



Financial Statements  
June 30, 2013 and 2012

**First Step House, Inc.**

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## **Independent Auditor's Report**

To the Board of Directors and Management of  
First Step House, Inc.  
Salt Lake City, Utah

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

We have audited the accompanying financial statements of First Step House, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of First Step House, Inc. as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matter**

The financial statements of First Step House, Inc. as of and for the year ended June 30, 2012, were audited by Lake, Hill and Myers, who joined Eide Bailly LLP on July 1, 2013, and whose report dated September 28, 2012, expressed an unmodified opinion on those statements.

**Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited the financial statements of First Step House, Inc. as of and for the year ended June 30, 2013, and have issued our report thereon dated October 18, 2013, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2013, on our consideration of First Step House, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering First Step House Inc.'s internal control over financial reporting and compliance.



Salt Lake City, Utah

October 18, 2013

First Step House, Inc.  
Statements of Financial Position  
June 30, 2013 and 2012

	2013	2012
Assets		
Current Assets		
Cash	\$ 798,421	\$ 1,730,463
Grants and contracts receivable	329,794	265,003
Other receivables, net of allowance of \$3,041 and \$2,319 in 2013 and 2012	8,785	6,738
Prepaid expenses and other assets	71,196	61,774
Total current assets	1,208,196	2,063,978
Deposits	5,659	5,659
Property and Equipment, net	2,161,401	911,577
	\$ 3,375,256	\$ 2,981,214
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 32,664	\$ 19,070
Accrued salaries and related costs	80,053	88,697
Accrued expenses	224,119	294,796
Current portion of long-term debt	2,400	187,656
Total current liabilities	339,236	590,219
Long-Term Liabilities		
Line of credit	444,009	-
Long-term debt, less current portion	130,670	413,221
Total long-term liabilities	574,679	413,221
Net Assets		
Unrestricted		
Undesignated	2,461,341	1,227,774
Board designated	-	750,000
Total net assets	2,461,341	1,977,774
	\$ 3,375,256	\$ 2,981,214

First Step House, Inc.  
Statement of Activities  
Year ended June 30, 2013

	Unrestricted	Temporarily Restricted	Total
<b>Support and Revenue</b>			
Government grants and contracts	\$ -	\$ 3,298,047	\$ 3,298,047
Public support	33,179	-	33,179
Program income - client fees	88,751	-	88,751
Rental income	68,525	-	68,525
In-kind donations	-	206,006	206,006
Interest income	394	-	394
Other income	25,507	-	25,507
Net assets released from restrictions			
Satisfaction of program restrictions	3,504,053	(3,504,053)	-
Total support and revenue	3,720,409	-	3,720,409
<b>Expenses</b>			
Alcohol and drug rehabilitation	2,588,715	-	2,588,715
Total program services	2,588,715	-	2,588,715
Management and general	589,623	-	589,623
Fundraising	58,504	-	58,504
Total supporting services	648,127	-	648,127
Total expenses	3,236,842	-	3,236,842
Change in Net Assets	483,567	-	483,567
Net Assets, Beginning of Year	1,977,774	-	1,977,774
Net Assets, End of Year	\$ 2,461,341	\$ -	\$ 2,461,341

First Step House, Inc.  
Statement of Activities  
Year Ended June 30, 2012

	Unrestricted	Temporarily Restricted	Total
<b>Support and Revenue</b>			
Government grants and contracts	\$ -	\$ 2,960,202	\$ 2,960,202
Public support	57,626	21,407	79,033
Program income - client fees	116,734	-	116,734
Rental income	61,085	-	61,085
In-kind donations	-	125,273	125,273
Interest income	2,121	-	2,121
Other income	6,141	-	6,141
Net assets released from restrictions			
Satisfaction of program restrictions	3,106,882	(3,106,882)	-
Total support and revenue	3,350,589	-	3,350,589
<b>Expenses</b>			
Alcohol and drug rehabilitation	2,352,869	-	2,352,869
Total program services	2,352,869	-	2,352,869
Management and general	550,089	-	550,089
Fundraising	41,924	-	41,924
Total supporting services	592,013	-	592,013
Total expenses	2,944,882	-	2,944,882
Change in Net Assets	405,707	-	405,707
Net Assets, Beginning of Year	1,572,067	-	1,572,067
Net Assets, End of Year	\$ 1,977,774	\$ -	\$1,977,774

First Step House, Inc.  
Statement of Functional Expenses  
Year Ended June 30, 2013

	Program Services	Supporting Services		Total
	Alcohol and Drug Rehabilitation	Management and General	Fundraising	
Personnel	\$ 1,772,466	\$ 447,525	\$ 49,203	\$ 2,269,194
Food and kitchen supplies	197,516	10,396	-	207,912
Contract services	31,879	8,049	885	40,813
House supplies	61,960	15,222	-	77,182
Depreciation	92,272	22,668	-	114,940
Utilities	48,812	12,324	1,355	62,491
Building rent	52,121	13,160	1,447	66,728
Miscellaneous	59,284	14,969	1,645	75,898
Facilities maintenance	37,465	9,204	-	46,669
Insurance	28,016	7,074	778	35,868
Interest	25,400	6,413	705	32,518
Office supplies	22,804	5,758	633	29,195
Vehicle expense	26,850	6,779	745	34,374
Telephone	22,823	5,762	633	29,218
Travel	7,071	1,785	196	9,052
Recreation for residents	10,039	2,535	279	12,853
Direct client expenses	91,937	-	-	91,937
Total functional expenses	\$ 2,588,715	\$ 589,623	\$ 58,504	\$ 3,236,842



First Step House, Inc.  
Statement of Functional Expenses  
Year Ended June 30, 2012

	Program Services	Supporting Services		Total
	Alcohol and Drug Rehabilitation	Management and General	Fundraising	
Personnel	\$ 1,601,261	\$ 433,584	\$ 34,770	\$ 2,069,615
Food and kitchen supplies	199,199	10,484	-	209,683
Contract services	73,519	19,907	1,596	95,022
House supplies	86,406	4,548	-	90,954
Depreciation	68,076	7,564	-	75,640
Utilities	44,506	12,051	966	57,523
Building rent	44,142	11,952	958	57,052
Miscellaneous	43,655	11,821	948	56,424
Facilities maintenance	42,162	4,685	-	46,847
Insurance	25,738	6,969	559	33,266
Interest	25,046	6,782	544	32,372
Office supplies	24,723	6,694	537	31,954
Vehicle expense	20,912	5,663	454	27,029
Telephone	19,429	5,261	422	25,112
Travel	7,846	2,124	170	10,140
Recreation for residents	8,331	-	-	8,331
Direct client expenses	17,918	-	-	17,918
Total functional expenses	\$ 2,352,869	\$ 550,089	\$ 41,924	\$ 2,944,882

First Step House, Inc.  
Statements of Cash Flows  
Years Ended June 30, 2013 and 2012

	2013	2012
Operating Activities		
Change in net assets	\$ 483,567	\$ 405,707
Adjustment to reconcile change in net assets to net cash from operating activities		
Depreciation	114,940	75,640
Donated software	(84,985)	(11,986)
Changes in assets and liabilities		
Grants and contracts receivable	(64,791)	39,864
Other receivables	(2,047)	5,298
Lease deposit	-	(4,571)
Prepays	(9,422)	(29,575)
Accounts payable	13,594	(3,956)
Accrued salaries and related costs	(8,644)	15,519
Other accrued liabilities	(70,677)	117,288
Net Cash from Operating Activities	371,535	609,228
Investing Activities		
Change in certificate of deposit	-	600,371
Purchases of property and equipment	(1,279,779)	(111,064)
Net Cash from (used for) Investing Activities	(1,279,779)	489,307
Financing Activities		
Payments of long-term debt	(467,807)	(29,755)
Draws on line of credit	444,009	-
Net Cash used for Financing Activities	(23,798)	(29,755)
Net Change in Cash	(932,042)	1,068,780
Cash at Beginning of Year	1,730,463	661,683
Cash at End of Year	\$ 798,421	\$ 1,730,463
 SUPPLEMENTAL DISCLOSURES OF CASH TRANSACTIONS		
Cash paid for interest during the year	\$ 32,518	\$ 32,372
 SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Property and equipment acquired through in-kind donation	\$ 84,985	\$ 11,986

## **Note 1 - Organization and Significant Accounting Policies**

### **Operational Purpose**

First Step House, Inc. (First Step) is a nonprofit corporation organized under the laws of the State of Utah on February 14, 1958. First Step is a residential and outpatient substance abuse treatment center providing alcohol and drug rehabilitation services. First Step maintains additional facilities (apartment complexes) for clients of the outpatient treatment program in order to provide them with a sober living environment. First Step receives its funding from government grants and contracts, client fees, food stamps, and private/individual donations.

First Step's principal program is as follows:

Alcohol and drug rehabilitation - to help low/no income, often-homeless individuals, achieve long-term recovery from the dysfunctional effects of substance abuse and to return to society as meaningfully employed and responsible individuals.

### **Cash and Cash Equivalents**

First Step considers all cash and highly liquid investments with original maturities of three months or less, and which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents.

### **Contracts and Grants**

First Step receives substantial funding through federal, state, and other grants and contracts. The majority of these grants and contracts operate on contractually approved per diem rates. Generally, accounts receivable and the related revenues are recorded when the services have been provided to First Step clients.

### **Allowance for Doubtful Accounts**

First Step records an allowance for doubtful accounts based on management's estimate of accounts receivable that are not expected to be collected within one year from the balance sheet date. At June 30, 2013 and 2012, the allowance was \$3,041 and \$2,319, respectively.

### **Property and Equipment**

Property and equipment additions are recorded at acquisition cost, or if donated, at estimated market value at the date of the donation. Depreciation is computed using the straight-line method based on estimated useful lives ranging from 3 to 40 years. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any remaining gain or loss is included in the statement of activities. Costs for repairs and maintenance that do not improve or extend the useful lives of the respective assets are charged to expense as incurred.

First Step reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended June 30, 2013.

## **Net Assets**

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

Unrestricted Net Assets – Net assets available for use in general operations. Assets designated by the Board of Directors for a specific purpose also are accounted for in this fund.

Temporarily Restricted Net Assets – Net assets subject to donor restrictions that may or will be met by expenditures or actions of First Step.

Permanently Restricted – Net assets whose use is limited by donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by the action of First Step.

## **Contributions**

Contributions are recorded as revenue when cash is received or First Step receives an unconditional promise to give from the donor. All contributions are available for unrestricted use unless specifically restricted by the donor.

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and change in net assets as net assets released from restrictions.

## **Donated Property and Equipment**

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose.

## **Donated Services and In-Kind Contributions**

Volunteers contribute significant amounts of time to First Step's program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. First Step records donated professional services at the respective fair values of the services received.

## **Advertising Costs**

Advertising costs are expensed as incurred and approximated \$1,300 and \$0 for the years ended June 31, 2013 and 2012 respectively.

## **Income Taxes**

First Step is organized as a Utah nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3), qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and (viii), and has been determined not to be a private foundation under Sections 509(a)(1) and (3), respectively. First Step is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, First Step is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose. First Step has determined it is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

First Step believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. First Step would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

## **Functional Expenses**

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

## **Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and those differences could be material.

## **Financial Instruments and Credit Risk**

First Step manages deposit concentration risk by placing cash, money market accounts, and certificates of deposit with financial institutions believed by management to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, First Step has not experienced losses in any of these accounts. Credit risk associated with grants and contracts receivable is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from governmental agencies supportive of First Step's mission.

## **Reclassifications**

Certain reclassifications of amounts previously reported have been made to the accompanying consolidated financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

## **Subsequent Events**

Management has made an evaluation of subsequent events through October 18, 2013, the date on which the financial statements were available to be issued.

**Note 2 - Grants and Contracts Receivable**

Grants and contracts receivable consist of the following at June 30:

	2013	2012
Salt Lake County	\$ 155,468	\$ 131,918
Veterans Administration	148,694	105,887
ATR Recovery Support	15,992	2,347
Other	9,640	24,851
	\$ 329,794	\$ 265,003

**Note 3 - Property and Equipment**

Property and equipment consists of the following at June 30:

	2013	2012
Land	\$ 248,894	\$ 248,894
Buildings and improvements	1,251,432	1,223,948
Construction in progress (including land)	1,218,219	-
Furniture and equipment	475,386	356,325
Vehicles	66,601	81,601
	3,260,532	1,910,768
Less accumulated depreciation	(1,099,131)	(999,191)
	\$ 2,161,401	\$ 911,577

**Note 4 - Lease Commitments**

First Step leases office space and equipment under various operating leases expiring at various dates through 2018.

Future minimum payments under the operating leases are as follows:

<u>Year ending June 30,</u>		
2014	\$	77,715
2015		74,245
2016		14,556
2017		3,238
2018		3,238
Thereafter		<u>779</u>
	\$	<u><u>173,771</u></u>

Total rent expense for the years ended June 30, 2013 and 2012 totaled \$78,419 and \$67,820, respectively.

**Note 5 - Retirement Plan**

First Step has established a defined contribution retirement plan (the Plan) for the benefit of its employees. Contributions to the Plan are determined by the Board of Directors. An employee must meet certain eligibility requirements in order to participate in the Plan. During the years ended June 30, 2013 and 2012, First Step did not make any matching contributions to the Plan.

**Note 6 - Donated Professional Services and Materials**

First Step received donated professional services and materials of \$121,021 and \$113,287 during the years ended June 30, 2013 and 2012, respectively. Donated materials primarily represent the donation of food and beverages to provide meals to the recipients of First Step's services.

**Note 7 - Donated Property and Equipment**

During the years ended June 30, 2013 and 2012, donated computer equipment reflected in the statement of activities totaled \$84,985 and \$11,986, respectively.

**Note 8 - Concentrations**

The majority of First Step's grant and contract revenues are provided through Salt Lake County and the Veterans Administration. A loss of support from these grants and contracts would have a materially adverse effect on First Step operations.

**Note 9 - Line of Credit**

During the year ended June 30, 2013, First Step entered into a \$600,000 revolving line of credit with a bank, secured by property. Borrowings under the line bear interest at Libor plus 3% (3.273% at June 30, 2013.) First Step makes monthly interest payments. Outstanding principal is due at maturity (July 15, 2015). The agreement requires First Step to comply with certain financial and non-financial covenants. The outstanding line of credit balance at June 30, 2013 was \$444,009.

**Note 10 - Long-Term Debt**

Long-term debt consists of the following at June 30:

	2013	2012
Mortgage note payable, monthly principal and interest payments of \$1,810, interest at 6.75 percent, secured by property.	\$ -	\$ 166,619
Note payable, monthly principal and interest payments of \$453, interest at 5.00 percent, secured by equipment.	-	18,769
Mortgage note payable, monthly principal payments of \$200, non-interest bearing, due October 1, 2027, secured by property.	133,070	135,470
Mortgage note payable, monthly principal and interest payments of \$563, interest at 6.50 percent, secured by property.	-	54,410
Mortgage note payable, monthly principal and interest payments of \$804, interest at 6.50 percent, secured by property.	-	77,625
Mortgage note payable, monthly principal and interest payments of \$1,346, interest at 7.10 percent, secured by property.	-	147,984
	133,070	600,877
Less current portion	(2,400)	(187,656)
	\$ 130,670	\$ 413,221



Future maturities of mortgage payable are as follows:

<u>Year ending June 30.</u>	
2014	\$ 2,400
2015	2,400
2016	2,400
2017	2,400
2018	2,400
Thereafter	<u>121,070</u>
	<u>\$ 133,070</u>



Additional Information

June 30, 2013

**First Step House, Inc.**

First Step House, Inc.  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2013

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Expenditures</u>
<u>United States Department of Veteran Affairs</u>		
Veterans Administration*	64.024	\$ 738,279
Veterans Administration*	64.024	241,404
Veterans Administration*	64.024	122,748
Veterans Administration*	64.024	<u>81,128</u>
		1,183,559
<u>United States Department of Housing and Urban Development</u>		
Volunteers of America	14.235	<u>27,534</u>
		<u>\$ 1,211,093</u>

\* - denotes major program

**Note 1    Basis of Presentation**

The schedule of expenditures of federal awards includes the federal grant activity of First Step House, Inc. (First Step) under programs of the federal government for the year ended June 30, 2013. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of First Step, it is not intended to and does not present the financial position, changes in net assets or cash flows of First Step.

**Note 2    Summary of Significant Accounting Policies**

Expenditures reported on the schedule of expenditures of federal awards are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**Note 3    Sub-Recipients**

First Step did not provide federal awards to sub-recipients.



CPAs & BUSINESS ADVISORS

**Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

To the Board of Directors and Management of  
First Step House, Inc.  
Salt Lake City, Utah

We have audited, 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, the financial statements of First Step House, Inc., which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 18, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered First Step House, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of First Step House, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of First Step House 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies that we consider to be material weaknesses. However, material weaknesses may exist that have not yet been identified. We did identify deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies (See 2013-1).

## **Compliance and Other Matters**

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

### **First Step House Inc.'s Response to Findings**

First Step House Inc.'s response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. First Step House Inc.'s response was not subjected to the auditing 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 the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP".

Salt Lake City, Utah  
October 18, 2013



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

The Board of Directors  
First Step House, Inc.  
Salt Lake City, Utah

### **Report on Compliance for Each Major Federal Program**

We have audited First Step House, Inc.'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of First Step House Inc.'s major federal programs for the year ended June 30, 2013. First Step House, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### **Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on the compliance for each of First Step House, Inc.'s major federal 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; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about First Step House, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

### **Opinion on Each Major Federal Program**

In our opinion, First Step House, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2013.

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

Management of First Step House, Inc. is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered First Step House, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal 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 program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 the First Step House, 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 program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement 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 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 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 and significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2013-A that we consider to be significant deficiencies.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Salt Lake City, Utah  
October 18, 2013



**Summary of Auditors' Results**

- i. The auditor's report expresses an unqualified opinion on the financial statements of First Step House, Inc.
- ii. Two significant deficiencies in internal control over the financial statements are disclosed as a result of the audit of the financial statements.
- iii. No instances of noncompliance material to the financial statements of the Organization, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
- iv. We reported no significant deficiencies or material weaknesses in internal controls over major federal award programs disclosed during the audit of the financial statements.
- v. The auditor issued an unqualified opinion on compliance with requirements applicable to each major program.
- vi. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
- vii. Major programs consist of:

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Expenditures
United States Department of Veteran Affairs Veterans Administration Alcohol and Drug Rehabilitation	64.024	\$1,183,559

- viii. The Organization had one Type A program for the year ended June 30, 2013. The dollar threshold to distinguish Type A and Type B programs was \$300,000.
- ix. The Organization did not qualify as a low risk auditee under paragraph .530 of OMB Circular A-133.

**Audit Findings – Financial Statement Audit – Internal Controls**

**2013-1**

**Preparation of Financial Statements**

**Criteria:**

First Step House, Inc. should have an internal control system in place designed to provide for the preparation of the financial statements being audited. This includes proper reporting under the requirements of generally accepted accounting principles and the ability to prepare the required footnote disclosures.

**Condition:**

First Step House, Inc. does not have an internal control system designed to provide for the preparation of the financial statements and related financial statement disclosures being audited. In conjunction with the completion of our audit, we were requested to draft the financial statements and accompanying notes to those financial statements. Although this circumstance is not unusual for an organization of its size, the absence of controls over the preparation of financial statements increases the possibility that a misstatement of the financial statements could occur and not be prevented, or detected and corrected, by the entity's internal controls.

**Effect:**

Management requested the auditing firm's assistance in preparing the financial statements in accordance with generally accepted accounting principles.

**Cause:**

First Step House, Inc. has not fully implemented an internal control structure that encompasses financial reporting in accordance with Generally Accepted Accounting Standards.

**Recommendation:**

We recommend management, and those charged with governance, annually consider implementing a control system which would allow for the internal preparation of financial statements and the related disclosures.

**Response and Action Plan of Management:**

The Board of Directors and the Organization's management determined that it was more efficient to request the auditor's assistance in drafting the financial statements. Management assisted in the preparation of the financial statements, and the Board of Directors and management take responsibility for the financial statements, including reviewing, overseeing and approving the final issued financial statements. Management and the Board of Directors believe that their involvement in the financial statement drafting process is substantial and adequate to ensure that financial statements are in accordance with Generally Accepted Accounting Standards.

**Findings and Questioned Costs - Major Federal Award Programs Audit**

**2013-A**

**Employee Time Card Approval**

**Criteria:**

First Step House, Inc. should have policies and procedures in place to ensure employee time cards are being reviewed and approved by a department manager or the Executive Director.

**Condition:**

We selected 20 individual time cards to determine if the timecards were being appropriately approved in compliance with First Step House, Inc.'s policies and procedures. Six of the time cards selected did not have the manager's signature indicating approval of the timecard.

**Effect:**

The potential effect of this internal control breakdown is the potential of payroll overpayments to employees.

**Cause:**

The Organization's established policy related to payroll time card approval was not being consistently followed.

**Recommendation:**

First Step House, Inc. should adhere to the policy of requiring a manager's signature on each employee's timecard as evidence of the review and approval process.

**Response and Action Plan of Management:**

Management agrees with the recommendation, and in fact, management identified this deficiency during the year and implemented procedures for compliance with the policy requiring a manager's signature on employee timecards prior to the June 30, 2013 audit examination.

**Findings and Questioned Costs – Major Federal Awards Programs Audit**

<u>Ref</u>	<u>Finding</u>
2012-1	<p><b><u>Internal Control over Compliance - Monitoring of Client Records</u></b></p> <p><u>Condition</u> We noted various instances where required documentation was missing from the client record or the documentation was insufficient. While none of the instances are individually considered a material matter of non-compliance, they collectively demonstrate a compliance monitoring weakness.</p> <p><u>Recommendation</u> The Organization should implement policies and procedures to ensure client records contain the required documentation. This could be achieved by using checklists to ensure that all required information is obtained upon client intake. Additionally, more frequent client record reviews would help to ensure appropriate documentation is maintained.</p> <p><u>Current Status</u> This finding is resolved.</p>

**Findings and Questioned Costs - Financial Statement Audit**

<u>Ref</u>	<u>Finding</u>
	No findings in prior year.