016, the date on which the financial statements were available to be issued.

N. Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements with no change in the previously reported net assets or changes in net assets.

Note 2 - Concentration of credit risk

The Organization maintains its cash accounts at a credit union. Deposits with credit unions are insured by the National Credit Union Share Insurance Fund up to \$250,000. The Organization's cash deposits may exceed this insured limit at times during the year. The Organization has not experienced any losses in these accounts. Management believes the Organization is not exposed to any significant credit risk on cash.

Note 3 - Property and equipment, net

Property and equipment consists of the following as of December 31, 2015:

Land	158,901
Buildings	1,470,761
Equipment and furniture	<u>131,255</u>
	1,760,917
Less accumulated depreciation	<u>631,706</u>
	<u>\$ 1,129,211</u>

HOMELESS CONNECTIONS, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED
December 31, 2015

Note 4 - Beneficial interest in assets held by Community Foundation

Beneficial interest in assets held by Community Foundation represents a donor-restricted endowment fund held at the Community Foundation for the Fox Valley Region, Inc. (Foundation). This endowment fund is the legal asset of the Foundation with the restriction that the Foundation make annual distributions to the Organization. The agreement governing the assets includes a variance power allowing the Foundation to modify the restrictions on distributions from the Fund. Distributions from the Fund are ordinarily made annually to the Organization following the Foundation's spending policy. The Foundation's spending policy of appropriating distributions each year is calculated to be 5% of the market value of the fund, which is based on the previous three-year average market value. Over the long term, the Organization expects the current spending policy to allow its fund to grow. This is consistent with the Organization's objective to maintain the purchasing power of the assets as well as to provide additional real growth through investment return.

To achieve that objective, the Organization works with the Foundation to maximize total return consistent with an acceptable level of risk. Endowment assets are invested in a well diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 5%, while growing the fund if possible. Accordingly, the Organization expects its endowment assets, over time, to produce an average rate of return of approximately 8% annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed by the Foundation to not expose the fund to unacceptable levels of risk.

The Board of Directors of the Organization has interpreted the State of Wisconsin Prudent Management of Institutional Funds Act (WUPMIFA) as requiring the preservation of the fair value of the original gifts as of the gift date to the donor-restricted endowment fund 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 to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets to support the Organization's Prevention Program until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by WUPMIFA. Losses on investments reduce temporary restricted net assets to the extent of the net appreciation carried there. Any remaining losses reduce unrestricted net assets. Subsequent gains that restore the value of the investments are credited to unrestricted net assets until the Fund returns to its original value.

The balance in the Fund consists of the following net asset classifications at December 31, 2015:

Permanently restricted net assets:	
Original value of gifts to donor-restricted endowment fund	\$ 594,101
Unrestricted net assets:	
Net depreciation in fair value of donor-restricted endowment fund	<u>(65,129)</u>
	<u>\$ 528,972</u>

HOMELESS CONNECTIONS, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED
December 31, 2015

Note 4 - Beneficial interest in assets held by Community Foundation, continued

Composition of and changes in the Fund net assets for the year ended December 31, 2015 were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance, beginning of year	\$ (12,657)	\$ -	\$ 593,976	\$ 581,319
Net appreciation (depreciation)	(24,184)	-	-	(24,184)
Contributions	-	-	125	125
Amount appropriated for expenditure	<u>(28,288)</u>	<u>-</u>	<u>-</u>	<u>(28,288)</u>
Balance, end of year	<u>\$ (65,129)</u>	<u>\$ -</u>	<u>\$ 594,101</u>	<u>\$ 528,972</u>

Note 5 - Line of credit

The Organization has a \$200,000 line of credit secured by a mortgage including assignment of rents and leases with Community First Credit Union with an interest rate at prime (3.50% at December 31, 2015). At December 31, 2015, \$0- was outstanding on this line of credit. Unpaid interest and principal are due October 1, 2017. The Organization incurred \$48 in interest expense for this line of credit during the year ended December 31, 2015.

Note 6 - Letter of credit

The Organization has a \$15,000 letter of credit issued by Community First Credit Union to satisfy the Organization's reimbursement financing (self-funding) election under the provisions of the state of Wisconsin unemployment insurance law. The letter of credit expires December 31, 2019. It is backed by a \$15,000 line of credit that is secured by a mortgage with interest at 12% and any unpaid interest and principal due December 31, 2019. At December 31, 2015, no balances were outstanding on this line of credit.

Note 7 - Refundable advances

The Organization received \$200,000 from the Housing Authority of the County of Outagamie in 1995 to help build the shelter. As long as the Organization continued its operation in the current building, a portion of the advance would be forgiven each year. As 2015 was the last year of the agreement and the Organization maintained operations in the current building, the remaining \$75,000 of the refundable advance was forgiven during the year ended December 31, 2015.

HOMELESS CONNECTIONS, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED
December 31, 2015

Note 8 - Board designated unrestricted net assets

The Organization received bequests in 2012, 2013 and 2014, the balance of which is included in cash and cash equivalents and unrestricted net assets on the statement of financial position. The Organization's board of directors has chosen to place a limitation on these unrestricted net assets to be used for non-operating purposes with use as needed for short-term borrowing before using the line of credit. During the Organization's board of director's 2016 strategic planning initiative, which includes review of the building and equipment as it relates to meeting the mission of the Organization, a more specific non-operating Board designation will be determined.

The Organization's board of directors has chosen to place the following limitations on unrestricted net assets as of December 31, 2015:

Unrestricted net assets	
Board designated:	
Non-operating	\$ 233,393
Operating reserve	125,562
Designated for property and equipment	1,129,211
Undesignated	<u>113,890</u>
Total unrestricted net assets	<u>\$ 1,602,056</u>

Note 9 - Restricted net assets

Restricted net assets as of December 31, 2015 consist of the following:

Temporarily restricted net assets:	
Purpose restrictions:	
Client assistance - housing	\$ 1,117
Time restriction:	
Contributions and other grants receivable	<u>210,800</u>
	<u>\$ 211,917</u>
Permanently restricted net assets:	
Original value of gifts to donor-restricted endowment fund	<u>\$ 594,101</u>

Note 10 - Emergency Solutions/Transitional Housing/Homeless Prevention Program Grant

The City of Appleton is the recipient of the Emergency Solutions/Transitional Housing/Homeless Prevention Program Grant. The Organization is a subrecipient of these grants and collaborates with LEAVEN for the rent and utility assistance portion of the grants. During the year ended December 31, 2015, the Organization expended \$73,360 of its portion of the grants and LEAVEN has been reimbursed \$40,241 of client rent and utility assistance.

HOMELESS CONNECTIONS, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED
December 31, 2015

Note 11 - Retirement plan

The Organization has a SIMPLE IRA retirement plan covering employees who receive at least \$2,000 in compensation per year. Contributions to the plan consist of salary reduction elections by the employee and 2% of earnings contributed by the Organization. Total expense for the SIMPLE IRA retirement plan in 2015 was \$13,584.

Note 12 - Fair value measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Accounting standards have established a hierarchy of valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 consists of unadjusted quoted prices in active markets for identical assets, Level 2 consists of inputs observable in the marketplace other than quoted prices in active markets for identical assets, and Level 3 consists of significant inputs unobservable in the marketplace.

The Organization's beneficial interest in assets held by Community Foundation is carried at fair value. The fair value is provided by the Foundation and consists of the right to receive cash flows from the Foundation. The fair value provided by the Foundation is considered a Level 3 input. Fair value is determined by allocating a portion of the Foundation's investment pools.

The following is a reconciliation of beginning and ending balances for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the year ended December 31, 2015:

Beginning balance - January 1, 2015	\$ 581,319
Net losses, realized and unrealized, included in change in net assets	(24,184)
Contributions	125
Amount appropriated for expenditure	<u>(28,288)</u>
Ending balance - December 31, 2015	<u>\$ 528,972</u>
Change in unrealized gains related to Level 3 assets still held at December 31, 2015	<u>\$ (24,184)</u>

ADDITIONAL INDEPENDENT AUDITORS' REPORT
FOR FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' 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

Board of Directors
Homeless Connections, Inc.
Appleton, Wisconsin

We have audited, in accordance with the 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, the financial statements of Homeless Connections, Inc., which comprise the statement of financial position as of December 31, 2015, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated July 27, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Homeless Connections, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Homeless Connections, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Homeless Connections, Inc.'s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Homeless Connections, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Homeless Connections, Inc.'s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Homeless Connections, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Schenck DC". The letters are cursive and fluidly connected.

Certified Public Accountants

Appleton, Wisconsin
July 27, 2016

SUPPLEMENTARY INFORMATION

HOMELESS CONNECTIONS, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended December 31, 2015

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Federal Expenditures
<u>U.S. Department of Housing & Urban Development:</u>		
Pass-through Program from:		
City of Appleton:		
Community Development Block Grant	14.218	\$ 29,697
City of Neenah:		
Community Development Block Grant	14.218	<u>7,100</u>
		36,797
Pass-through Program from:		
State of Wisconsin Department of Administration and Outagamie County:		
Community Development Block Grant		
SSI/SSDI Outreach, Access and Recovery (SOAR)	14.228	14,342
and City of Appleton:		
Emergency Solutions Grant (ESG)	14.231	<u>78,479</u>
		129,618
<u>U.S. Department of Health and Human Services:</u>		
Pass-through Program from:		
State of Wisconsin Department of Administration:		
Projects for Assistance in Transition from Homelessness (PATH)	93.150	89,042
<u>U.S. Department of Education:</u>		
Pass-through Program from:		
Wisconsin Technical College System:		
Adult Education - Basic Grants to States	84.002	21,808
<u>U.S. Department of Homeland Security:</u>		
Pass-through Program from:		
United Way Fox Cities:		
Emergency Food & Shelter National Board Program (FEMA)	97.024	<u>24,080</u>
Total expenditures of federal awards		<u>\$ 264,548</u>

HOMELESS CONNECTIONS, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS, CONTINUED
 Year Ended December 31, 2015

State Grantor/Pass-through Grantor/Program Title	State Program ID #	State Expenditures
<u>State of Wisconsin Department of Administration:</u>		
State Shelter Subsidy Grant Program (SSSG)	505.707A	\$ 45,500
Mental Health for Homeless Individuals	505.709	4,234
Pass-through Program from:		
City of Appleton:		
Homelessness Prevention Program (HPP)	505.703B	35,122
<u>State of Wisconsin Department of Children and Families:</u>		
Services to Homeless Individuals and Families Grant	437.UNK	<u>50,000</u>
Total expenditures of state awards		<u>\$ 134,856</u>
Other Government Grantors	Program ID #	Local Expenditures
<u>Outagamie County</u>	-	<u>\$ 45,000</u>
Total government grants		<u>\$ 444,404</u>