

# **NEWCAP, Inc. and Subsidiary**

Oconto, Wisconsin

## **Consolidated Financial Statements and Supplementary Information**

Year Ended December 31, 2018

# NEWCAP, Inc. and Subsidiary

Consolidated Financial Statements and Supplementary Information  
Year Ended December 31, 2018

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## Table of Contents

Independent Auditor's Report .....	1
Consolidated Financial Statements	
Consolidated Statement of Financial Position .....	3
Consolidated Statement of Activities.....	4
Consolidated Statement of Functional Expenses .....	5
Consolidated Statement of Cash Flows.....	6
Notes to Consolidated Financial Statements.....	7
Supplementary Information	
Schedule of Expenditures of Federal and State Awards .....	19
Schedule of Emergency Furnace Activity by Contract.....	22
Settlement of DHS Cost Reimbursement Award.....	23
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters .....	24
Independent Auditor's Report on Compliance for Each Major Federal and State Program and on Internal Control Over Compliance .....	26
Schedule of Findings and Questioned Costs and <i>State Single Audit Guidelines</i> Checklist.....	29



## **Independent Auditor's Report**

Board of Directors  
NEWCAP, Inc.  
Oconto, Wisconsin

### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of NEWCAP, Inc. and Subsidiary (the "Organization") which comprise the consolidated statement of financial position as of December 31, 2018, and the related consolidated statements of activities, functional expenses, 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 were not audited in accordance with *Government Auditing Standards* as the entity 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 Subsidiary as of December 31, 2018, 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.

### **Emphasis of Matter**

As discussed in Note 1 to the financial statements, NEWCAP, Inc. and Related Entity adopted the amendments in Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities – Presentation of Financial Statements for Not-for-Profit Entities*, as of and for the year ended December 31, 2018.

## **Other Matters**

### ***Supplementary Information***

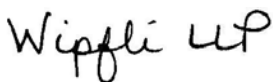
Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal and state awards, Schedule A-1 to A-3 as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, 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. The 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.

We also have previously audited, in accordance with auditing standards generally accepted in the United States, the statement of financial position of NEWCAP, Inc. as of December 31, 2017, and the related statements of activities and cash flows for the year then ended (none of which is presented herein), and we expressed an unmodified opinion on those financial statements. That audit was conducted for purposes of forming an opinion on the financial statements as a whole. The supplementary schedule on page 22 is presented for purposes of additional analysis. 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 December 31, 2017, financial statements. The information has been subjected to the auditing procedures applied in the audit of those 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 prior year expenses included on the supplementary schedule on page 22 is fairly presented, in all material respects, in relation to the financial statements from which it has been derived.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2019, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of NEWCAP, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering NEWCAP, Inc.'s internal control over financial reporting and compliance.

Wipfli LLP



June 25, 2019

Madison, Wisconsin

# NEWCAP, Inc. and Subsidiary

## Consolidated Statement of Financial Position

December 31, 2018

<i>Assets</i>	
Current assets:	
Cash and cash equivalents	\$ 396,730
Grants receivable	434,831
Accounts receivable	32,916
WETAP loans receivable	160,100
HOME loans receivable	69,500
Inventory	171,313
Prepays	70,366
Total current assets	1,335,756
Other assets:	
Loans receivable, related party	878,250
WETAP loans receivable, net	30,774
HOME loans receivable, net	1,364,120
Total other assets	2,273,144
Property and equipment, net	3,414,245
<b>TOTAL ASSETS</b>	<b>\$ 7,023,145</b>
<i>Liabilities and Net Assets</i>	
Current liabilities:	
Loans payable, current portion	\$ 39,533
Accounts payable	216,888
Accrued payroll and related expenses	326,077
Escrow and security deposit payable	9,380
Grant funds received in advance	292,748
Total current liabilities	884,626
Long-term liabilities	
Loans payable	1,122,304
Line of credit	200,000
Weatherization advance	34,253
Total long-term liabilities	1,356,557
Total liabilities	2,241,183
Net assets:	
Without donor restriction	1,860,354
With donor restriction	2,921,608
Total net assets	4,781,962
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 7,023,145</b>

See accompanying notes to consolidated financial statements.

# NEWCAP, Inc. and Subsidiary

## Consolidated Statement of Activities

Year Ended December 31, 2018

	Without Donor Restriction	With Donor Restriction	Total
Revenue:			
Grant revenue	\$ 8,950,291	\$ 330,451	\$ 9,280,742
Program income	761,782	19,418	781,200
Rental income	326,994	0	326,994
Donations	34,248	0	34,248
Other income	74,470	0	74,470
Gain on disposal of property	185,572	0	185,572
Net assets released from restriction through satisfaction of program restrictions	292,210	( 292,210)	0
<b>Total revenue</b>	<b>10,625,567</b>	<b>57,659</b>	<b>10,683,226</b>
Program expenses:			
Community services	321,396	0	321,396
Weatherization	4,275,355	0	4,275,355
Food services	1,031,888	0	1,031,888
Health and welfare	879,480	0	879,480
Housing	3,307,524	0	3,307,524
<b>Total program expenses</b>	<b>9,815,643</b>	<b>0</b>	<b>9,815,643</b>
Fund raising	6,135	0	6,135
Management and general expenses	850,242	0	850,242
<b>Total expenses</b>	<b>10,672,020</b>	<b>0</b>	<b>10,672,020</b>
Changes in net assets	( 46,453)	57,659	11,206
Net assets - Beginning of the year	1,906,807	2,863,949	4,770,756
<b>Net assets - End of year</b>	<b>\$ 1,860,354</b>	<b>\$ 2,921,608</b>	<b>\$ 4,781,962</b>

# NEWCAP, Inc. and Subsidiary

## Consolidated Statement of Functional Expenses

Year Ended December 31, 2018

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	<b>Total Program Expenses</b>	<b>Management and General</b>	<b>Fund Raising</b>	<b>Total Expenses</b>
Wage and benefits	\$ 4,071,267	\$ 750,080	\$ 0	\$ 4,821,347
Direct client assistance	192,153	0	0	192,153
Rental assistance	1,087,086	0	0	1,087,086
Food assistance	819,633	0	0	819,633
Services and professional fees	1,181,866	76,091	6,135	1,264,092
Supplies	291,635	0	0	291,635
Weatherization contractors/materials	1,730,764	0	0	1,730,764
Office and occupancy	188,769	24,071	0	212,840
Depreciation	186,396	0	0	186,396
Other	66,074	0	0	66,074
Total expenses	<u>\$ 9,815,643</u>	<u>\$ 850,242</u>	<u>\$ 6,135</u>	<u>\$ 10,672,020</u>

See accompanying notes to consolidated financial statements.

# NEWCAP, Inc. and Subsidiary

## Consolidated Statement of Cash Flows

Year Ended December 31, 2018

Increase (decrease) in cash and cash equivalents:		
Cash flows from operating activities:		
Change in net assets	\$	11,206
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation		186,396
Gain on disposal of property and equipment	(	185,572)
Reduction in the provision for loan loss	(	158,766)
Discount on HOME loans receivable		166,000
Changes in operating assets and liabilities:		
Grants receivable	(	134,773)
Accounts receivable	(	4,366)
Inventory		49,568
Prepays		182,220
Accounts payable		64,979
Accrued payroll and related expenses		148,904
Escrow payable		636
Grant funds received in advance	(	110,037)
Net cash provided by operating activities		216,395
Cash flows from investing activities:		
Proceeds on sale of property and equipment		475,000
Purchase of property and equipment	(	91,754)
Issuance of loans receivable	(	526,196)
Collection of loans receivable		285,279
Net cash provided by investing activities		142,329
Cash flows from financing activities:		
Principal payments on loans payable	(	37,748)
Net cash used in financing activities	(	37,748)
Change in cash and cash equivalents		320,976
Cash and cash equivalents - Beginning of the year		75,754
Cash and cash equivalents - End of the year	\$	396,730
<b>Supplemental schedule of other cash activity:</b>		
Interest paid and expensed	\$	51,907

See accompanying notes to consolidated financial statements.



# NEWCAP, Inc. and Subsidiary

## Notes to Consolidated Financial Statements

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### **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 43% of NEWCAP's revenue was received directly from the Wisconsin Department of Administration for its weatherization and emergency furnace programs.

NEWCAP formed NEWCAP Village on Water, LLC to acquire a 51% ownership in The Village on Water MM, LLC. The Village on Water MM, LLC was established to manage a low-income housing tax credit project. There was no significant activity for the entity in 2018.

#### **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, and NEWCAP Village on Water 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:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions - Net assets subject to donor or certain grantor imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other explicit donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor imposed restrictions are released when a restriction expires, that is when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

#### **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 Subsidiary

## Notes to Consolidated Financial Statements

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### **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 with or without donor restrictions, depending on the existence and nature of any donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions. If a restriction is satisfied in the year the contribution is received, the contribution is recorded as revenue without donor restrictions.

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.

#### **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, 2018.

# NEWCAP, Inc. and Subsidiary

## Notes to Consolidated Financial Statements

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### **Note 1: Summary of Significant Accounting Policies (Continued)**

#### **Inventory**

Inventory consists of weatherization materials and clinic supplies. Inventories are stated at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Weatherization materials are expensed in the accounting period when the unit weatherized is claimed as a completed unit. A completed unit is a dwelling unit that has received weatherization services within the limits established in the weatherization contract, the final inspection has been performed and the owner sign off obtained.

#### **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 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 Subsidiary

## Notes to Consolidated Financial Statements

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### **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 to provide loans to eligible individuals for the purchase or repair of vehicles. The loans are to be repaid monthly 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 and 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.

##### **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. Collateral is a subordinated position on the rental property. Management evaluates the collectability of loans receivable based on the financial condition of the company.

#### **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 capitalize 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 at their estimated fair value. The donation is reported as net assets without donor restrictions 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.

#### **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, Inc. and Subsidiary

## Notes to Consolidated Financial Statements

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### **Note 1: Summary of Significant Accounting Policies (Continued)**

#### **Income Taxes (Continued)**

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

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.

#### **Functional Allocation of Costs**

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Personnel costs are allocated based on time and effort reporting. Occupancy and related costs are allocated based on square footage.

#### **Change in Accounting Policy**

In 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958)*. This ASU provides certain improvements in financial reporting for not-for-profit organizations and requires changes to net asset classification, enhancements to liquidity presentation and disclosures, presentation of an analysis of expenses by function and by nature, netting of investment expenses with return, among other changes.

#### **New Accounting Pronouncements**

In May 2014, the FASB issued ASU No. 2014-09, *Revenue From Contracts With Customers (Topic 606)*. This ASU, as amended, provides comprehensive guidance on the recognition of revenue from customers arising from the transfer of goods and services, guidance on accounting for certain contract costs, and new disclosures. The new standard supersedes current revenue recognition requirements in FASB Accounting Standards Codification (ASC) Topic 605, Revenue Recognition, and most industry-specific guidance. When adopted, the amendments in the ASU must be applied using one of two retrospective methods. ASU No. 2014-09 is effective for nonpublic companies for annual periods beginning after December 15, 2018. The Organizations are currently evaluating the impact of the provisions of ASC 606.

On June 21, 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this update will assist entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions and determining whether a transaction is conditional. The amendments in this update are effective for annual financial statements issued for fiscal years beginning after December 15, 2018, for transactions in which the entity serves as the resource recipient and for fiscal years beginning after December 15, 2019, for transactions in which the entity services as the resource provider. Early application of the amendments in this update is permitted. The Organizations are currently evaluating the impact of the provisions of ASU Topic 958.

# NEWCAP, Inc. and Subsidiary

## Notes to Consolidated Financial Statements

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### 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 each financial institution. At times during the year, balances in these accounts may exceed the insurance limits. Management believes the financial institutions have a strong credit rating and credit risk related to these deposits is minimal.

### Note 3: Grants Receivable

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

State programs	\$	212,517
Other programs		222,314
<hr/>		
Total grants receivable	\$	434,831

### Note 4: WETAP and HOME Loans Receivable

The WETAP and HOME loans receivable consists of the following:

NEWCAP 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 loans are collateralized by the vehicles. \$ 206,977

NEWCAP received HOME Rehabilitation grants from WDOA and HCRI grants from WHEDA 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 loans receivable balance is collateralized by the real estate. 3,337,120

WETAP and HOME loans receivable	3,544,097
<u>Allowance for loan losses</u>	<u>( 400,103)</u>
Expected revolving loans to be received	3,143,994
<u>Discounted at 4.25%</u>	<u>( 1,519,500)</u>
<u>WETAP and HOME loans receivable, net</u>	<u>\$ 1,624,494</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.

# NEWCAP, Inc. and Subsidiary

## Notes to Consolidated Financial Statements

### Note 4: WETAP and HOME Loans Receivable (Continued)

Loan classifications at December 31, 2018, consist of the following:

Vehicle loans	\$ 190,874
Housing loans	1,433,620
<b>Subtotals</b>	<b>\$ 1,624,494</b>
Allowance for loan loss – Vehicle loans	\$ 16,103
Allowance for loan loss – Housing loans	384,000
<b>Allowance for loan loss – Total</b>	<b>\$ 400,103</b>

An analysis of the allowance for loan losses for the year ended December 31, 2018, is as follows:

	<b>Vehicle Loans</b>	<b>Housing Loans</b>	<b>Total</b>
Balance at beginning of year	\$ 16,103	\$ 550,000	\$ 566,103
Loans charged off	( 7,234)	0	( 7,234)
Provision for loan losses	7,234	( 166,000)	( 158,766)
<b>Balance at end of year</b>	<b>\$ 16,103</b>	<b>\$ 384,000</b>	<b>\$ 400,103</b>

Detailed analysis of loans evaluated for impairment as of December 31, 2018, is as follows:

	<b>Vehicle Loans</b>	<b>Housing Loans</b>	<b>Total</b>
Loans:			
Individually evaluated for impairment	\$ 0	\$ 0	\$ 0
Collectively evaluated for impairment	206,977	3,337,120	3,544,097
<b>Balance at end of year</b>	<b>\$ 206,977</b>	<b>\$ 3,337,120</b>	<b>\$ 3,544,097</b>

Information regarding the credit quality indicators most closely monitored by class of loan as of December 31, 2018, is as follows:

	<b>Performing</b>	<b>Non-performing</b>	<b>Total</b>
Vehicle loans	\$ 206,977	\$ 0	\$ 206,977
Housing loans	3,337,120	0	3,337,120
<b>Balance at end of year</b>	<b>\$ 3,544,097</b>	<b>\$ 0</b>	<b>\$ 3,544,097</b>

# NEWCAP, Inc. and Subsidiary

## Notes to Consolidated Financial Statements

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### Note 4: WETAP and HOME Loans Receivable (Continued)

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, 2018, there are no troubled debt restructured loans.

### 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 Village on the Water, LLC	51.00%
<u>Commonwealth Management Corporation</u>	<u>49.00%</u>
<u>Total</u>	<u>100.00%</u>

Profits and losses will be shall be allocated as follows:

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

#### 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>
<u>Total</u>	<u>100.00%</u>

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, Inc. and Subsidiary

## Notes to Consolidated Financial Statements

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

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, 2018, \$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, 2018.

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, 2018. 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	\$	277,015
Buildings and improvements		4,429,190
Equipment		923,352
Vehicles		47,105
Total		5,676,662
Accumulated depreciation	(	2,262,417)
<hr/>		
Property and equipment, net	\$	3,414,245

# NEWCAP, Inc. and Subsidiary

## Notes to Consolidated Financial Statements

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### Note 6: Property and Equipment (Continued)

During 2018, NEWCAP entered into a restrictive covenant agreement with the U.S. Department of Housing and Urban Development (HUD) for the purchase of a building with HUD monies. The restrictive covenant requires NEWCAP to operate the property as permanent housing and provide supportive services to the homeless on the property for a period of 15 years starting on the date of initial occupancy. The amount used for purchase and rehabilitation of the property was \$91,754 as of December 31, 2018. The 15 year term expires in 2033.

### Note 7: Inventory

A summary of inventory is as follows:

Jobs in progress	\$	45,261
Nonexpendable inventory		86,273
<u>Expendable inventory</u>		<u>5,418</u>
Total weatherization inventory		136,952
<u>Clinic inventory</u>		<u>34,361</u>
<u>Total inventory</u>	<u>\$</u>	<u>171,313</u>

### 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.

707,732

Loan payable to Huntington Bank at 5% interest with monthly payments of \$1,229. The loan collateralized by building on Capitol Drive in Green Bay and matures April 2022.

46,105

Total loans payable	1,161,837
<u>Current portion</u>	<u>( 39,533)</u>
<u>Total loans payable</u>	<u>\$ 1,122,304</u>

Future loan maturities are as follows:

2019	\$	39,533
2020		41,279
2021		664,900
2022		8,125
2023		0
<u>Thereafter</u>		<u>408,000</u>
<u>Total</u>	<u>\$</u>	<u>1,161,837</u>

# NEWCAP, Inc. and Subsidiary

## Notes to Consolidated Financial Statements

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### 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 6.25% at December 31, 2018). As of December 31, 2018, the balance was \$200,000. The line of credit was renewed in 2019 and matures February 2020.

### Note 10: Operating Leases

NEWCAP leases various facilities and equipment for operation of its programs that expire at various times through 2022. Rent and lease expense for the year ended December 31, 2018, was \$54,766. Future minimum lease payments on leases having terms beyond December 31, 2018, are as follows

2019	\$	45,671
2020		37,699
2021		10,364
2022		2,746
<hr/>		
Total	\$	96,480

### Note 11: Net Assets With Donor Restrictions

The net assets with donor restrictions consist of the following:

Family planning	\$	148,234
Housing program		2,139,508
Transportation and auto loans		633,866
<hr/>		
Total net assets with donor restrictions	\$	2,921,608

### Note 12: Grant Awards

At December 31, 2018, NEWCAP had commitments under various grants of approximately \$2,300,000. 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 3% of gross wages for every qualified employee that contributes at least 3% 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, 2018 was \$89,245.

# NEWCAP, Inc. and Subsidiary

## Notes to Consolidated Financial Statements

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### 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: Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions or designations limiting their use, within twelve months of the statement of financial position date, comprise the following as of December 31, 2018:

Cash and cash equivalents	\$ 396,730
<u>Grants and other receivables, to be collected in less than one year</u>	<u>467,747</u>
Subtotal financial assets	864,477
Less: Grant funds received in advance, included in cash and cash equivalents	(155,688)
Less: Net assets with donor restrictions included in cash and cash equivalents	( 418,864)
<u>Total financial assets available</u>	<u>\$ 289,925</u>

The Organization does not have a formal liquidity policy but generally maintains financial assets in liquid form such as cash and cash equivalents for approximately 2 weeks to 1 month of operating expenses. The Organization can rely on a lower cash balance as it is primarily funded with cost reimbursement grants. Under cost reimbursement grants, once expenses are incurred, an organization can request reimbursement from the funding source.

### Note 16: Subsequent Event

Subsequent events have been evaluated through June 25, 2019, which is the date the financial statements were available to be issued.

NEWCAP, Inc. sold two properties in 2019. One property was sold in February and the other in March. Proceeds from the sales were approximately \$690,000. The gain that will be recognized in 2019 on these transactions will be approximately \$285,000. There was no outstanding debt on these two properties at the time of sale.

# **Supplementary Information**

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# NEWCAP, Inc.

Schedule A-1

Schedule of Expenditures of Federal and State Awards

Year Ended December 31, 2018

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Passed Through to Subrecipients	Federal Expenditures
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
<b>Passed-Through WISCAP</b>			
Job and Business Development Program	10.561	\$ 0	\$ 22,732
<b>Passed-Through Wisconsin Department of Children and Families</b>			
Skills Enhancement Program 2017-2018	10.561	0	1,758
Skills Enhancement Program 2018-2019	10.561	0	5,432
<b>Subtotal SNAP Cluster CFDA 10.551 and 10.561</b>		<b>0</b>	<b>29,922</b>
<b>Passed-Through Wisconsin Department of Health Services</b>			
Temporary Emergency Food Assistance Program #70010	10.568	5,799	65,117
Temporary Emergency Food Assistance Program #70010	10.568	0	29,256
<b>Subtotal CFDA 10.568</b>		<b>5,799</b>	<b>94,373</b>
Commodity Food Program	10.569	0	820,902
<b>Total Food Distribution Cluster CFDA 10.565, 10.568 and 10.569</b>		<b>5,799</b>	<b>915,275</b>
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>			
<b>Passed-Through Wisconsin Department of Administration</b>			
HUD Emergency Shelter # ETH17-13	14.231	14,777	121,753
HUD Emergency Shelter # EHH 18-13	14.231	23,766	115,926
<b>Passed-Through House of Hope Green Bay Inc.</b>			
HUD Emergency Shelter # EHH 18-07	14.231	0	13,202
<b>Subtotal CFDA 14.231</b>		<b>38,543</b>	<b>250,881</b>
<b>Passed-Through Wisconsin Department of Administration</b>			
Tenant Based Rental Assistance # TBRA 15.05	14.239	0	2,236
Tenant Based Rental Assistance # TBRA 16.05	14.239	0	14,885
Tenant Based Rental Assistance # TBRA 17.05	14.239	0	42,788
HOME Homebuyer and Rehab Program # HHR 16.09	14.239	0	157,572
HOME Homebuyer and Rehab Program # HHR 17.09	14.239	0	247,236
<b>Subtotal CFDA 14.239</b>		<b>0</b>	<b>462,481</b>
<b>Passed-Through CoC Balance Of State</b>			
WIBOSCOC Supportive Services For Coordinated Entry NWISH	14.267	0	15,473
WIBOSCOC Supportive Services For Coordinated Entry Northeast	14.267	0	33,415
<b>Direct Federal</b>			
Permanent Supportive Housing - Housing First 2017	14.267	0	34,875
Permanent Supportive Housing - Housing First 2018	14.267	0	149,190
Permanent Supportive Housing - Families 2018	14.267	0	110,894
Permanent Supportive Housing - Rapid Rehousing Youth	14.267	12,518	42,493
Permanent Supportive Housing - Brown County 2018	14.267	0	512,310
<b>Subtotal CFDA 14.267</b>		<b>12,518</b>	<b>898,650</b>

# NEWCAP, Inc.

Schedule A-2

Schedule of Expenditures of Federal and State Awards

Year Ended December 31, 2018

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Passed Through to Subrecipients	Federal Expenditures
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (Continued)</b>			
<b>Passed-Through Wisconsin Housing and Economic Development Authority</b>			
Section 8 Housing Voucher Program	14.871	0	633,876
<b>Subtotal Housing Voucher Cluster CFDA 14.871 and 14.879</b>		<b>0</b>	<b>633,876</b>
<b>U.S. DEPARTMENT OF LABOR</b>			
<b>Passed-Through Community Services of Northeast Wisconsin</b>			
Workforce Investment Act - Marinette (Adult)	17.258	46,485	122,980
Workforce Investment Act - Marinette (Youth)	17.259	10,331	11,134
Workforce Investment Act - Marinette (Dislocated Worker)	17.278	46,462	114,473
<b>Subtotal WIA/WIOA Cluster CFDA #17.258, #17.259, and #17.278</b>		<b>103,278</b>	<b>248,587</b>
<b>U.S. DEPARTMENT OF TRANSPORTATION</b>			
<b>Passed-Through Southwest CAP</b>			
Wisconsin Employment Transportation Assistance Program	20.516	0	122,255
<b>Passed-Through Wisconsin Department of Transportation</b>			
New Freedom Program	20.521	0	63,158
<b>Subtotal Transit Services Cluster CFDA# 20.516 and 20.521</b>		<b>0</b>	<b>185,413</b>
<b>U.S. DEPARTMENT OF ENERGY</b>			
<b>Passed-Through Wisconsin Department of Administration</b>			
Weatherization Assistance DOE - #WX1718.13	81.042	0	188,119
Weatherization Assistance DOE - #WX1819.13		0	199,416
<b>Subtotal CFDA #81.042</b>		<b>0</b>	<b>387,535</b>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
<b>Passed-Through Wisconsin Department of Administration</b>			
Emergency Furnace LIHEAP #WX1718.13 (2017-18)	93.568	0	112,568
Weatherization Assistance EAP - #WX1718.13	93.568	0	305,681
Emergency Furnace LIHEAP #WX1819.13 (2018-2019)	93.568	0	11,003
Weatherization Assistance EAP - #WX1819.13	93.568	0	254,336
<b>Subtotal CFDA #93.568</b>		<b>0</b>	<b>683,588</b>
<b>Passed-Through Wisconsin Department of Children and Families</b>			
Community Services Block Grant	93.569	0	582,827
<b>Passed-Through Oneida County Health Department</b>			
Maternal and Child Health Block Grant Title V & X	93.994	0	288,011
<b>TOTAL FEDERAL PROGRAMS</b>		<b>\$ 160,138</b>	<b>\$ 5,567,046</b>

# NEWCAP, Inc.

Schedule A-3

Schedule of Expenditures of Federal and State Awards

Year Ended December 31, 2018

Grantor/Pass-Through Grantor/Program Title	State ID	Passed Through to Subrecipients	State Expenditures
<b>STATE AND LOCAL PROGRAMS</b>			
<b>Passed-Through Wisconsin Department of Administration</b>			
Emergency Furnace Public Benefits #WX1718.13 (2017-2018)	505.371	0	293,703
Weatherization Assistance Public Benefits - #WX1718.13	505.371	0	1,561,973
Emergency Furnace Public Benefits #WX1718.13 (2018-19)	505.371	0	263,954
Weatherization Assistance Public Benefits - #WX1819.13	505.371	0	1,481,938
<b>Subtotal #505.371</b>		<b>0</b>	<b>3,601,568</b>
<b>Passed-Through Wisconsin Department of Administration</b>			
State Shelter Subsidy Grant (SSSG) #SSSG 18-22		<b>0</b>	<b>3,000</b>
<b>TOTAL STATE AND LOCAL PROGRAMS</b>		<b>\$ 0</b>	<b>\$ 3,604,568</b>
<b>GRAND TOTAL (FEDERAL, STATE, AND LOCAL AWARDS)</b>		<b>\$ 160,138</b>	<b>\$ 9,171,614</b>

## 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, 2018. 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 NEWCAP, 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, 2018

<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>
WX1718.13 (2017-18)	\$ 176,838	\$ 452,751	\$ 0	\$ 629,589	\$ 223,318	\$ 406,271	\$ 629,589
WX1819.13 (2018-19)	0	244,769	0	244,769	0	274,957	274,957
	<u>\$ 176,838</u>	<u>\$ 697,520</u>	<u>\$ 0</u>	<u>\$ 874,358</u>	<u>\$ 223,318</u>	<u>\$ 681,228</u>	<u>\$ 904,546</u>

# NEWCAP, Inc.

## Settlement of DHS Cost Reimbursement Award

Year Ended December 31, 2018

	<b>TEFAP/EFO's</b>	<b>TEFAP/EFO's</b>
	<b>CARS profile 70010</b>	<b>CARS profile 70010</b>
<b>DHS Identification number</b>		
<b>Award amount</b>	<b>\$96,498</b>	<b>\$88,014</b>
<b>Award period</b>	<b>10/01/17-09/30/18</b>	<b>10/01/18-09/30/19</b>
<b>Period of award within audit period</b>	<b>01/01/18-09/30/18</b>	<b>10/01/18-12/31/18</b>
<b>A. Expenditures reported to DHS for payment</b>	<u>\$ 65,117</u>	<u>\$ 34,918</u>
<b>B. Actual allowable cost of award reported in audit</b>		
1. Administration	15,359	4,308
2. Participant Wage and Fringe	0	0
3. Personnel Services	0	0
4. Consult/Contract	0	0
5. Program Supplies	0	0
6. Agency Operations	0	0
7. Other Operating Costs	\$ 93,830	24,948
Total reported expenses	<u>109,189</u>	<u>29,256</u>
<b>C. Less other funds used to offset costs (1)</b> <b>(identify in notes)</b>	<u>44,072</u> ( 1)	<u>0</u>
<b>D. Total Grant funded allowable costs</b>	<u><u>\$ 65,117</u></u>	<u><u>\$ 29,256</u></u>

(1) CSBG used to offset costs



## **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 Subsidiary (the “Organizations”), which comprise the consolidated statement of financial position as of December 31, 2018, and the related consolidated statements of activities, functional expenses 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 25, 2019. The financial statements of Newcap Village on Water, LLC was not audited in accordance with *Government Auditing Standards* as the entity 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 of the consolidated financial statements, 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 consolidated 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.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2018-001 that we consider to be a material weakness.

## **Compliance and Other Matters**

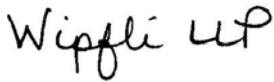
As part of obtaining reasonable assurance about whether NEWCAP, Inc.'s consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct 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 response to the finding identified in our audit is 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 25, 2019  
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, 2018. 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 qualified opinion on compliance for each major federal and state program. However, our audit does not provide a legal determination of NEWCAP, Inc.'s compliance.

## **Basis for Qualified Opinion on the Major Federal and State Programs**

As described in the accompanying schedule of findings and questioned costs NEWCAP, Inc. did not comply with the requirements of the Wisconsin Weatherization program that is funded with CFDA #81.042 DOE Weatherization, #93.568 EAP Weatherization, and State Public Benefits as described in finding number 2018-002 for timely payment of invoices. Compliance with such requirements is necessary, in our opinion, for NEWCAP, Inc. to comply with the requirements applicable to this program.

## **Qualified Opinion on the Major Federal and State Programs**

In our opinion, except for the noncompliance described in the basis for qualified opinion paragraph, 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, 2018.

## **Unqualified Opinion on Each of the Major Federal and State Programs**

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 other major federal and state programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended December 31, 2018.

## **Other Matters**

NEWCAP, Inc.'s response to the noncompliance 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.

## **Report on Internal Control over Compliance**

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 over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal or state program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

A handwritten signature in black ink that reads "Wipfli LLP". The letters are cursive and somewhat stylized, with the "L" and "P" having long, sweeping tails.

Wipfli LLP

June 25, 2019  
Madison, Wisconsin

# NEWCAP, Inc.

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

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### 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?	No
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?	No
Type of auditor's report issued on compliance for major program	Qualified
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance [2 CFR 200.516(a)] <i>State Single Audit Guidelines</i>	Yes

#### Identification of major federal and state programs:

<u>Name of Federal Major Program or Cluster</u>	<u>CFDA No.</u>
Emergency Food Assistance Cluster	10.565, 10.568 and 10.569
HOME Program	14.239
Continuum of Care Program	14.267
Weatherization Assistance Program	81.042
Low Income Home Energy Assistance Program	93.568
Maternal and Child Health	93.994

<u>Name of State Major Program or Cluster</u>	<u>State ID No.</u>
Public Benefits	505.371

#### Dollar threshold used to distinguish between Type A and Type B programs:

Federal	\$750,000
State	250,000

Auditee qualified as low-risk auditee?	No
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# NEWCAP, Inc.

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

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### Section II - Financial Statement Findings

#### 2018-001 - Reconciliations

**Condition** - During our audit, we noted that cash was not reconciled in a timely manner. Most of the bank reconciliations for the year were done between October 2018 and March 2019.

**Criteria** – Accounts should be reconciled monthly with the adjustments posted timely so that management is relying on accurate financial information to make decisions.

**Cause** - There has been a transition in the NEWCAP's business office as well as an accounting system conversion which contributed to the lack of timely reconciliations. NEWCAP continues to work on streamlining and implementing processes to ensure the financial records are reconciled timely and we did note that as of the date of this report, cash is reconciled through May 2019.

**Effect** - As a result of not making reconciling bank accounts timely, a material weakness exists in internal controls.

**Recommendation** - We recommend management and those charged with ensure that bank accounts continue to be prepared and reviewed in a timely manner.

**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*

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### Section III - Federal and State Award Findings and Questioned Costs

Finding 2018-002 – Timely payment of invoices

This finding is applicable to the following programs:

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

Weatherization Assistance Program	81.042
Low Income Home Energy Assistance Program	93.568
Public Benefits	505.371

#### **Federal Grantor/**

#### **Pass-Through Grantor**

#### **Grant Number**

#### **Grant Period**

WI Dept. of Administration

WX1718.13, WX1819.13

07/01/2016 - 06/30/2018 and  
07/01/2018 – 06/30/2019

Questioned Costs:

None

How were the questions costs computed?

Not applicable

**Condition** – In testing NEWCAP’s compliance with the Wisconsin Weatherization Manual’s timely payment of invoices received (defined as within 30 days of receipt of invoice), we noted that 11 of the 22 disbursements selected were not paid within 30 days of receipt of the invoice. NEWCAP sold two properties they owned in late 2018 to generate cash flow. We did an additional test for the month of December to see if the sale of the properties alleviated this issue. We tested an additional 13 disbursements and noted that 9 of the 13 disbursements were made timely. Additional properties were sold in 2019.

**Cause** – Due to a cash flow shortage, NEWCAP did not have funds available to pay Weatherization Program invoices within 30 days of receipt as required by the Wisconsin Weatherization Manual.

**Effect** - As a result of utilizing the weatherization advance to cover cash flow shortages during 2018, NEWCAP is not in compliance with Wisconsin Weatherization Manual.

**Recommendation** - We recommend that NEWCAP be diligent in managing cash flow in the future to ensure advances are used only on the intended programs.

**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*

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### Section IV - Status of Prior Year Findings

Two findings in the 2017 audit report, 2017-002 and 2017-003 were resolved in the current year. Finding 2017-001 was partially resolved. There were no material adjustments however, bank reconciliations were not done timely and that portion of the finding was repeated as finding 2018-001.

### 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

No

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 25, 2019