

NEWCAP, Inc. and Subsidiaries

Oconto, Wisconsin

Consolidated Financial Statements and Supplementary Information

Year Ended December 31, 2016

NEWCAP, Inc. and Subsidiaries

Consolidated Financial Statements and Supplementary Information
Year Ended December 31, 2016

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Independent Auditor's Report

Board of Directors
NEWCAP, Inc. and Subsidiaries
Oconto, Wisconsin

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of NEWCAP, Inc. and Subsidiaries (the "Organization") which comprise the consolidated statements of financial position as of December 31, 2016, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States 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 consolidated financial statements are free from material misstatement. The financial statements of Newcap Village on Water, LLC and The Village on Water MM, LLC were not audited in accordance with *Government Auditing Standards* as these entities did not receive federal funding.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of NEWCAP, Inc. and Subsidiaries as of December 31, 2016, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States.

Change in Accounting Principle

As discussed in Note 1, the Organization has elected a more preferable method of accounting for loans receivable and deferred loan funds than in prior years. This accounting principle is further described in Note 1. This change in accounting principle is reflected as a retrospective adjustment to beginning net assets on the statement of financial position. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal and state awards, Schedule A-1 to A-3 as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the *State Single Audit Guidelines*, issued by the Wisconsin Department of Administration, schedule of emergency furnace by contract, and the settlement of DHS cost reimbursement award are presented for purposes of additional analysis and are 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. Such 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. In our opinion, the information is fairly stated in all material respects, in relation to the consolidated 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 June 8, 2017, on our consideration of NEWCAP, 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 the 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 NEWCAP, Inc.'s internal control over financial reporting and compliance.



Wipfli LLP

June 8, 2017

Madison, Wisconsin

NEWCAP, Inc. and Subsidiaries

Consolidated Statement of Financial Position

December 31, 2016

<i>Assets</i>	
Current assets:	
Cash and cash equivalents	\$ 220,951
Grants receivable	353,215
Accounts receivable	18,136
WETAP loans receivable	139,200
HOME loans receivable	45,200
Inventory	232,868
Other assets	412,937
Total current assets	1,422,507
Other assets:	
Loans receivable, related party	878,250
WETAP loans receivable, net	132,862
HOME loans receivable, net	896,155
Total other assets	1,907,267
Property and equipment, net	3,981,106
TOTAL ASSETS	\$ 7,310,880
<i>Liabilities and Net Assets</i>	
Current liabilities:	
Loans payable, current portion	\$ 24,592
Accounts payable	170,295
Accrued payroll and related expenses	154,448
Escrow payable	6,203
Grant funds received in advance	264,943
Total current liabilities	620,481
Long-term liabilities	
Loans payable	1,141,369
Weatherization advance	34,253
Total long-term liabilities	1,175,622
Total liabilities	1,796,103
Net assets:	
Unrestricted	2,454,119
Temporarily restricted	3,060,658
Total net assets	5,514,777
TOTAL LIABILITIES AND NET ASSETS	\$ 7,310,880

See accompanying notes to consolidated financial statements.

NEWCAP, Inc. and Subsidiaries

Consolidated Statement of Activities

Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Total
Revenue:			
Grant revenue	\$ 8,735,235	\$ 29,998	\$ 8,765,233
Program income	988,241	92,154	1,080,395
Rental income	156,102	0	156,102
Donations	11,858	5,696	17,554
Other income	208,763	0	208,763
Net assets released from restriction through satisfaction of program restrictions	207,264	(207,264)	0
Total revenue	10,307,463	(79,416)	10,228,047
Program expenses:			
Community services	1,044,006	0	1,044,006
Weatherization	4,429,549	0	4,429,549
Job training	276,971	0	276,971
Food services	1,187,088	0	1,187,088
Health and welfare	1,045,129	0	1,045,129
Housing	1,832,753	0	1,832,753
Corporate programs	309,919	0	309,919
Total program expenses	10,125,415	0	10,125,415
Management and general expenses	705,407	0	705,407
Total expenses	10,830,822	0	10,830,822
Changes in net assets	(523,359)	(79,416)	(602,775)
Net assets - Beginning of year, prior to retrospective effect of change in accounting principle	2,977,478	2,221,803	5,199,281
Retrospective effect of change in accounting principle	0	918,271	918,271
Net assets - Beginning of year, after retrospective effect of change in accounting principle	2,977,478	3,140,074	6,117,552
Net assets - End of year	\$ 2,454,119	\$ 3,060,658	\$ 5,514,777

See accompanying notes to consolidated financial statements.

NEWCAP, Inc. and Subsidiaries

Consolidated Statement of Cash Flows

Year Ended December 31, 2016

Increase (decrease) in cash and cash equivalents:	
Cash flows from operating activities:	
Changes in net assets	(\$ 602,775)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	187,369
Loss on disposal of property and equipment	10,000
Provision for loan loss	45,519
Discount and amortization on HOME loans receivable	116,700
Changes in operating assets and liabilities:	
Grants receivable	350,093
Accounts receivable	(4,430)
Inventory	95,988
Other assets	(148,691)
Accounts payable	100,515
Accrued payroll and related expenses	57,509
Escrow payable	4,442
Grant funds received in advance	210,686
Net cash provided by operating activities	422,925
Cash flows from investing activities:	
Proceeds on sale of property and equipment	20,924
Purchase of property and equipment	(291,776)
Issuance of loans receivable	(506,239)
Collection of loans receivable	276,178
Issuance of loan receivable, related party	(57,025)
Net cash used in investing activities	(557,938)
Cash flows from financing activities:	
Proceeds from line of credit	200,000
Principal payments on loans payable	(2,039)
Net cash provided by financing activities	197,961
Change in cash and cash equivalents	62,948
Cash and cash equivalents - Beginning of the year	158,003
Cash and cash equivalents - End of the year	\$ 220,951
Supplemental schedule of other cash activity:	
Interest paid and expensed	\$ 19,573
Supplemental schedule of noncash investing and financing activities:	
Line of credit refinanced to a loan payable	\$ 500,000
Debt incurred to purchase property	260,000

See accompanying notes to consolidated financial statements.

NEWCAP, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies

Nature of Operations

NEWCAP, Inc. (NEWCAP) was organized as nonprofit corporation in 1965. NEWCAP was formed to develop and provide resources for the purpose of assisting low-income individuals through a variety of programs throughout Northeast Wisconsin. NEWCAP is primarily supported through federal and state government grants. Approximately 39% of NEWCAP's revenue was received directly from the Department of Administration for its weatherization and emergency furnace programs.

In November 2011, NEWCAP formed The Village on Water MM, LLC and acquired a 51% ownership of the entity. The entity was established to manage a low-income housing tax credit project. There was no significant activity for this entity in 2016.

In November 2012, NEWCAP formed Newcap Village on Water, LLC, a wholly owned Subsidiary. The LLC was established to be a member in a low-income housing tax credit project. There was no significant activity for this entity in 2016.

Basis of Presentation

The consolidated financial statements are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States.

Principles of Consolidation

The consolidated financial statements include the accounts of NEWCAP, Newcap Village on Water LLC, and The Village on Water MM, LLC, (the "Organizations"). All material intercompany transactions and accounts are eliminated in the consolidation.

Classification of Net Assets

Net assets and revenue, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organizations and changes therein are classified and reported as follows:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations or where donor-imposed stipulations are met in the year of the contribution.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that may or may not be met, either by actions of the Organizations and/or the passage of time. When a restriction expires, temporarily restricted net assets are transferred to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organizations. Generally, the donors of these assets permit the Organizations to use all or part of the income earned on any related investments for general or specific purposes. Currently, the Organizations do not have any permanently restricted net assets.

NEWCAP, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Use of Estimates

The preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Revenue Recognition

Contributions are recognized when the donor makes an unconditional promise to give to the Organizations. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and nature of any donor restrictions. When a restriction expires, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statement of activities as released from restrictions. If a restriction is satisfied in the year of contribution, the contribution is recorded as unrestricted revenue.

Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Program income represents amounts contributed by program beneficiaries. The contributions are to help defray the cost of the specific program in which the beneficiary received assistance.

Rental income represents income received from various sources for use of property or space owned by the Organizations. This income is recognized in the period in which it is earned.

Grants are either recorded as contributions or exchange transactions based on criteria contained in the grant award.

A. Grant Awards That Are Contributions

Grants that qualify as contributions are recorded as invoiced to the funding sources. Revenue is recognized in the accounting period when the related allowable expenses are incurred. Amounts received in excess of expenses are reflected as grant funds received in advance.

B. Grant Awards That Are Exchange Transactions

Exchange transactions reimburse based on a predetermined rate for services performed. The revenue is recognized in the period the service is performed.

Cash and Cash Equivalents

For purposes of the consolidated statement of cash flows, the Organizations consider all checking and money market accounts to be cash and cash equivalents.

NEWCAP, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Accounts Receivable

Accounts receivable represent amounts due from entities for various services performed by the Organizations. Accounts receivable are stated at the amount management expects to collect from balances outstanding at year-end. Based on history with customers having outstanding balances and current relationships with them, management has concluded that the accounts are collectible. Therefore, no allowance has been recorded as of December 31, 2016.

Inventory

Inventory is stated at the lower of cost (first-in, first-out) or market. Inventory consists of materials for the weatherization, commodity and clinic programs.

Loans Receivable

NEWCAP operates three loan funds that provide assistance to low-income homeowners and vehicle assistance to participants in NEWCAP's service area, and loans to a related party for the construction of a low-income housing tax credit property. The assistance provided is recorded as a receivable and temporarily restricted net assets. Any loans subsequently repaid will reduce the loan receivable and provide funds for loans or other assistance to other eligible participants.

Management has the intent and ability to hold all loans for the foreseeable future or until maturity or pay-off. Management has reported the loans at their outstanding unpaid principal balances adjusted for charge-offs and the allowance for expected loan losses. Loan origination fees, net of certain direct origination costs are recognized as income or expense when received or incurred since capitalization of these fees or costs would not have a significant impact on the consolidated financial statements.

The allowance for loan losses is a valuation allowance for probable incurred credit losses based on an evaluation of the outstanding loans. Loan losses are charged against the allowance when management believes the collectability of the principal is unlikely. Subsequent recoveries, if any, are credited to the allowance.

Management regularly evaluates the allowance for loan losses taking into consideration such factors as historical loss experience, changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, and current economic conditions that may affect the borrower's ability to pay. A loan is considered impaired when, based on current information and events, it is probable that NEWCAP will be unable to collect the scheduled payments of principal when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for housing and business loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

NEWCAP, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Loans Receivable (Continued)

NEWCAP has the following types of loans receivable:

HOME Loans Receivable

NEWCAP received HOME grant awards to help low-income homebuyers for down payment assistance, closing costs or to bring their homes up to housing quality standards. Assistance is in the form of a no-interest deferred loan. The loan is payable at the earliest of debt refinancing, the sale, transfer, or reassignment of the property or death of the participant. In most cases, NEWCAP is the second or third mortgagee. Any loans repaid must be used for similar activity. HOME loans receivable are discounted to their net present value at a 4.25% discount rate and are stated at the amount of unpaid principal.

WETAP Loans Receivable

NEWCAP operates a revolving loan program funded by the State of Wisconsin, Department of Transportation (WDOT). NEWCAP receives funds to loan to eligible individuals for the purchase or repair of vehicles. The repaid loans are to be repaid over a time period determined by the grant, or are to be repaid when the property is sold or changes title. Any funds repaid must be used in accordance with the original grant agreement. The loans are non-interest-bearing. Due to the short term nature of these loans, they have not been discounted to their net present value as the discount would be immaterial. There was no allowance for doubtful accounts at December 31, 2016.

Loans Receivable, Related Party

Loans made to The Village on Water, LLC (The Village) are recorded as loans receivable at the amount of unpaid principal. Management evaluates the collectability of loans receivable based on the financial condition of the company. NEWCAP has collateral in the form of a subordinated position on the rental property.

Property and Equipment

Property and equipment are recorded at cost and depreciated using the straight-line method over the estimated useful life of the asset. The Organizations capitalizes property and equipment purchased with a cost greater than \$5,000 and a useful life of more than one year. Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose.

If there are no donor restrictions regarding how long a donated asset must be maintained, the Organizations report expirations of donor restrictions when the donated assets are placed in service.

Property and equipment purchased with grant funds are owned by the Organizations while used in the program for which they were purchased or in other future authorized programs. However, the various funding sources have a reversionary interest in the property and equipment purchased with grant funds. Their disposition, as well as the ownership of any proceeds therefrom, is subject to funding source regulations.

NEWCAP, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Income Taxes

NEWCAP is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. It is also exempt from Wisconsin franchise and income tax.

Newcap Village on Water, LLC is a wholly owned Subsidiaries that is treated as disregarded entity for tax purposes. The activity of the LLC is included in NEWCAP's tax return.

The Village on Water MM, LLC is a Wisconsin Limited Liability Company that is taxed as a partnership wherein the partners record any taxable income or loss on their returns.

The Organizations are required to assess whether it is more likely than not that a tax position will be sustained upon examination on the technical merits of the position assuming the taxing authority has full knowledge of all information. If the tax position does not meet the more likely than not recognition threshold, the benefit of that position is not recognized in the financial statements. The Organizations have determined there are no amounts to record as assets or liabilities related to uncertain tax positions.

Cost Allocation

Joint costs are allocated to benefiting programs using various allocation methods depending on the type of joint cost being allocated. Joint costs are those costs incurred for the common benefit of all organization programs that cannot be readily identified with a final cost objective.

Change in Accounting Principle

In 2016, NEWCAP elected to change their methodology of accounting for HOME loans receivable and deferred loan funds. Previously, NEWCAP recorded a deferred loan fund liability equal to the HOME loans receivable. The HOME loans are 0% loans. The change in accounting in 2016 discounts the HOME loans receivable to their net present value using a 4.25% discount rate. In addition, an allowance for loan loss has been recorded on these loans. This methodology is preferable because it more accurately reflects the net realizable value of the HOME loan receivables. In addition, with this change, the deferred loan fund liability has been reclassified to temporarily restricted net assets as there are restrictions on the use of the repaid loan funds. The change in accounting principle was applied retrospectively which resulted in a decrease in HOME loan receivable of \$1,850,100, a decrease in deferred loan funds of \$2,768,371 and an increase in beginning net assets of \$918,271.

Subsequent Events

Subsequent events have been evaluated through June 8, 2017, which is the date the consolidated financial statements were available to be issued.

Note 2: Concentration of Credit Risk

The Organizations maintain their cash balances at two financial institutions. Balances in the bank accounts are insured by Federal Deposit Insurance Corporation (FDIC) coverage up to \$250,000. At times during the year, balances in these accounts may exceed the insurance limits. Management believes the financial institution has a strong credit rating and credit risk related to these deposits is minimal.

NEWCAP, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 3: Grants Receivable

This balance consists of amounts due from various agencies as follows:

Other programs	\$	120,672
State programs		232,543
<hr/>		
<u>Total grants receivable</u>	<u>\$</u>	<u>353,215</u>

Note 4: WETAP and HOME Loans Receivable

The WETAP and HOME loans receivable consists of the following:

WDEOC received a Mobility grant from the WDOT to provide for no-interest loans to income-eligible families for the purchase or repair of vehicles. The loan receivable is collateralized by the vehicle.

\$ 272,062

NEWCAP received a HOME Rehabilitation grant from WDOA to provide for no-interest deferred loans to income-eligible families for rehabilitation costs and energy related repair costs. These loans are deferred until the property is sold or is no longer the homeowner's principal residence. Sale or transfer of the property will require full repayment of the loan. The loan receivable balance is collateralized by the real estate.

2,938,155

WETAP and HOME loans receivable		3,210,217
Allowance for loan losses	(887,000)
<hr/>		
Expected revolving loans to be received		2,323,217
Discounted at 4.25%	(1,109,800)
<hr/>		
<u>WETAP and HOME loans receivable, net</u>	<u>\$</u>	<u>1,213,417</u>

The unamortized discount is the difference between the face amount of the loan receivable and its present value discounted at a compound interest rate. This discount is then amortized over the life of the loan.

Loan classifications at December 31, 2016, consist of the following:

Vehicle loans	\$	272,062
Housing loans		941,355
<hr/>		
Subtotals	\$	1,213,417
<hr/>		
Allowance for loan loss – Vehicle loans	\$	0
Allowance for loan loss – Housing loans		887,000
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Allowance for loan loss - Total	\$	887,000

NEWCAP, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 4: WETAP and HOME Loans Receivable (Continued)

An analysis of the allowance for loan losses for the year ended December 31, 2016, is as follows:

	Vehicle Loans	Housing Loans	Total
Balance at beginning of year	\$ 0	\$ 857,000	\$ 857,000
Loans charged off	(3,781)	(11,738)	(15,519)
Provision for loan losses	3,781	41,738	45,519
Balance at end of year	\$ 0	\$ 887,000	\$ 887,000

Detailed analysis of loans evaluated for impairment as of December 31, 2016, is as follows:

	Vehicle Loans	Housing Loans	Total
Loans:			
Individually evaluated for impairment	\$ 0	\$ 0	\$ 0
Collectively evaluated for impairment	272,062	2,938,155	3,210,217
Balance at end of year	\$ 272,062	\$ 2,938,155	\$ 3,210,217

Information regarding the credit quality indicators most closely monitored by class of loan as of December 31, 2016, is as follows:

	Performing	Non-performing	Total
Vehicle loans	\$ 272,062	\$ 0	\$ 272,062
Housing loans	2,938,155	0	2,938,155
Balance at end of year	\$ 3,210,217	\$ 0	\$ 3,210,217

Housing loans are not required to be repaid unless the home is sold. When, for economic or legal reasons related to the borrower's financial difficulties, NEWCAP grants a concession to the borrower that NEWCAP would not otherwise consider, the modified loan is classified as a troubled debt restructuring. Loan modifications may consist of forgiveness of interest and/or principal, a reduction of the interest rate, interest-only payments for a period of time, and/or extending amortization terms. At December 31, 2016, there are no troubled debt restructured loans.

NEWCAP, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 5: Related Party Transactions - Loans Receivable from LLC

NEWCAP formed two limited liability corporations for the development and management of a low-income housing project in the City of Marinette.

The Village on Water MM, LLC

The Village on Water MM, LLC (Managing Member) was formed on November 14, 2011 to manage the low-income housing project. NEWCAP is a member of The Managing Member. The Managing Member is owned as follows:

NEWCAP	51.00%
<u>Commonwealth Management Corporation</u>	<u>49.00%</u>
Total	100.00%

Profits and losses will be shall be allocated as follows:

NEWCAP	15.00%
<u>Commonwealth Management Corporation</u>	<u>85.00%</u>
Total	100.00%

The Village on Water, LLC

The Village on Water, LLC (The Village) was formed on November 14, 2011, to develop the low-income housing project. The Village is owned as follows:

NEWCAP - HOME Managing Member	0.00%
USA Village on Water, LLC - Investor Member	99.99%
<u>The Village on Water MM, LLC - Managing Member</u>	<u>0.01%</u>
Total	100.00%

The Village constructed 48 units of multifamily apartments in Marinette, Wisconsin. In accordance with the terms of the HOME program award (#RHD-1129), one unit is affordable to households at or below 30% of the County Median Income (CMI), ten of the units are affordable to households at or below 50% of CMI. The affordability requirement for the project is to be maintained for 20 years.

NEWCAP received a HOME Rental Housing Development grant award from the State of Wisconsin, Department of Administration. The grant was for \$517,275, of which \$470,250 was project funds and \$47,025 was operational funding. The funds were awarded to NEWCAP as a Community Housing Development Organization (CHDO) for the development of 11 affordable housing units for low-income in The Village.

The \$470,250 was loaned to the project at a 1% interest rate. Interest is due April 1 each year and subject to the availability of cash flow. Interest not paid each year is due at the end of the loan. As of December 31, 2016, \$470,250 of the project funds has been loaned to The Village. The loan principal and any unpaid interest are to be paid on April 1, 2043. NEWCAP may use the repaid loan funds for other housing projects. No allowance for uncollectible receivables has been recorded as of December 31, 2016.

NEWCAP, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 5: Related Party Transactions - Loans Receivable from LLC (Continued)

The Village on Water, LLC (Continued)

In addition, NEWCAP received an Affordable Housing Program (AHP) subsidy from the Federal Home Loan Bank of Chicago in the amount of \$408,000. The subsidy has a 15-year retention period. NEWCAP loaned the funds to The Village at 0% interest. The loan principal is to be paid on December 1, 2042. If not paid at maturity, it will bear a 4% interest rate. No allowance for uncollectible receivables has been recorded as of December 31, 2016. The loans receivable from The Village consist of the following:

HOME funds	\$	470,250
AHP funds		408,000
<hr/>		
Total loans receivable from LLC	\$	878,250

All of the notes receivable listed above are considered in the housing development class for evaluation purposes. NEWCAP regularly evaluates various attributes of loans to determine the appropriateness of the allowance for uncollectible amounts. This class of loans is generally evaluated based on the performance of the partnership and whether the loans are performing with the contractual terms of the agreement. NEWCAP has not identified any housing development loans that are nonperforming. Due to the uncertainty of the payment, NEWCAP has identified these loans as nonaccrual loans; therefore, no interest receivable has been recorded. NEWCAP has not had to grant any concessions to borrowers as troubled debt restructuring due to financial difficulties and has not individually evaluated certain loans for impairment.

Note 6: Property and Equipment

A summary of property and equipment is as follows:

Land	\$	269,915
Buildings and improvements		4,839,465
Equipment		841,698
Vehicles		71,092
Total		6,022,170
Accumulated depreciation	(2,041,064)
<hr/>		
Property and equipment, net	\$	3,981,106

Note 7: Inventory

A summary of inventory is as follows:

Jobs in progress	\$	78,894
Nonexpendable inventory		91,748
Expendable inventory		6,141
Total weatherization inventory		176,783
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Commodity foods inventory		22,633
Clinic inventory		33,452
<hr/>		
Total inventory	\$	232,868

NEWCAP, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 8: Loans Payable

A summary of loans payable is as follows:

Affordable Housing Program subsidy from the Federal Home Loan Bank of Chicago. The subsidy has a 15-year retention period. The note bears interest at 0% and principal and interest is repayable upon sale of the property during the retention period.

\$ 408,000

Loan payable to Huntington Bank at 4.25% interest with monthly payments of \$4,731. There is a 5% prepayment penalty in year one and is reduced by 1% for each subsequent year. Rent is assigned on certain properties and the loan is collateralized by those properties and is due

November 2021. 757,961

Total loans payable 1,165,961

Current portion 24,592

Total loans payable \$ 1,141,369

Future loan maturities are as follows:

2017 \$ 24,592

2018 25,673

2019 26,802

2020 27,897

2021 652,997

Thereafter 408,000

Total \$ 1,165,961

Note 9: Line of Credit

NEWCAP has a \$200,000 revolving line of credit, secured by substantially all assets of the Organization, at a variable interest rate equal to the lenders prime commercial rate plus .75% (rate at 4.25% at December 31, 2016). As of December 31, 2016, there were no draws on the line of credit.

Note 10: Operating Leases

NEWCAP leases various facilities and equipment for operation of its programs. Rent and lease expense for the year ended December 31, 2016, was \$52,920. Future minimum lease payments on leases having terms beyond December 31, 2016, are as follows:

2017 \$ 39,429

2018 27,175

2019 24,670

Total \$ 91,274

NEWCAP, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 11: Temporarily Restricted Net Assets

The temporarily restricted net assets consist of the following:

Family planning	\$	922,331
Food program		45,075
Housing program		1,504,522
Transportation and auto loans		588,730
<hr/>		
Total temporarily restricted net assets	\$	3,060,658

Note 12: Grant Awards

At December 31, 2016, NEWCAP had commitments under various grants of approximately \$2,730,000. These commitments are not recognized in the accompanying consolidated financial statements as they are conditional awards.

Note 13: Retirement Plan

NEWCAP has a defined contribution retirement plan authorized under Section 403(b) of the Internal Revenue Code. The plan is open to all employees who have been employed for nine months and who work a minimum of 1,560 hours per year. The plan requires that NEWCAP match 1% of gross wages for every qualified employee that contributes at least 1% of gross wages. The plan also provides that NEWCAP can make additional contributions at the discretion of the Board of Directors. The retirement benefits vest immediately. The employer's contribution for the year ended December 31, 2016 was \$79,124.

Note 14: Government Funding Contingency

NEWCAP receives a significant portion of their source of funds from federal, state, and local government funding. As such, NEWCAP is subject to the administrative directives, rules, and regulations of federal, state, and local regulatory agencies. NEWCAP is also subject to funding source monitoring in relation to program compliance with grants and contracts. These monitoring reports from time-to-time may identify practices for which costs might be repayable to the funding source. Any potential liability for reimbursement, which may arise as a result of such audits, is not believed, by NEWCAP's management, to be material.

Note 15: Contingent Liabilities

At December 31, 2016, NEWCAP was a party to litigation with the Wisconsin Department of Health Services (WI DHS). WI DHS had issued a Notice of Intent to recover approximately \$185,000 in Medicaid payments made to NEWCAP, Inc. NEWCAP has denied any and all liability and is vigorously defending the Notice. In May, 2017, a judge ruled in favor of NEWCAP. The State has the ability to appeal the decision. No estimated losses in connection with this claim have been accrued in accordance with the Contingencies Topic of the FASB Accounting Standards Codification ("ASC 450"). Under ASC 450, estimated losses shall be accrued by a charge to income when it is probable that a liability has been incurred and the amount can be reasonably estimated. As this time, no conclusion can be made regarding the outcome of the claim.

Supplementary Information

NEWCAP, Inc.

Schedule A-1

Schedule of Expenditures of Federal and State Awards

Year Ended December 31, 2016

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Passed Through to Subrecipients	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Passed-Through WISCAP			
Job and Business Development Program	10.561	\$ 0	\$ 16,000
Skills Enhancement Program	10.561	0	12,722
Subtotal SNAP Cluster CFDA 10.551 and 10.561		0	28,722
Passed-Through Wisconsin Department of Health Services			
Temporary Emergency Food Assistance Program #70010 01/01-9/30/2016	10.568	10,181	78,848
Temporary Emergency Food Assistance Program #70010 10/01-12/31/2016	10.568	0	38,586
Subtotal CFDA 10.568		10,181	117,434
Commodity Food Program 01/01-09/30-2016	10.569	0	863,936
Commodity Food Program 10/01-12/31/2016	10.569	0	220,328
Subtotal CFDA 10.569		0	1,084,264
Total Food Distribution Cluster CFDA 10.568 and 10.569		10,181	1,201,698
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Passed-Through Wisconsin Department of Administration			
HUD Emergency Shelter # ETH15-14	14.231	27,186	131,764
HUD Emergency Shelter # ETH16-15	14.231	15,613	89,427
Subtotal CFDA 14.231		42,799	221,191
Tenant Based Rental Assistance # TBRA 15.05	14.239	0	92,689
HOME Rental Housing Development Program # RHDC 1502	14.239	0	107,800
HOME Homebuyer and Rehab Program # HHR 12.09	14.239	0	47,581
HOME Homebuyer and Rehab Program # HHR 14.09	14.239	0	273,972
Subtotal CFDA 14.239		0	522,042
Passed-Through Wisconsin Department of Administration			
Supportive Housing Program 2015	14.267	0	31,391
Supportive Housing Program 2016	14.267	0	122,113
Subtotal CFDA 14.267		0	153,504
Passed-Through Wisconsin Housing and Economic Development Authority			
Section 8 Housing Voucher Program	14.871	0	966,421
Subtotal Housing Voucher Cluster CFDA 14.871 and 14.879		0	966,421
U.S. DEPARTMENT OF LABOR			
Passed-Through Community Services of Northeast Wisconsin			
Workforce Investment Act - Marinette (Adult)	17.258	34,842	115,877
Passed-Through Community Services of Northeast Wisconsin			
Workforce Investment Act - Marinette (Youth)	17.259	40,399	43,141
Passed-Through Community Services of Northeast Wisconsin			
Workforce Investment Act - Marinette (Dislocated Worker)	17.278	34,021	116,314
Subtotal WIA/WIOA Cluster CFDA #17.258, #17.259, and #17.278		109,262	275,332

See Independent Auditor's Report.

NEWCAP, Inc.

Schedule A-2

Schedule of Expenditures of Federal and State Awards

Year Ended December 31, 2016

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Passed Through to Subrecipients	Federal Expenditures
U.S. DEPARTMENT OF TRANSPORTATION			
Passed-Through Southwest CAP Wisconsin Employment Transportation Assistance Program	20.516	0	150,173
Passed-Through Wisconsin Department of Transportation New Freedom Program	20.521	0	55,503
Subtotal Transit Services Cluster CFDA# 20.516 and 20.521		0	205,676
U.S. DEPARTMENT OF ENERGY			
Passed-Through Wisconsin Department of Administration Weatherization Assistance DOE - #AD149877.13	81.042	0	181,877
Weatherization Assistance DOE - #WX1718.13	81.042	0	379,885
Subtotal CFDA #81.042		0	561,762
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed-Through Wisconsin Department of Administration Weatherization Assistance EAP #AD149877.13	93.568	0	378,997
Emergency Furnace LIHEAP #AD149877.13	93.568	0	88,867
Weatherization Assistance EAP - #WX1718.13	93.568	0	267,414
Emergency Furnace LIHEAP #WX1718.13	93.568	0	10,327
Passed-Through Forest County Department of Human Services Forest County WHEAP 15/16 #M21000	93.568	0	39,080
Forest County WHEAP 16/17 #M21000	93.568	0	24,265
Subtotal CFDA #93.568		0	808,950
Passed-Through Wisconsin Department of Children and Families Community Services Block Grant	93.569	0	621,512
Passed-Through Wisconsin Department of Health Services Maternal and Child Health Block Grant	93.994	0	248,300
U.S. DEPARTMENT OF HOMELAND SECURITY			
Passed-Through Emergency Food & Shelter National Board Emergency Food & Shelter Program	97.024	0	12,758
TOTAL FEDERAL PROGRAMS		\$ 162,242	\$ 5,827,868

NEWCAP, Inc.

Schedule A-3

Schedule of Expenditures of Federal and State Awards

Year Ended December 31, 2016

Grantor/Pass-Through Grantor/Program Title	State ID	Passed Through to Subrecipients	State Expenditures
STATE AND LOCAL PROGRAMS			
Passed-Through Wisconsin Department of Administration			
Weatherization Assistance Public Benefits #AD149877.13	505.371	0	1,017,876
Emergency Furnace Public Benefits #AD149877.13	505.371	0	334,825
Weatherization Assistance Public Benefits - #WX1718.13	505.371	0	1,318,951
Emergency Furnace Public Benefits #WX1718.13	505.371	0	209,803
Subtotal #505.371		0	2,881,455
Passed-Through Oconto County			
CSOAR 15-03		0	51,436
CSOAR 16-03		0	5,969
Subtotal CSOAR		0	57,405
TOTAL STATE AND LOCAL PROGRAMS		\$ 0	\$ 2,938,860
GRAND TOTAL (FEDERAL, STATE, AND LOCAL AWARDS)		\$ 162,242	\$ 8,766,728

Notes to Schedule of Expenditures of Federal and State Awards

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal and state awards (the "Schedule") includes the federal and state activity of NEWCAP, Inc. under programs of the federal, state and local government for the year ended December 31, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) and the Wisconsin State Single Audit Guidelines. Because the schedule presents only a selected portion of the operations of Workforce Connection, Inc., it is not intended to and does not present the financial position, changes in net assets or cash flows of NEWCAP, Inc.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

Note 3 - Indirect Cost Rate

NEWCAP, Inc. has not elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NEWCAP, Inc.

Schedule of Emergency Furnace Activity by Contract

Year Ended December 31, 2016

<u>Contract #</u>	<u>Prior Audit Period Cash Received</u>	<u>Current Audit Period Cash Received</u>	<u>True up Received (Paid)</u>	<u>Net Contract to Date Cash Received</u>	<u>Prior Audit Period Expenses</u>	<u>Current Audit Period Expenses</u>	<u>Contract to Date Expenses</u>
AD.149877.13	\$ 234,454	\$ 464,072	(\$ 13,595)	\$ 684,931	\$ 261,239	\$ 423,692	\$ 684,931
WX1718.13	0	177,163	0	177,163	0	220,130	220,130
	<u>\$ 234,454</u>	<u>\$ 641,235</u>	<u>(\$ 13,595)</u>	<u>\$ 862,094</u>	<u>\$ 261,239</u>	<u>\$ 643,822</u>	<u>\$ 905,061</u>

Notes:

1) Payments of \$12,355 made by the State dated December 28, 2016 were not received by NEWCAP until 2017.

NEWCAP, Inc.

Settlement of DHS Cost Reimbursement Award Year Ended December 31, 2016

	TEFAP/EFO's	TEFAP/EFO's	Maternal & Child Health
DHS Identification number	CARS profile 70010	CARS profile 70010	CARS Profile 159321
Award amount	\$102,242	\$88,014	\$297,962
Award period	10/1/15-9/30/16	10/1/16-9/30/17	1/1/16-10/31/16
Period of award within audit period	1/1/16-9/30/16	10/1/16-12/31/16	1/1/16-10/31/16
A. Expenditures reported to DHS for payment	<u>\$ 78,848</u>	<u>\$ 35,950</u> (2)	<u>\$ 248,300</u>
B. Actual allowable cost of award reported in audit			
1. Administration	0	0	22,838
2. Participant Wage and Fringe	0	0	0
3. Personnel Services	0	0	138,943
4. Consult/Contract	0	0	29,683
5. Program Supplies	0	0	26,051
6. Agency Operations	0	0	30,785
7. Other Operating Costs	78,848	38,586	906,574
Total reported expenses	<u>78,848</u>	<u>38,586</u>	<u>1,154,874</u>
C. Less other funds used to offset costs (1) (identify in notes)	<u>0</u>	<u>0</u>	<u>906,574</u>
D. Total Grant funded allowable costs	<u><u>\$ 78,848</u></u>	<u><u>\$ 38,586</u></u>	<u><u>\$ 248,300</u></u>

(1) This represents program income generated from participant payments and other reimbursements.

(2) This represents costs reported to DHS thru December 31, 2016. The expenses reported in the audit include additional accrued expenses due to the timing differences.



Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters

Board of Directors
NEWCAP, Inc.
Oconto, Wisconsin

We have audited, in accordance with the auditing standards generally accepted in the United States 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 NEWCAP, Inc. and Subsidiaries (the "Organizations"), which comprise the consolidated statement of financial position as of December 31, 2016, and the related consolidated statements of activities, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated June 8, 2017. The financial statements of Newcap Village on Water, LLC and The Village on Water MM, LLC were not audited in accordance with *Government Auditing Standards* as these entities did not receive federal funding and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with these entities.

Internal Control over Financial Reporting

In planning and performing our audit, we considered NEWCAP, 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 NEWCAP, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of NEWCAP, Inc.'s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 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. We consider the deficiency described in the accompanying schedule of findings and questions costs as item 2016-001 to be a material weakness.

A significant deficiency is a deficiency, or 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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2016-002 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether NEWCAP, Inc.'s consolidated 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 consolidated 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*.

Responses to Findings

NEWCAP Inc.'s responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. NEWCAP Inc.'s responses were not subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 NEWCAP, 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 the NEWCAP, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Wipfli LLP

June 8, 2017
Madison, Wisconsin



Independent Auditor's Report on Compliance for Each Major Federal and State Program and on Internal Control Over Compliance

Board of Directors
NEWCAP, Inc.
Oconto, Wisconsin

Report on Compliance for Each Major Federal and State Program

We have audited NEWCAP, Inc.'s compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* and the *State Single Audit Guidelines*, issued by the Wisconsin Department of Administration, that could have a direct and material effect on each of NEWCAP, Inc.'s major federal and state programs for the year ended December 31, 2016. NEWCAP, Inc.'s major federal and state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility for Compliance

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of NEWCAP, Inc.'s major federal and state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); and the *State Single Audit Guidelines*, issued by the Wisconsin Department of Administration. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal and state program occurred. An audit includes examining, on a test basis, evidence about NEWCAP, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal and state program. However, our audit does not provide a legal determination of NEWCAP, Inc.'s compliance.

Opinion

In our opinion, NEWCAP, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal and state programs for the year ended December 31, 2016.

Report on Internal Control over Compliance

The management of NEWCAP, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered NEWCAP, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal and state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal and state program and to test and report on internal control over compliance in accordance with the Uniform Guidance and *State Single Audit Guidelines*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of NEWCAP, Inc.'s internal control over compliance.

A deficiency in internal control over compliance 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 noncompliance with a type of compliance requirement of a federal or state program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal or state program will not be prevented or detected and corrected on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal or state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item 2016-002.

NEWCAP, Inc.'s response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. NEWCAP, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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



Wipfli LLP

June 8, 2017
Madison, Wisconsin

NEWCAP, Inc.

Schedule of Findings and Questioned Costs and *State Single Audit Guidelines Checklist*

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued? Unmodified

Internal control over financial reporting:

Material weakness identified? Yes

Significant deficiency identified? Yes

Noncompliance material to financial statements noted? No

Federal and State Awards

Internal control over major federal and state programs:

Material weakness identified? No

Significant deficiency identified? Yes

Type of auditor's report issued on compliance for major program Unmodified

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance [2 CFR 200.516(a)] *Land State Single Audit Guidelines* Yes

Identification of major federal and state programs:

<u>Name of Federal Major Program or Cluster</u>	<u>CFDA No.</u>
---	-----------------

Section 8 Housing Choice Vouchers Program	14.871
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Weatherization Assistance Program	81.042
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Low Income Home Energy Assistance Program	93.568
---	--------

Maternal and Child Health Services Block Grant to the States	93.994
--	--------

<u>Name of State Major Program or Cluster</u>	<u>State ID No.</u>
---	---------------------

Public Benefits	505.371
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Dollar threshold used to distinguish between Type A and Type B programs:

Federal	\$750,000
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State	250,000
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Auditee qualified as low-risk auditee? Yes

NEWCAP, Inc.

Schedule of Findings and Questioned Costs and *State Single Audit Guidelines Checklist*

Section II - Financial Statement Findings

2016-001 - Material Adjustments and Reconciliations

Condition - During our audit, we proposed adjusting journal entries for property and equipment, receivables and beginning net assets which we deemed to be material in relation to the financial statements.

In addition, the client overspent its weatherization grant which covered the period of July 1, 2014 to June 30, 2016 in the current year.

Since NEWCAP's internal controls did not discover these adjustments prior to our audit and due to a lack of proper monitoring of the spending on a grant, a material weakness exists in the NEWCAP's controls over these areas.

Criteria – Accounts should be reconciled on a monthly basis with the adjustments posted timely so that management is relying on accurate financial information to make decisions. Monitoring of spending under grants that cross over two years needs to be done periodically to ensure that a grant is not over or under spent.

Cause - There has been a transition in the NEWCAP's business office which contributed to the process weaknesses and inefficiencies. NEWCAP continues to work on streamlining and implementing processes to ensure the financial records are properly stated.

Effect - As a result of not making material adjustments to certain account balances and a lack of monitoring of grant expenses in the weatherization program, a material weakness exists in internal controls.

Recommendation - We recommend management and those charged with governance evaluate the operation of the business office and implement adequate and timely closing procedures to ensure that financial statement amounts are being reconciled and adjusted appropriately.

View of Responsible Officials - Management agrees with the assessment and has committed to a corrective action plan.

NEWCAP, Inc.

Schedule of Findings and Questioned Costs and *State Single Audit Guidelines Checklist*

Section II - Financial Statement Findings (Continued)

2016-002 – Internal Controls

Condition - During our audit, we noted the following areas in internal control that could be improved:

- 1) There is no documentation of the review and approval of cash draws and monthly reporting to funding sources.
- 2) All employees in the accounting department have access to all areas of the general ledger.
- 3) The person reconciling cash has ability to post transactions to general ledger.
- 4) The person doing purchasing and invoice processing, at times is the same individual who has access to the accounts payable and general ledger.
- 5) There is no documentation of payroll change reports being reviewed by another individual.

Criteria – Internal controls need to be in place to provide assurance that transactions are recorded properly and in compliance with the grants operated by NEWCAP.

Cause - There has been a transition in the NEWCAP's business office which contributed to the process weaknesses and inefficiencies. NEWCAP continues to work on streamlining and implementing processes to ensure proper internal controls.

Effect - As a result of the deficiencies in the internal controls noted above, NEWCAP is susceptible noncompliance with grant requirements and/or misstatements of account balances.

Recommendation - We recommend the following:

- 1) We recommend the review of cash draws and monthly reporting be completed and that review be documented with a signature and dated as of the date of the review.
- 2) When NEWCAP changes its accounting software, we recommend employees are only given access in the system to areas that coincide with their job duties.
- 3) We recommend that person preparing the cash reconciliation does not have the ability to post the cash receipts and cash disbursements, if possible. In addition, a review of the cash reconciliation should be completed and that review be documented with a signature and dated as of the date of the review.
- 4) We recommend that you try to increase the segregation of duties related to purchasing, entering invoices, and accounts payable processing. If an increase in segregation cannot be achieved, review of transactions becomes more critical and then documenting that they review occurred.
- 5) We recommend a review of a payroll change report be completed and that review be documented with a signature and dated as of the date of the review.

View of Responsible Officials - Management agrees with the assessment and has committed to a corrective action plan.

NEWCAP, Inc.

Schedule of Findings and Questioned Costs and State Single Audit Guidelines Checklist

Section III - Federal and State Award Findings and Questioned Costs

Finding 2016-002 above is applicable to the following grants:

Department of Housing and Urban Development, Department of Energy and Department of Health and Human Services

Section 8 Housing Choice Vouchers Program	14.871
Weatherization Assistance Program	81.042
Low Income Home Energy Assistance Program	93.568
Maternal and Child Health Services Block Grant to the States	93.994

Federal Grantor/

Pass-Through Grantor

Grant Number

Grant Period

Wisconsin Housing and Economic

Development Authority

None available

01/01/2016 - 12/31/2016

WI Dept. of Administration

AD149877.13

07/01/2014 - 06/30/2016

WI Dept. of Administration

WX1718.13

07/01/2016 - 06/30/2018

WI Dept. of Health Services

None available

01/01/2016 - 12/31/2016

Questioned Costs:

None

How were the questions costs computed?

Not applicable

NEWCAP, Inc.

Schedule of Findings and Questioned Costs and *State Single Audit Guidelines Checklist*

Section IV - Summary Schedule of Prior Year Findings

None

Section V - Other Issues

Does the auditor's report or the notes to the financial statements include disclosure with regard to substantial doubt as to the auditee's ability to continue as a going concern?

No

Does the audit report show audit issues related to grants/contracts with funding agencies that require audits to be in accordance with the *State Single Audit Guidelines*?

Department of Administration

Yes

Department of Health Services

Yes

Department of Children and Families

No

Department of Transportation

No

Was a management letter or other document conveying audit comments issued as a result of this audit?

No

Name and signature of partner



Jean M. Christensen, CPA

Date of report

June 8, 2017