



Financial Statements
June 30, 2014 and 2013
First Step House

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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., which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities, functional expenses, and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements.

The schedule of expenditures of federal award 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. Such 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 expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements taken as a whole

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2014, on our consideration of First Step House'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's internal control over financial reporting and compliance.



Salt Lake City, Utah
November 20, 2014

First Step House
Statements of Financial Position
June 30, 2014 and 2013

	2014	2013
Assets		
Current Assets		
Cash	\$ 776,787	\$ 798,421
Grants and contracts receivable	382,337	329,794
Other receivables, net of allowance of \$2,325 and \$3,041 in 2014 and 2013	10,826	8,785
Prepaid expenses and other assets	64,572	71,196
Total current assets	1,234,522	1,208,196
Cash restricted to building project	64,896	-
Deposits	5,659	5,659
Property and Equipment, net	2,257,976	2,161,401
	\$ 3,563,053	\$ 3,375,256
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 19,618	\$ 32,664
Accrued salaries and related costs	80,391	80,053
Accrued expenses	199,334	224,119
Current portion of long-term debt	2,400	2,400
Total current liabilities	301,743	339,236
Long-Term Liabilities		
Line of credit	444,009	444,009
Long-term debt, less current portion	127,817	130,670
Total long-term liabilities	571,826	574,679
Net Assets		
Unrestricted	2,624,588	2,461,341
Temporarily Restricted	64,896	-
Total net assets	2,689,484	2,461,341
	\$ 3,563,053	\$ 3,375,256

First Step House
Statement of Activities
Year ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and Revenue			
Government grants and contracts	\$ -	\$ 3,184,432	\$ 3,184,432
Public support	31,301	64,896	96,197
Program income - client fees	120,371	-	120,371
Rental income	68,385	-	68,385
In-kind donations	-	108,573	108,573
Interest income	519	-	519
Other income	537	-	537
Net assets released from restrictions			
Satisfaction of program restrictions	3,293,005	(3,293,005)	-
Total support and revenue	<u>3,514,118</u>	<u>64,896</u>	<u>3,579,014</u>
Expenses			
Alcohol and drug rehabilitation	<u>2,647,041</u>	<u>-</u>	<u>2,647,041</u>
Total program services	<u>2,647,041</u>	<u>-</u>	<u>2,647,041</u>
Management and general	629,551	-	629,551
Fundraising	74,279	-	74,279
Total supporting services	<u>703,830</u>	<u>-</u>	<u>703,830</u>
Total expenses	<u>3,350,871</u>	<u>-</u>	<u>3,350,871</u>
Change in Net Assets	163,247	64,896	228,143
Net Assets, Beginning of Year	<u>2,461,341</u>	<u>-</u>	<u>2,461,341</u>
Net Assets, End of Year	<u>\$ 2,624,588</u>	<u>\$ 64,896</u>	<u>\$ 2,689,484</u>

First Step House
Statement of Activities
Year Ended June 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and Revenue			
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	<u>3,720,409</u>	<u>-</u>	<u>3,720,409</u>
Expenses			
Alcohol and drug rehabilitation	<u>2,588,715</u>	<u>-</u>	<u>2,588,715</u>
Total program services	<u>2,588,715</u>	<u>-</u>	<u>2,588,715</u>
Management and general	589,623	-	589,623
Fundraising	<u>58,504</u>	<u>-</u>	<u>58,504</u>
Total supporting services	<u>648,127</u>	<u>-</u>	<u>592,013</u>
Total expenses	<u>3,236,842</u>	<u>-</u>	<u>3,236,842</u>
Change in Net Assets	483,567	-	483,567
Net Assets, Beginning of Year	<u>1,977,774</u>	<u>-</u>	<u>1,977,774</u>
Net Assets, End of Year	<u>\$ 2,461,341</u>	<u>\$ -</u>	<u>\$ 2,461,341</u>

First Step House
Statement of Functional Expenses
Year Ended June 30, 2014

	Program Services	Supporting Services		Total
	Alcohol and Drug Rehabilitation	Management and General	Fundraising	
Personnel	\$ 1,868,642	\$ 471,808	\$ 51,873	\$ 2,392,323
Food and kitchen supplies	179,570	9,451	-	189,021
Contract services	62,735	15,840	1,742	80,317
House supplies	44,117	10,838	-	54,955
Depreciation	102,746	25,242	-	127,988
Utilities	50,618	12,780	1,405	64,803
Building rent	53,342	13,468	1,481	68,291
Miscellaneous	53,044	13,392	1,472	67,908
Events	6,629	-	6,629	13,258
Marketing & advertising	-	-	4,347	4,347
Facilities maintenance	33,541	8,240	-	41,781
Insurance	29,914	7,553	830	38,297
Interest	11,400	2,878	316	14,594
Office supplies	18,052	4,558	501	23,111
Vehicle expense	23,323	5,889	647	29,859
Telephone	25,327	6,395	703	32,425
Travel	8,527	2,153	237	10,917
Recreation for residents	11,881	3,000	330	15,211
Reimbursable expenses ATR	63,633	16,066	1,766	81,465
Total functional expenses	\$ 2,647,041	\$ 629,551	\$ 74,279	\$ 3,350,871

First Step House
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
Statements of Cash Flows
Years Ended June 30, 2014 and 2013

	2014	2013
Operating Activities		
Change in net assets	\$ 228,143	\$ 483,567
Adjustment to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	127,988	114,940
Donated software	-	(84,985)
Contributions restricted to building project	(64,896)	-
Changes in assets and liabilities		
Grants and contracts receivable	(52,543)	(64,791)
Other receivables	(2,041)	(2,047)
Prepays	6,624	(9,422)
Accounts payable	(13,046)	13,594
Accrued salaries and related costs	338	(8,644)
Other accrued liabilities	(24,785)	(70,677)
Net Cash from Operating Activities	205,782	371,535
Investing Activities		
Purchases of property and equipment	(224,563)	(1,279,779)
Addition to cash restricted to building project	(64,896)	-
Net Cash used for Investing Activities	(289,459)	(1,279,779)
Financing Activities		
Payments of long-term debt	(2,853)	(467,807)
Draws on line of credit	-	444,009
Collections of contributions restricted to building project	64,896	-
Net Cash from (used for) Financing Activities	62,043	(23,798)
Net Change in Cash	(21,634)	(932,042)
Cash at Beginning of Year	798,421	1,730,463
Cash at End of Year	\$ 776,787	\$ 798,421
Supplemental Disclosures of Cash Transactions		
Cash paid for interest during the year	\$ 14,594	\$ 32,518
Supplemental Disclosures of Noncash Investing and Financing Activities		
Property and equipment acquired through in-kind donation	\$ -	\$ 84,985

Note 1 - Organization and Significant Accounting Policies

Operational Purpose

First Step House (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 use disorder treatment center. First Step maintains additional facilities (apartment complexes) to provide their clients with a living environment that is conducive to recovery. First Step receives its funding from government grants and contracts, client fees, and private and individual donations.

First Step's principal program is as follows:

Substance use disorder treatment and transitional housing – to help build lives of meaning, purpose, and recovery.

Cash

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. Cash and highly liquid financial instruments restricted to the building project are excluded from this definition.

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, 2014 and 2013, the allowance was \$2,325 and \$3,041, 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 years ended June 30, 2014 or 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. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met. At June 30, 2014, there is one conditional promise to give totaling \$158,000 for kitchen equipment in connection with the building remodel project.

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 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 \$4,300 and \$1,300 for the years ended June 30, 2014 and 2013 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.

Subsequent Events

Management has made an evaluation of subsequent events through November 20, 2014, 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:

	2014	2013
Salt Lake County	\$ 129,140	\$ 155,468
Veterans Administration	227,978	148,694
ATR Recovery Support	13,699	15,992
Other	11,520	9,640
	\$ 382,337	\$ 329,794

Note 3 - Property and Equipment

Property and equipment consists of the following at June 30:

	2014	2013
Land	\$ 248,894	\$ 248,894
Buildings and improvements	1,251,264	1,251,432
Construction in progress (including land)	1,417,921	1,218,219
Furniture and equipment	500,415	475,386
Vehicles	66,601	66,601
	3,485,095	3,260,532
Less accumulated depreciation	(1,227,119)	(1,099,131)
	\$ 2,257,976	\$ 2,161,401

Depreciation expense totaled \$127,988 and \$114,940 for the years ended June 30, 2014 and 2013, respectively.

Construction in progress represents costs incurred for the purchase of a building that is being remodeled and will be used as a residential treatment and transitional housing facility that is expected to be completed in 2015.

Note 4 - Lease Commitments

First Step leases office space and equipment under various operating leases expiring at various dates through 2019.

Future minimum payments under the operating leases are as follows:

<u>Year ending June 30,</u>	
2015	\$ 75,837
2016	15,961
2017	4,643
2018	1,964
2019	<u>360</u>
	<u><u>\$ 98,765</u></u>

Total rent expense for the years ended June 30, 2014 and 2013 totaled \$80,005 and \$78,419, 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, 2014 and 2013, 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 \$108,573 and \$121,021 during the years ended June 30, 2014 and 2013, 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, 2014 and 2013, donated computer equipment reflected in the statement of activities totaled \$0 and \$84,985, 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

First Step has a \$600,000 revolving line of credit with a bank, secured by property and equipment. Borrowings under the line bear interest at Libor plus 3% (3.23% at June 30, 2014.) 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, 2014 and 2013 was \$444,009.

Note 10 - Long-Term Debt

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

	2014	2013
Mortgage note payable, monthly principal payments of \$200, non-interest bearing, due October 1, 2027, secured by property.	\$ 130,217	\$ 133,070
	130,217	133,070
Less current portion	(2,400)	(2,400)
	\$ 127,817	\$ 130,670

Future maturities of mortgage payable are as follows:

Year ending June 30,	
2015	\$ 2,400
2016	2,400
2017	2,400
2018	2,400
2019	2,400
Thereafter	118,217
	\$ 130,217

Note 11 - Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2014 consist of \$64,896 restricted for the purpose of the building project. There were no temporarily restricted net assets at June 30, 2013.



Additional Information
June 30, 2014

First Step House, Inc.

First Step House
 Schedule of Expenditures of Federal Awards
 Year Ended June 30, 2014

<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	\$ 688,546
Veterans Administration*	64.024	168,939
Veterans Administration*	64.024	87,077
Veterans Administration*	64.024	<u>240,519</u>
		<u><u>1,185,081</u></u>

* - denotes major program

Note 1 - Basis of Presentation

The accompanying schedule of federal expenditures of federal awards includes the federal grant activity of First Step House, Inc., and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*.

Note 2 - Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The First Step House's summary of significant accounting policies is presented in Note 1 in the First Step House's basic financial statements.



**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, 2014, 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 November 20, 2014.

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 a deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency (See 2014-1).

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 Finding

First Step House Inc.'s response to the finding identified in our audit is 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
November 20, 2014



Independent Auditor's Report on Compliance for Its Major Federal Program and on Internal Control Over Compliance Required by OMB Circular A-133

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

Report on Compliance for Its 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 First Step House Inc.'s major federal program for the year ended June 30, 2014. First Step House, Inc.'s major federal program is 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 First Step House, Inc.'s major federal program 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 its major federal program. However, our audit does not provide a legal determination of First Step House, Inc.'s compliance.

Opinion on Its 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 its major Federal program for the year ended June 30, 2014.

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 its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Eide Bailly LLP

Salt Lake City, Utah
November 20, 2014

Section I – Summary of Auditor’s Results

FINANCIAL STATEMENTS

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	Yes
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major program:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None Reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133 §.510(a):	No

Identification of major programs:

<u>Name of Federal Program</u>	<u>CFDA Number</u>
United States Department of Veteran Affairs Alcohol and Drug Rehabilitation	64.024
Dollar threshold used to distinguish between type A and type B programs:	\$ 300,000
Auditee qualified as low-risk auditee?	Yes

Section II – Financial Statement Findings

2014-1

**Preparation of Financial Statements
Significant Deficiency**

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.

Cause:

First Step House, Inc. has not fully implemented an internal control structure that encompasses financial reporting in accordance with generally accepted accounting principles.

Effect:

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.

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.

Management Response and Corrective Plan:

The Board of Directors and First Step House'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 principles.

Section III – Federal Award Findings and Questioned Costs

None.

2013-A **CFDA # 64.024**
Alcohol and Drug Rehabilitation

Employee Time Card Approval
Significant Deficiency

Finding

We noted various instances where individual timecards were not being appropriately approved in compliance with First Step House's policies and procedures, which means they are reviewed and approved by a department manager or the Executive Director.

Status

This finding is resolved.