

**THE DIFFERENCE PRINCIPLE, INC.
AND AFFILIATES**

Milwaukee, Wisconsin

Audited Consolidated Financial Statements

December 31, 2021

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**THE DIFFERENCE PRINCIPLE, INC.
AND AFFILIATES**
Milwaukee, Wisconsin

Audited Consolidated Financial Statements
Year Ended December 31, 2021

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Independent Auditors' Report

Board of Directors
The Difference Principle, Inc. and Affiliates
Milwaukee, Wisconsin

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of The Difference Principle, Inc. and Affiliates (a nonprofit organization) ("Organization"), which comprise the consolidated statement of financial position as of December 31, 2021, and the related consolidated statement of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Organization as of December 31, 2021, and the changes in its consolidated net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statement of financial position and consolidating statement of activities is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The accompanying statements of revenues and expenses by program, statement of revenues and expenses for Milwaukee County contracts, schedule of expenditures of federal awards and other contracts, and reserve supplemental schedules, as required by the *Wisconsin DHS Audit Guide*, 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 of America. 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 September 15, 2022 on our consideration of the Organization'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 effectiveness of the Organization'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 the Organization's internal control over financial reporting and compliance.

September 15, 2022
Milwaukee, Wisconsin

THE DIFFERENCE PRINCIPLE, INC. AND AFFILIATES

Milwaukee, Wisconsin

Consolidated Statement of Financial Position

December 31, 2021

ASSETS	
Cash	\$ 306,974
Cash - restricted	4,313
Promises to give	12,500
Accounts receivable	1,960,157
Prepaid expenses	61,154
Security deposits	13,225
Property and equipment, net	148,826
Total assets	<u>\$ 2,507,149</u>
 LIABILITIES AND NET ASSETS	
Liabilities:	
Accounts payable	\$ 219,934
Due to Milwaukee County	500,094
Other payables	1,100
Accrued payroll and related liabilities	529,710
Notes payable	79,361
Line of credit	100,000
Total liabilities	<u>1,430,199</u>
Net Assets:	
Without donor restrictions	1,064,450
With donor restrictions	12,500
Total net assets	<u>1,076,950</u>
 Total liabilities and net assets	 <u>\$ 2,507,149</u>

The accompanying notes to the consolidated financial statements
are an integral part of these consolidated statements.

THE DIFFERENCE PRINCIPLE, INC. AND AFFILIATES
Milwaukee, Wisconsin

Consolidated Statement of Activities
Year Ended December 31, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues:			
Exchange transactions:			
Assessment income	\$ 300	\$ ---	\$ 300
Fee for service and purchase of service contracts	4,866,373	---	4,866,373
Program service revenue	10,464,417	---	10,464,417
Rentals	7,380	---	7,380
Other income	85,809	---	85,809
Total exchange transactions	<u>15,424,279</u>	---	<u>15,424,279</u>
Nonexchange transactions:			
Contributions	189,916	12,500	202,416
Federal and state contracts	22,000	---	22,000
Total nonexchange transactions	<u>211,916</u>	<u>12,500</u>	<u>224,416</u>
Interest income	48	---	48
Net assets released from restrictions	168,821	(168,821)	---
Total revenues	<u>15,805,064</u>	<u>(156,321)</u>	<u>15,648,743</u>
Expenses:			
Program services	13,702,176	---	13,702,176
Management and general	2,069,014	---	2,069,014
Fundraising	14,215	---	14,215
Total expenses	<u>15,785,405</u>	---	<u>15,785,405</u>
Change in net assets	19,659	(156,321)	(136,662)
Net assets, beginning of year	<u>1,044,791</u>	<u>168,821</u>	<u>1,213,612</u>
Net assets, end of year	<u>\$ 1,064,450</u>	<u>\$ 12,500</u>	<u>\$ 1,076,950</u>

The accompanying notes to the consolidated financial statements
are an integral part of these consolidated statements.

THE DIFFERENCE PRINCIPLE, INC. AND AFFILIATES
Milwaukee, Wisconsin

Consolidated Statement of Functional Expenses
Year Ended December 31, 2021

	Program Services	Supporting Services		Total
		Management and General	Fundraising	
Expenses:				
Salaries and wages	\$ 9,273,348	\$ 1,263,292	\$ 1,292	\$ 10,537,932
Employee benefits	1,289,855	136,223	1,764	1,427,842
Payroll taxes	730,529	100,340	148	831,017
Accounting and auditing	18,965	131,693	---	150,658
Client assistance	45,153	---	---	45,153
Consultation	58,539	40,703	---	99,242
Depreciation	15,673	2,955	1,767	20,395
Development and training	72,339	25,042	---	97,381
Drug testing	77,857	---	---	77,857
Dues and subscription	63,602	47,402	25	111,029
Educational materials	29	92	---	121
Equipment rental	76,279	60	---	76,339
GPS expense	809,537	561	---	810,098
House manager	10,000	---	---	10,000
Information technology	66,016	34,605	---	100,621
Insurance	67,619	5,803	---	73,422
Interest	449	1,081	---	1,530
Office supplies	91,015	48,614	---	139,629
Miscellaneous	5,635	47,066	7,578	60,279
Repairs and maintenance	145,279	33,826	---	179,105
Postage and shipping	5,023	4,975	22	10,020
Printing	14,306	7,672	---	21,978
Professional fees	41,857	20,229	1,605	63,691
Property taxes	3,730	---	---	3,730
Rent	333,096	44,092	---	377,188
Staff program supplies	593	2,958	---	3,551
Telephone	91,706	28,050	---	119,756
Travel	276,110	38,118	14	314,242
Utilities	18,037	3,562	---	21,599
Total expenses	\$ 13,702,176	\$ 2,069,014	\$ 14,215	\$ 15,785,405

The accompanying notes to the consolidated financial statements
are an integral part of these consolidated statements.

THE DIFFERENCE PRINCIPLE, INC. AND AFFILIATES
Milwaukee, Wisconsin

Consolidated Statement of Cash Flows
Year Ended December 31, 2021

Cash Flows from Operating Activities:	
Change in net assets	\$ (136,662)
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	20,395
Changes in operating accounts:	
Accounts receivable	(178,089)
Promises to give	(12,500)
Prepaid expenses	(16,879)
Security deposits	(2,872)
Accounts payable	(120,075)
Due to Milwaukee County	(103,802)
Accrued wages	<u>91,265</u>
Net cash used by operating activities	(459,218)
Cash Flows from Investing Activities:	
Capital expenditures	(13,807)
Cash Flows from Financing Activities:	
Principal payments on notes payable	(8,437)
Proceeds on line of credit	605,000
Repayments under line of credit	<u>(505,000)</u>
Net cash provided by financing activities	91,563
Net change in cash, restricted cash, and equivalents	(381,462)
Cash and restricted cash - Beginning of year	<u>692,749</u>
Cash and restricted cash - End of year	<u><u>\$ 311,287</u></u>
Interest paid	<u><u>\$ 1,530</u></u>
Reconciliation of Cash and Restricted Cash:	
Cash	\$ 306,974
Net cash - restricted for unemployment claims	4,313
	<u><u>\$ 311,287</u></u>

The accompanying notes to the consolidated financial statements
are an integral part of these consolidated statements.

THE DIFFERENCE PRINCIPLE, INC. AND AFFILIATES
Milwaukee, Wisconsin

Notes to Consolidated Financial Statements
December 31, 2021

1. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements of the "Organization" include the accounts of The Difference Principle, Inc. ("The Difference Principle") and its affiliates JusticePoint, Inc. ("JusticePoint") and Sirona Recovery, Inc. ("Sirona Recovery"). All material intercompany transactions have been eliminated in the preparation of the consolidated financial statements.

Nature of Operations

The Difference Principle was organized in 2014 under the laws of the State of Wisconsin as a non-profit, non-stock corporation. The Difference Principle provides evidence-backed management and administrative services to its affiliates.

JusticePoint was organized in 2012 under the laws of the State of Wisconsin as a non-profit, non-stock corporation. JusticePoint is dedicated to the promotion of evidence-informed criminal justice programs, practices, and policies. The commitment to evidence-informed practices is firmly rooted in the belief that criminal justice outcomes can be improved through the use of collaboration, engagement, and the scientific method.

Sirona Recovery (formerly Starting Point, Inc.) was organized in 1975 under the laws of the State of Wisconsin as a non-profit, non-stock corporation. Sirona Recovery's purpose is to provide alcohol, tobacco and other drug prevention, intervention and referral counseling services for Ozaukee County, Wisconsin residents.

Sirona Recovery is involved in a variety of programs that provide prevention, intervention and referral services for alcohol, tobacco and other drug related issues.

Program Services

Behavioral Health: Sirona Recovery, Inc. serves individuals residing in Milwaukee, Dodge, Fond Du Lac, Ozaukee, Sheboygan, Washington, and Waukesha Counties seeking support and resources for their recovery, including access to treatment near their home, education and prevention, and assistance with finding a safe place to live.

Housing: Sirona Recovery's housing programming provides strengths-based case management and peer support services to empower members of our community on their path toward building and sustaining a more meaningful life.

Court Services: JusticePoint court services provide pretrial, court reminder, diversion, court alternatives, screening and cognitive behavioral programming to individuals in the criminal justice system in Minnesota and Wisconsin.

Electronic Monitoring: JusticePoint is a full-service provider of solution-focused electronic monitoring equipment for use in local justice systems.

Difference Principle Program: Provided employer of record services to the Minnesota Justice Research Center as well as logistical assistance to the Sober Justice Fund.

Basis of Accounting

The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

THE DIFFERENCE PRINCIPLE, INC. AND AFFILIATES
Milwaukee, Wisconsin

Notes to Consolidated Financial Statements
December 31, 2021
(Continued)

1. Summary of Significant Accounting Policies (Continued)

Basis of Presentation

Under U.S. GAAP, the Organization is required to report information regarding its financial position and activities according to classes of net assets 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 donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resource 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. The Organization does not have any restrictions that are required to be held in perpetuity.

Use of Estimates

The preparation of the accompanying consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that directly affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results may differ from these estimates.

Cash

Cash consists of demand deposits with financial institutions.

Accounts Receivable

Receivables are recorded at contract value. Management estimates all accounts receivable to be fully collectible; therefore, no allowance for doubtful accounts is considered necessary.

Prepaid Items

Prepaid items represent payments made by the Organization for which benefits extend beyond December 31.

Property and Equipment

The Organization capitalizes property and equipment purchases over \$5,000. Property and equipment is carried at cost. Depreciation is calculated using the straight-line method for financial reporting purposes at rates based on the estimated useful lives of the property and equipment from four to forty years.

Maintenance and repairs are expensed as incurred. Renewals and betterments that materially extend the lives of the assets are capitalized. When property and equipment are sold or otherwise disposed of, the asset account and related accumulated depreciation account are reduced, and any gain or loss is included in revenue.

THE DIFFERENCE PRINCIPLE, INC. AND AFFILIATES
Milwaukee, Wisconsin

Notes to Consolidated Financial Statements
December 31, 2021
(Continued)

1. Summary of Significant Accounting Policies (Continued)

Impairment of Long-Lived Assets

The Organization reviews long-lived assets, including property and equipment and intangible assets, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. To date, there have been no such losses.

Revenue Recognition

The Organization recognizes revenue based on the existence or absence of an exchange transaction. The Organization recognizes revenue from exchange transactions when it satisfies a performance obligation by providing a service to a customer or member.

Revenue from exchange transactions consists of the following:

- **Assessment income, Administrative fees and Other income** – recognized over a period of time as performance obligations are met
- **Fee for service and purchase of service contracts and program service fees** – recognized as performance obligations are met.

Revenue from non-exchange transactions consist of the following:

- **Contributions** – gifts received without donor stipulations are reported as revenue and net assets without donor restrictions. Gifts received with a donor stipulation that limits their use are reported as revenue and net assets with donor restrictions. When a donor-stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Contributions that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as revenue and net assets without donor restriction. Conditional promises are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met.
- **Federal and state contracts** – Federal and state contracts are conditional upon the incurrence of allowable qualifying expenses. Revenue is recorded as allowable qualifying expenses are incurred.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on the functional basis in the consolidated statement of activities. The consolidated statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, salaries and related expenses are allocated to functional activities based on the time spent in each area. Expenses specifically identifiable with an activity are charged to that activity. Other expenses not specifically identifiable with functions are allocated to functional activities using percentages based on actual experience.

THE DIFFERENCE PRINCIPLE, INC. AND AFFILIATES
Milwaukee, Wisconsin

Notes to Consolidated Financial Statements
December 31, 2021
(Continued)

1. Summary of Significant Accounting Policies (Continued)

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization was incorporated under the nonprofit statutes of the State of Wisconsin and is not liable for Wisconsin income tax. Accordingly, no provision for income taxes has been provided.

The Organization has implemented accounting for uncertainty in income taxes in accordance with U.S. GAAP. This standard prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return and also provides guidance on various related matters such as derecognizing, interest, penalties and disclosures required. The Organization recognizes interest and penalties, if any, related to unrecognized tax benefits in income tax expense.

In management's opinion, the Organization has not taken any uncertain tax positions, and accordingly, has not reported a corresponding liability in the consolidated financial statements.

Subsequent Events

Management has evaluated subsequent events for possible recognition or disclosure through the date the consolidated financial statements were available to be distributed (September 15, 2022). There were no subsequent events that required disclosure.

2. Promises to Give

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. An allowance for uncollectible promises to give is determined based on experience. The allowance for uncollectible promises to give was \$0 for year ended December 31, 2021. The total promises to give at December 31, 2021 was \$12,500 and was expected to be received during 2022.

3. Property and Equipment

Property and equipment consists of a building and office equipment and is summarized as follows:

	Balance		Additions		Disposals		Balance
	1/1/2021						12/31/2021
Land	\$ 39,600	\$	---	\$	---	\$	39,600
Building	75,514		---		---		75,514
Building improvements	8,429		---		---		8,429
Equipment	198,227		13,806		---		212,033
Leasehold improvements	6,276		---		---		6,276
Less: Accumulated depreciation	(172,631)		(20,395)		---		(193,026)
Net Property and Equipment	\$ 155,415	\$	(6,589)	\$	---	\$	148,826

The cost of property and equipment is capitalized and charged against income over their estimated useful lives utilizing the straight-line method of depreciation. Depreciation expense for the year ended December 31, 2021 was \$20,228.

THE DIFFERENCE PRINCIPLE, INC. AND AFFILIATES
Milwaukee, Wisconsin

Notes to Consolidated Financial Statements
December 31, 2021
(Continued)

4. Notes Payable

Notes payable consists of a note payable to Ozaukee County. Sirona Recovery makes monthly payments of \$730 including 1% interest. The final payment will be due June 1, 2031. The note is secured by a first real estate mortgage. As of December 31, 2021, the loan amount outstanding was \$79,361. The following is the minimum principal payment due on the notes payable for the years ending December 31:

2022	\$	8,003
2023		8,084
2024		8,165
2025		8,247
2026		8,330
Thereafter		<u>38,532</u>
Total	\$	<u>79,361</u>

5. Line of Credit

JusticePoint has a line of credit in the amount of \$600,000 from Town Bank to enable it to meet expenses while awaiting grant disbursements. The Organization agreed to secure this line of credit with collateral defined as the inventory, chattel paper, accounts, equipment, general intangibles and fixtures of JusticePoint. The line matures on September 19, 2022 and accrues interest at 0.5 percentage point above index with a minimum of 3.75%. The interest rate was 3.75% at December 31, 2021. The line had an outstanding balance of \$100,000 at December 31, 2021 and interest expense of \$1,081 for the year ended December 31, 2021.

6. Due to Milwaukee County

JusticePoint has many fee-for-service and purchase of service contracts with Milwaukee County. Milwaukee County allows provider agencies to retain reserves funded by the County that are paid on the basis of a unit rate per unit of client service. The Organization is allowed to retain 5% of revenue received in excess of allowable costs incurred for contract periods paid on a unit rate basis. In a prior year, JusticePoint had revenues greater than the 5% allowed and therefore the Organization owes these funds back to the County. JusticePoint pays the County \$10,332 per month. At December 31, 2021 the balance outstanding was \$500,094.

7. Operating Leases

The Organization leases office space shared by The Difference Principle, JusticePoint and Sirona Recovery. Lease payments were \$8,955 per month for the year ended December 31, 2021. In December 2021, the lease was extended until March 31, 2026 with monthly payments ranging from \$9,868 to \$10,710. The lease includes two option years through March 31, 2028. JusticePoint and Sirona Recovery also lease six additional sites to run their programs with varying terms and end dates through April 30, 2026. Future minimum payments are as follows for years ended December 31:

2022	\$	213,279
2023		213,175
2024		167,471
2025		171,459
2026		<u>46,819</u>
Total	\$	<u>812,203</u>

THE DIFFERENCE PRINCIPLE, INC. AND AFFILIATES
Milwaukee, Wisconsin

Notes to Consolidated Financial Statements
December 31, 2021
(Continued)

8. Liquidity and Availability

The following table reflects the Organization's financial assets, reduced by amounts that are not available to meet general expenditures and current contractual obligations within one year of the statement of financial position date because of contractual restrictions, certain donor restrictions, or internal board designations at December 31, 2021:

Cash	\$ 306,974
Promises to give	12,500
Accounts receivable	<u>1,960,157</u>
Total financial assets	2,279,631
Less amounts not available to be used within one year for general expenditures:	
Assets pledged as collateral for line of credit	<u>(100,000)</u>
Financial assets available to meet general expenditures within one year	\$ <u>2,179,631</u>

In addition to financial assets available to meet general expenditures over the next year, the Organization operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. Refer to the consolidated statement of cash flows which identifies the sources and uses of the Organization's cash.

9. Unemployment Reserve

Sirona Recovery has elected reimbursement financing under the provisions of Wisconsin unemployment compensation laws. Sirona Recovery has deposited funds in a depository account to meet state funding requirements. The required balance on deposit as of December 31, 2021 was \$4,313. This deposit is not available for the use of Sirona Recovery.

10. Concentrations of Revenue Sources

For the year ended December 31, 2021, JusticePoint received \$4,677,446 under contracts with Milwaukee County. This accounts for 43% of the total revenue of JusticePoint. For the year ended December 31, 2021, JusticePoint received \$2,621,657 under contracts with Ramsey County, Minnesota. This accounts for 24% of the total revenue of JusticePoint.

For the year ended December 31, 2021, Sirona Recovery received \$3,575,930 under contracts with Milwaukee County. This accounts for 79% of the total revenue of Sirona Recovery. For the year ended December 31, 2021, Sirona Recovery received \$535,423 under contracts with Dodge County. This accounts for 12% of the total revenue of JusticePoint.

The Organization's financial instruments that are exposed to concentrations of credit risk consist primarily of cash. The Organization maintains its cash with two financial institutions. The total cash balances of the Organization are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000 per depositor, per bank. The Organization held cash throughout the year which, at times, may have exceeded the balance insured by the FDIC. The Organization monitors such credit risk and has not experienced any losses related to such risks.

THE DIFFERENCE PRINCIPLE, INC. AND AFFILIATES
Milwaukee, Wisconsin

Notes to Consolidated Financial Statements
December 31, 2021
(Continued)

11. Net Assets with Donor Restrictions

Net assets with donor restriction are restricted for the following purposes or periods at December 31, 2021:

Restricted for passage of time:

Promises to give, net	\$ <u>12,500</u>
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12. Contingencies

The Organization has received federal and state grants and contracts for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grants. Management believes such disallowances, if any, would be immaterial.

THE DIFFERENCE PRINCIPLE INC. AND AFFILIATES
Milwaukee, Wisconsin

Consolidating Statement of Financial Position
December 31, 2021

	<u>The Difference Principle, Inc.</u>	<u>Sirona Recovery Inc.</u>	<u>Justice Point, Inc.</u>	<u>Eliminations</u>	<u>Total</u>
ASSETS					
Cash	\$ 103,485	\$ 77,803	\$ 125,686	\$ ---	\$ 306,974
Cash - restricted	---	4,313	---	---	4,313
Receivables:					
Intercompany receivable	705,982	---	15,529	(721,511)	---
Promises to give, net	12,500	---	---	---	12,500
Accounts receivable	49,819	602,471	1,307,867	---	1,960,157
Total receivables	<u>768,301</u>	<u>602,471</u>	<u>1,323,396</u>	<u>(721,511)</u>	<u>1,972,657</u>
Prepaid expenses	832	20,971	39,351	---	61,154
Security deposits	9,553	---	3,672	---	13,225
Property and equipment, net	4,667	110,068	34,091	---	148,826
Total assets	<u>\$ 886,838</u>	<u>\$ 815,626</u>	<u>\$ 1,526,196</u>	<u>\$ (721,511)</u>	<u>\$ 2,507,149</u>
LIABILITIES AND NET ASSETS					
Liabilities:					
Accounts payable	\$ 2,068	\$ 21,255	\$ 196,611	\$ ---	\$ 219,934
Due to Milwaukee County	---	---	500,094	---	500,094
Other payables	---	---	1,100	---	1,100
Accrued payroll and related liabilities	72,740	130,261	326,709	---	529,710
Intercompany payable	---	587,102	134,409	(721,511)	---
Notes payable	---	79,361	---	---	79,361
Line of credit	---	---	100,000	---	100,000
Total liabilities	<u>74,808</u>	<u>817,979</u>	<u>1,258,923</u>	<u>(721,511)</u>	<u>1,430,199</u>
Net Assets:					
Without donor restrictions (deficiency)	799,530	(2,353)	267,273	---	1,064,450
With donor restrictions	12,500	---	---	---	12,500
Total net assets (deficiency)	<u>812,030</u>	<u>(2,353)</u>	<u>267,273</u>	<u>---</u>	<u>1,076,950</u>
Total liabilities and net assets	<u>\$ 886,838</u>	<u>\$ 815,626</u>	<u>\$ 1,526,196</u>	<u>\$ (721,511)</u>	<u>\$ 2,507,149</u>

See Independent Auditors' Report.

THE DIFFERENCE PRINCIPLE INC. AND AFFILIATES

Milwaukee, Wisconsin

Consolidating Statement of Activities

Year Ended December 31, 2021

	The Difference Principle, Inc.	Sirona Recovery Inc.	Justice Point, Inc.	Eliminations	Total
NET ASSETS WITHOUT DONOR RESTRICTION:					
Support and Revenues:					
Exchange transactions:					
Assessment income	\$ ---	\$ 300	\$ ---	\$ ---	\$ 300
Administrative fee	1,499,595	---	---	(1,499,595)	---
Fee for service and purchase of service contracts	103,039	4,300,873	462,461	---	4,866,373
Program service revenue	---	---	10,464,417	---	10,464,417
Professional service fees	406,750	---	---	(406,750)	---
Total exchange transactions	<u>2,009,384</u>	<u>4,301,173</u>	<u>10,926,878</u>	<u>(1,906,345)</u>	<u>15,331,090</u>
Nonexchange transactions:					
Contributions	12,600	177,184	132	---	189,916
Federal and state contracts	---	22,000	---	---	22,000
Other income	64,143	853	20,813	---	85,809
Total nonexchange transactions	<u>76,743</u>	<u>200,037</u>	<u>20,945</u>	<u>---</u>	<u>297,725</u>
Interest income	6	3	39	---	48
Rentals	---	7,380	---	---	7,380
Net assets released from restrictions	---	68,821	100,000	---	168,821
Total support and revenues	<u>2,086,133</u>	<u>4,577,414</u>	<u>11,047,862</u>	<u>(1,906,345)</u>	<u>15,805,064</u>
Expenses:					
Salaries and wages	1,252,966	2,776,304	6,508,662	---	10,537,932
Employee benefits	138,875	424,761	864,206	---	1,427,842
Payroll taxes	99,579	218,400	513,038	---	831,017
Accounting and auditing	39,487	36,329	74,842	---	150,658
Administrative fee	---	410,703	1,088,892	(1,499,595)	---
Client assistance	---	31,383	13,770	---	45,153
Consultation	42,813	236,854	---	(180,425)	99,242
Depreciation	3,111	3,926	13,358	---	20,395
Development and training	21,866	19,765	55,750	---	97,381
Drug testing	---	2,941	74,916	---	77,857
Dues and subscription	44,838	27,932	38,259	---	111,029
Educational materials	---	121	---	---	121
Equipment rental	---	18,932	57,407	---	76,339
Furniture and equipment	32,604	15,855	130,646	---	179,105
GPS expense	---	---	810,098	---	810,098
House manager	---	10,000	---	---	10,000
Information technology	31,606	144	68,871	---	100,621
Insurance	5,752	26,712	40,958	---	73,422
Interest	---	408	1,122	---	1,530
Office supplies	38,587	22,774	78,268	---	139,629
Miscellaneous	13,780	14,065	32,434	---	60,279
Postage and shipping	3,817	2,339	3,864	---	10,020
Printing	4,362	12,224	5,392	---	21,978
Professional fees	14,438	---	275,578	(226,325)	63,691
Property taxes	---	3,730	---	---	3,730
Rent	43,777	270,951	62,460	---	377,188
Staff program supplies	---	3,551	---	---	3,551
Telephone	25,872	35,632	58,252	---	119,756
Travel	32,877	56,387	224,978	---	314,242
Utilities	3,749	13,140	4,710	---	21,599
Total expenses	<u>1,894,756</u>	<u>4,696,263</u>	<u>11,100,731</u>	<u>(1,906,345)</u>	<u>15,785,405</u>
Change in net assets without donor restriction	191,377	(118,849)	(52,869)	---	19,659
Net assets without donor restriction, beginning of year	766,587	113,027	165,177	---	1,044,791
Transfer of assets	(158,434)	3,469	154,965	---	---
Net assets (deficiency) without donor restriction, end of year	<u>\$ 799,530</u>	<u>\$ (2,353)</u>	<u>\$ 267,273</u>	<u>\$ ---</u>	<u>\$ 1,064,450</u>
NET ASSETS WITH DONOR RESTRICTION:					
Contributions	12,500	---	---	---	12,500
Amounts released from restriction	---	(68,821)	(100,000)	---	(168,821)
Change in net assets with donor restriction	<u>12,500</u>	<u>(68,821)</u>	<u>(100,000)</u>	<u>---</u>	<u>(156,321)</u>
Net assets with donor restriction, beginning of year	---	68,821	100,000	---	168,821
Net assets (deficiency) with donor restriction, end of year	<u>\$ 12,500</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ 12,500</u>

See Independent Auditors' Report.

THE DIFFERENCE PRINCIPLE INC. AND AFFILIATES

Milwaukee, Wisconsin

Schedule of Revenues and Expenses by Program - Sirona Recovery, Inc.

Year Ended December 31, 2021

	Program Services		Total Program Services	Management and General		Fundraising	Total
	Behavioral Health	Housing					
Support and Revenues:							
Exchange transactions:							
Assessment income	\$ 300	\$ ---	\$ 300	\$ ---	\$ ---	\$ ---	\$ 300
Fee for service and purchase of service contracts:							
Milwaukee County	3,043,255	532,675	3,575,930	---	---	---	3,575,930
Dodge County	535,423	---	535,423	---	---	---	535,423
Marathon County	13,203	---	13,203	---	---	---	13,203
Ozaukee County	176,317	---	176,317	---	---	---	176,317
Total fee for service and purchase of service contracts	3,768,198	532,675	4,300,873	---	---	---	4,300,873
Total exchange transactions:	3,768,498	532,675	4,301,173	---	---	---	4,301,173
Nonechange transactions:							
Contributions	65,063	106,384	171,447	---	5,737	---	177,184
Federal and state contracts	22,000	---	22,000	---	---	---	22,000
Other income	---	---	---	853	---	---	853
Total nonexchange transactions:	87,063	106,384	193,447	853	5,737	---	200,037
Interest income	---	---	---	3	---	---	3
Rentals	7,380	---	7,380	---	---	---	7,380
Total support and revenues	3,862,941	639,059	4,502,000	856	5,737	---	4,508,593
Expenses:							
Salaries and wages	2,459,404	307,164	2,766,568	9,736	---	---	2,776,304
Employee benefits	384,205	39,715	423,920	841	---	---	424,761
Payroll taxes	192,305	25,071	217,376	1,024	---	---	218,400
Accounting and auditing	12,837	1,429	14,266	22,063	---	---	36,329
Administrative fee	---	---	---	410,703	---	---	410,703
Client assistance	3,524	27,859	31,383	---	---	---	31,383
Consultation	154,723	82,100	236,823	31	---	---	236,854
Depreciation	3,926	---	3,926	---	---	---	3,926
Development and training	16,696	878	17,574	2,191	---	---	19,765
Drug testing	2,941	---	2,941	---	---	---	2,941
Dues and subscription	19,994	5,336	25,330	2,602	---	---	27,932
Educational materials	29	---	29	92	---	---	121
Equipment rental	16,562	2,310	18,872	60	---	---	18,932
Furniture and equipment	4,771	11,084	15,855	---	---	---	15,855
House manager	10,000	---	10,000	---	---	---	10,000
Information technology	144	---	144	---	---	---	144
Insurance	22,546	4,079	26,625	87	---	---	26,712
Interest	408	---	408	---	---	---	408
Office supplies	13,686	5,109	18,795	3,979	---	---	22,774
Miscellaneous	2,153	2	2,155	11,904	6	---	14,065
Postage and shipping	1,145	---	1,145	1,172	22	---	2,339
Printing	8,791	621	9,412	2,812	---	---	12,224
Property taxes	3,730	---	3,730	---	---	---	3,730
Rent	192,937	75,510	268,447	2,504	---	---	270,951
Staff program supplies	593	---	593	2,958	---	---	3,551
Telephone	33,044	2,369	35,413	219	---	---	35,632
Travel	54,853	1,534	56,387	---	---	---	56,387
Utilities	12,401	739	13,140	---	---	---	13,140
Expenses before allocation	3,628,348	592,909	4,221,257	474,978	28	---	4,696,263
Allocation:							
Administration	341,183	57,198	398,381	(398,381)	---	---	---
Total expenses	3,969,531	650,107	4,619,638	76,597	28	---	4,696,263
Change in net assets	\$ (106,590)	\$ (11,048)	\$ (117,638)	\$ (75,741)	\$ 5,709	\$ ---	\$ (187,670)

See Independent Auditors' Report.

THE DIFFERENCE PRINCIPLE INC. AND AFFILIATES
Milwaukee, Wisconsin

Schedule of Revenues and Expenses by Program - Justice Point, Inc.
Year Ended December 31, 2021

	<u>Program Services</u>		<u>Total Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
	<u>Court Services</u>	<u>Electronic Monitoring</u>				
Support and Revenues:						
Exchange transactions:						
Fee for service contracts:						
Milwaukee County	\$ 462,461	\$ ---	\$ 462,461	\$ ---	\$ ---	\$ 462,461
Program service revenue:						
Milwaukee County	4,214,985	---	4,214,985	---	---	4,214,985
City of Milwaukee	486,345	---	486,345	---	---	486,345
State Department of Corrections	318,099	95,460	413,559	---	---	413,559
Rock County	419,736	---	419,736	---	---	419,736
Dodge County	262,123	---	262,123	---	---	262,123
Adams County	92,825	---	92,825	---	---	92,825
Racine	365,318	---	365,318	---	---	365,318
Portage	295,430	---	295,430	---	---	295,430
Washington County	73,819	---	73,819	---	---	73,819
Sawyer County	164,063	---	164,063	---	---	164,063
Ramsey County	2,621,657	---	2,621,657	---	---	2,621,657
St. Croix County	25,384	---	25,384	---	---	25,384
Electronic monitoring	---	1,029,173	1,029,173	---	---	1,029,173
Total program service revenue	9,339,784	1,124,633	10,464,417	---	---	10,464,417
Total exchange transactions	9,802,245	1,124,633	10,926,878	---	---	10,926,878
Nonexchange transactions						
Contributions	---	---	---	---	132	132
Other income	4,201	25	4,226	---	16,587	20,813
Total nonexchange transactions	4,201	25	4,226	---	16,719	20,945
Interest income	---	---	---	---	39	39
Total support and revenues	9,806,446	1,124,658	10,931,104	---	16,758	10,947,862
Expenses:						
Salaries and wages	6,173,724	270,408	6,444,132	63,238	1,292	6,508,662
Employee benefits	833,129	25,862	858,991	3,451	1,764	864,206
Payroll taxes	485,889	22,285	508,174	4,716	148	513,038
Accounting and auditing	2,725	---	2,725	72,117	---	74,842
Administrative fee	---	---	---	1,088,892	---	1,088,892
Client assistance	13,770	---	13,770	---	---	13,770
Depreciation	5,114	6,477	11,591	---	1,767	13,358
Development and training	51,403	2,269	53,672	2,078	---	55,750
Drug testing	24,866	50,050	74,916	---	---	74,916
Dues and subscription	24,025	12,005	36,030	2,204	25	38,259
Equipment rental	55,640	1,767	57,407	---	---	57,407
Furniture and equipment	127,564	230	127,794	2,852	---	130,646
GPS expense	109,154	700,383	809,537	561	---	810,098
Information technology	63,752	540	64,292	4,579	---	68,871
Insurance	39,547	1,159	40,706	252	---	40,958
Interest	---	41	41	1,081	---	1,122
Office supplies	61,654	8,637	70,291	7,977	---	78,268
Miscellaneous	2,741	50	2,791	22,071	7,572	32,434
Postage and shipping	1,068	2,619	3,687	177	---	3,864
Printing	3,654	1,022	4,676	716	---	5,392
Professional fees	265,914	1,546	267,460	6,513	1,605	275,578
Rent	55,557	6,903	62,460	---	---	62,460
Telephone	51,838	4,455	56,293	1,959	---	58,252
Travel	108,065	110,014	218,079	6,885	14	224,978
Utilities	4,710	---	4,710	---	---	4,710
Expenses before allocation	8,565,503	1,228,722	9,794,225	1,292,319	14,187	11,100,731
Allocation:						
Administration	1,012,835	147,552	1,160,387	(1,160,387)	---	---
Total expenses	9,578,338	1,376,274	10,954,612	131,932	14,187	11,100,731
Change in net assets	\$ 228,108	\$ (251,616)	\$ (23,508)	\$ (131,932)	\$ 2,571	\$ (152,869)

See Independent Auditors' Report.

THE DIFFERENCE PRINCIPLE INC. AND AFFILIATES

Milwaukee, Wisconsin

Schedule of Revenues and Expenses by Program - The Difference Principle, Inc.

Year Ended December 31, 2021

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Support and Revenues:				
Exchange transactions:				
Administrative fee	\$ ---	\$ 1,499,595	\$ ---	\$ 1,499,595
Fee for service contracts	103,039	---	---	103,039
Professional service revenue	---	406,750	---	406,750
Total exchange transactions	103,039	1,906,345	---	2,009,384
Nonexchange transactions:				
Contributions	25,100	---	---	25,100
Other income	---	64,143	---	64,143
Total nonexchange transactions	25,100	64,143	---	89,243
Interest income	---	6	---	6
Total support and revenues	128,139	1,970,494	---	2,098,633
Expenses:				
Salaries and wages	62,648	1,190,318	---	1,252,966
Employee benefits	6,944	131,931	---	138,875
Payroll taxes	4,979	94,600	---	99,579
Accounting and auditing	1,974	37,513	---	39,487
Consultation	2,141	40,672	---	42,813
Depreciation	156	2,955	---	3,111
Development and training	1,093	20,773	---	21,866
Dues and subscription	2,242	42,596	---	44,838
Furniture and equipment	1,630	30,974	---	32,604
Information technology	1,580	30,026	---	31,606
Insurance	288	5,464	---	5,752
Office supplies	1,929	36,658	---	38,587
Miscellaneous	689	13,091	---	13,780
Postage and shipping	191	3,626	---	3,817
Printing	218	4,144	---	4,362
Professional fees	722	13,716	---	14,438
Rent	2,189	41,588	---	43,777
Telephone	---	25,872	---	25,872
Travel	1,644	31,233	---	32,877
Utilities	187	3,562	---	3,749
Total expenses	93,444	1,801,312	---	1,894,756
Change in net assets	\$ 34,695	\$ 169,182	\$ ---	\$ 203,877

See Independent Auditors' Report.

THE DIFFERENCE PRINCIPLE INC. AND AFFILIATES
Milwaukee, Wisconsin

Schedule of Revenues and Expenses for Milwaukee County Contracts - Sirona Recovery, Inc.
Year Ended December 31, 2021

	<u>Access Point</u>	<u>Recovery Support Coordination</u>	<u>Comprehensive Community Support</u>	<u>St. Anthony</u>	<u>United House</u>	<u>Chronic Homeless Case Management</u>	<u>Pathways to Permanent Housing</u>	<u>Total</u>
Revenue:								
Milwaukee County	83,160	1,446,103	1,513,992	50,000	134,139	51,427	297,109	3,575,930
Heartland Housing	---	---	---	100,000	---	---	---	100,000
Contributions	---	---	---	---	---	---	6,384	6,384
Total revenue	83,160	1,446,103	1,513,992	150,000	134,139	51,427	303,493	3,682,314
Expenses:								
Salaries and wages	64,917	857,181	1,014,670	104,913	71,260	31,115	99,876	2,243,932
Employee benefits	6,877	126,608	154,574	19,816	8,709	3,553	7,637	327,774
Payroll taxes	5,019	67,267	80,053	8,425	5,834	2,637	8,174	177,409
Accounting and auditing	---	6,419	6,419	715	715	---	---	14,268
Client assistance	---	2,493	490	33	---	12	27,814	30,842
Consultation	4,649	122,780	6,513	10,631	29,890	6,776	34,804	216,043
Depreciation	---	1,328	---	---	---	---	---	1,328
Development and training	51	6,664	5,959	248	213	64	353	13,552
Dues and subscription	---	3,354	2,022	513	255	300	4,267	10,711
Equipment rental	---	5,818	7,740	812	653	228	617	15,868
Furniture and equipment	225	455	722	105	---	---	10,978	12,485
Insurance	377	7,694	9,585	1,316	974	422	1,367	21,735
Office supplies	26	2,248	3,674	529	357	95	4,128	11,057
Miscellaneous	---	---	---	---	---	---	2	2
Postage and shipping	---	275	333	---	---	---	---	608
Printing	411	3,992	1,147	498	---	123	---	6,171
Rent	---	30,959	141,371	---	6,960	---	68,550	247,840
Telephone	131	15,290	11,137	568	943	33	826	28,928
Travel	1,018	30,456	17,515	---	4	1,394	136	50,523
Utilities	---	3,636	6,236	---	166	---	573	10,611
Allocation of management expenses	8,186	124,776	142,262	14,913	10,643	4,631	27,011	332,422
Total expenses	91,887	1,419,693	1,612,422	164,035	137,576	51,383	297,113	3,774,109
Change in net assets	\$ (8,727)	\$ 26,410	\$ (98,430)	\$ (14,035)	\$ (3,437)	\$ 44	\$ 6,380	\$ (91,795)

See Independent Auditors' Report.

THE DIFFERENCE PRINCIPLE INC. AND AFFILIATES
Milwaukee, Wisconsin

Reserve Supplemental Schedule - Sirona Recovery, Inc. - Comprehensive Community Support
Year Ended December 31, 2021

1. Total units of service	68,766
2. Allowable expenses for rate-based service	\$ 1,612,422
3. Total revenue for rate-based service	\$ 1,513,992
4. Excess revenue (deficiency) over expenses to be applied to revenue	\$ (98,430)
5. Calculation of reserve and amounts due to purchasers:	

	Revenue From Purchaser	Purchaser's Share of Total Revenue	Purchaser's Share of Excess (Deficiency)	5% Cap on Excess Reserves	Amount Due to Purchaser
Milwaukee County	\$ 1,513,992	100.00%	\$ (98,430)	\$ 75,700	\$ -

See Independent Auditors' Report

THE DIFFERENCE PRINCIPLE INC. AND AFFILIATES
Milwaukee, Wisconsin

Reserve Supplemental Schedule - Sirona Recovery, Inc. - Recovery Support Coordination
Year Ended December 31, 2021

1. Total units of service	89,564
2. Allowable expenses for rate-based service	\$ 1,419,693
3. Total revenue for rate-based service	\$ 1,446,103
4. Excess revenue (deficiency) over expenses to be applied to revenue	\$ 26,410
5. Calculation of reserve and amounts due to purchasers:	

	Revenue From Purchaser	Purchaser's Share of Total Revenue	Purchaser's Share of Excess (Deficiency)	5% Cap on Excess Reserves	Amount Due to Purchaser
Milwaukee County	\$ 1,446,103	100.00%	\$ 26,410	\$ 72,305	\$ -

See Independent Auditors' Report



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE CONSOLIDATED
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS
AND THE WISCONSIN DEPARTMENT OF HEALTH SERVICES AUDIT GUIDE**

To the Board of Directors of
The Difference Principle, Inc. and Affiliates

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the Wisconsin DHS Audit Guide, the consolidated financial statements of The Difference Principle, Inc. and Affiliates (a nonprofit organization) ("Organization"), which comprise the consolidated statements of financial position as of December 31, 2021, 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 September 15, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing 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 the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 consolidated financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization'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 consolidated financial statements. 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* and the Wisconsin DHS Audit Guide.

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 the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and the Wisconsin DHS Audit Guide in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

September 15, 2022
Milwaukee, Wisconsin

THE DIFFERENCE PRINCIPLE, INC.
Milwaukee, Wisconsin

Schedule of Expenditures of Federal Awards and Other Contracts
Year Ended December 31, 2021

Contractor Pass-Through Contractor Program Name	Contract #	Federal Assistance Listing Number	Fee for Service Revenue	Purchase of Service Expenditures	Federal Expenditures
Wisconsin Department of Health Services:					
Passed through Milwaukee County Department of Health and Human Services					
Pathways to Permanent Housing	40-21350-500c	N/A	\$ ---	\$ 297,109	\$ ---
Chronic Homeless Case Management	40-21350-500a	N/A	---	51,427	---
Recovery Support Coordination ("RSC")	BHD-FFS716-12021	N/A	1,446,103	---	---
Comprehensive Community Services ("CCS")	BHD-FFS716-12021	N/A	1,513,992	---	---
Access Point	BHD-FFS716-12021	N/A	83,160	---	---
Supportive Housing - St. Anthony's	40-21350-500	N/A	---	50,000	---
Supportive Housing - United House	40-21350-500	N/A	---	134,139	---
Total Milwaukee County Department of Health and Human Services			<u>3,043,255</u>	<u>532,675</u>	<u>---</u>
Passed through Ozaukee County Department of Human Services					
Substance Abuse Prevention and Treatment Block Grant	Unknown	93.959	---	---	22,000
Passed through Dodge County					
Opioid Treatment Center Programming	Unknown	N/A	484,682	---	---
Medically Assisted Treatment and Prevention Services	Unknown	N/A	50,741	---	---
Total Dodge County			<u>535,423</u>	<u>---</u>	<u>---</u>
Passed through Marathon County					
Intensive Support Services	Unknown	N/A	---	13,203	---
Total Wisconsin Department of Health Services			<u>3,578,678</u>	<u>545,878</u>	<u>22,000</u>
Wisconsin Department of Justice:					
Passed through Ozaukee County, Department of Human Services					
Treatment Alternatives and Diversion	Unknown	N/A	151,317	---	---
Passed through Milwaukee County					
Treatment Alternatives and Diversion	20-733	N/A	462,461	---	---
Total Wisconsin Department of Justice			<u>613,778</u>	<u>---</u>	<u>---</u>
Ozaukee County:					
Crisis Intervention	Unknown	N/A	25,000	---	---
Total Expenditures			<u>\$ 4,217,456</u>	<u>\$ 545,878</u>	<u>\$ 22,000</u>

See Independent Auditors' Report and
Notes to Schedule of Expenditures of Federal Awards and Other Contracts

THE DIFFERENCE PRINCIPLE, INC. AND AFFILIATES
Milwaukee, Wisconsin

Notes to Schedule of Expenditures of Federal Awards and Other Contracts
December 31, 2021

1. Basis of Presentation

The accompanying "Schedule of Expenditures of Federal Awards and Other Contracts" ("the Schedule") includes the federal award and fee for service and purchase of service activity of the Organization under programs of the federal and state government for the year ended December 31, 2021. The information in this Schedule is presented in accordance with the requirements of the Wisconsin DHS Audit Guide.

2. Summary of Significant Accounting Policies

The Organization is considered a contractor and not a subrecipient in the programs with no federal assistance listing number provided on the Schedule.

Expenditures reported on the Schedule are reported on the accrual basis of accounting.

The Organization did not disburse any funds to subrecipients for the year ended December 31, 2021.

THE DIFFERENCE PRINCIPLE, INC. AND AFFILIATES
Milwaukee, Wisconsin

Summary Schedule of Prior Audit Findings
Year Ended December 31, 2021

There were no prior year findings.

THE DIFFERENCE PRINCIPLE, INC. AND AFFILIATES

Milwaukee, Wisconsin

Schedule of Findings and Responses

Year Ended December 31, 2021

Section I. Summary of Auditors' Results

Consolidated Financial Statements

- | | |
|-----------------------------------------------------------------------------------------------------------------------------------------|------------|
| 1. Type of auditors' report issued on whether the consolidated financial statements audited were prepared in accordance with U.S. GAAP: | Unmodified |
| 2. Internal control over financial reporting: | |
| A. Significant deficiency(ies) identified? | None noted |
| B. Material weaknesses identified? | No |
| 3. Noncompliance material to the consolidated financial statements? | None noted |

DHS Awards

- | | |
|-------------------------------------------------------------------|------------|
| 4. Internal control over major program: | |
| A. Significant deficiency(ies) identified? | None noted |
| B. Material weaknesses identified? | No |
| 5. Any audit findings disclosed that are required to be reported? | No |

6. Identification of major DHS program(s):

Name of DHS Program

Pathways to Permanent Housing
Comprehensive Community Support

Section II. Financial Statement Findings

No matters were reported

Section III. DHS Award Findings

No matters were reported

THE DIFFERENCE PRINCIPLE, INC. AND AFFILIATES
Milwaukee, Wisconsin

Schedule of Findings and Responses
Year Ended December 31, 2021
(Continued)

Section IV. Other Issues

1. Does the auditors' report or the notes to the consolidated financial statements include disclosure with regard to substantial doubt as to the auditee's ability to continue as a going concern? No

2. Does the audit report show audit issues (i.e., material noncompliance, nonmaterial noncompliance, questioned costs, material weakness, significant deficiency, management letter comment, excess revenue or excess reserve) related to grants/contracts with funding agencies that require audits to be in accordance with the *Wisconsin DHS Audit Guide*:

Department of Health Services No

3. Was a Management Letter or other document conveying audit comments issued as a result of this audit? Yes

4. Name and signature of partner _____
Brian J. Mechenich

5. Date of Report September 15, 2022