



Financial Statements  
June 30, 2015 and 2014  
**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., which comprise the statements of financial position as of June 30, 2015 and 2014, 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, 2015 and 2014, 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 October 13, 2015, 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 13, 2015

First Step House, Inc.  
Statements of Financial Position  
June 30, 2015 and 2014

	2015	2014
<b>Assets</b>		
<b>Current Assets</b>		
Cash	\$ 934,772	\$ 776,787
Grants and contracts receivable	587,646	382,337
Accounts receivable, net of allowance of \$1,956 and \$2,325 in 2015 and 2014	10,008	10,826
Prepaid expenses and other assets	38,136	64,572
Total current assets	1,570,562	1,234,522
Cash restricted to building project	-	64,896
Deposits	5,659	5,659
Property and Equipment, net	4,020,466	2,257,976
	\$ 5,596,687	\$ 3,563,053
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 39,414	\$ 19,618
Construction costs payable	460,701	-
Accrued salaries and related costs	92,805	80,391
Accrued expenses	260,853	199,334
Current portion of long-term debt	7,580	2,400
Total current liabilities	861,353	301,743
<b>Long-term Liabilities</b>		
Line of credit	444,009	444,009
Long-term debt, less current portion	1,316,612	127,817
Total liabilities	2,621,974	873,569
<b>Net Assets</b>		
Unrestricted	2,843,919	2,624,588
Temporarily restricted	130,794	64,896
Total net assets	2,974,713	2,689,484
	\$ 5,596,687	\$ 3,563,053

First Step House, Inc.  
Statement of Activities  
Year Ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Support and Revenue</b>			
Government grants and contracts	\$ 3,150,722	\$ -	\$ 3,150,722
Public support	111,517	130,794	242,311
Program income - client fees	120,336	-	120,336
Rental income	67,742	-	67,742
In-kind donations	157,498	-	157,498
Interest income	354	-	354
Other income	1,856	-	1,856
Net assets released from restrictions			
Satisfaction of program restrictions	64,896	(64,896)	-
<b>Total support and revenue</b>	<u>3,674,921</u>	<u>65,898</u>	<u>3,740,819</u>
<b>Expenses</b>			
Program Services			
Alcohol and drug rehabilitation	2,732,498	-	2,732,498
<b>Total program services</b>	<u>2,732,498</u>	<u>-</u>	<u>2,732,498</u>
Supporting Services			
Management and general	647,347	-	647,347
Fundraising	75,745	-	75,745
<b>Total supporting services</b>	<u>723,092</u>	<u>-</u>	<u>723,092</u>
<b>Total expenses</b>	<u>3,455,590</u>	<u>-</u>	<u>3,455,590</u>
Change in Net Assets	219,331	65,898	285,229
Net Assets, Beginning of Year	2,624,588	64,896	2,689,484
Net Assets, End of Year	<u>\$ 2,843,919</u>	<u>\$ 130,794</u>	<u>\$ 2,974,713</u>

First Step House, Inc.  
Statement of Activities  
Year Ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Support and Revenue</b>			
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	-	-	-
	<u>3,514,118</u>	<u>64,896</u>	<u>3,579,014</u>
<b>Expenses</b>			
<b>Program Services</b>			
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>
<b>Supporting Services</b>			
Management and general	629,551	-	629,551
Fundraising	<u>74,279</u>	<u>-</u>	<u>74,279</u>
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, Inc.  
Statement of Functional Expenses  
Year Ended June 30, 2015

	Program Services	Supporting Services		Total
	Alcohol and Drug Rehabilitation	Management and General	Fundraising	
Personnel	\$ 1,962,303	\$ 495,456	\$ 54,473	\$ 2,512,232
Food and kitchen supplies	177,294	9,331	-	186,625
Contract services	89,518	22,602	2,485	114,605
House supplies	40,514	9,953	-	50,467
Depreciation	82,461	20,258	-	102,719
Utilities	48,618	12,275	1,350	62,243
Building rent	54,766	13,828	1,520	70,114
Miscellaneous	62,187	15,701	1,726	79,614
Events	4,080	-	4,079	8,159
Marketing and advertising	-	-	6,025	6,025
Facilities maintenance	43,846	10,772	-	54,618
Insurance	29,748	7,511	826	38,085
Interest	11,437	2,889	317	14,643
Office supplies	44,713	11,289	1,241	57,243
Vehicle expense	18,971	4,790	527	24,288
Telephone	25,720	6,494	714	32,928
Travel	7,157	1,807	199	9,163
Recreation for residents	9,471	2,391	263	12,125
Reimbursable expenses ATR	19,694	-	-	19,694
Total functional expenses	\$ 2,732,498	\$ 647,347	\$ 75,745	\$ 3,455,590

First Step House, Inc.  
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 and 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
	\$ 2,647,041	\$ 629,551	\$ 74,279	\$ 3,350,871

First Step House, Inc.  
Statements of Cash Flows  
Years Ended June 30, 2015 and 2014

	2015	2014
Operating Activities		
Change in net assets	\$ 285,229	\$ 228,143
Adjustment to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	102,719	127,988
Donated property and equipment	(18,875)	-
Contributions restricted to building project	-	(64,896)
Loss on disposal of property and equipment	3,466	-
Changes in assets and liabilities		
Grants and contracts receivable	(205,309)	(52,543)
Accounts receivable	818	(2,041)
Prepays	26,436	6,624
Accounts payable	19,796	(13,046)
Accrued salaries and related costs	12,414	338
Other accrued liabilities	61,519	(24,785)
Net Cash from Operating Activities	288,213	205,782
Investing Activities		
Purchases of property and equipment	(1,389,099)	(224,563)
Addition to cash restricted to building project	64,896	(64,896)
Net Cash used for Investing Activities	(1,324,203)	(289,459)
Financing Activities		
Payments of long-term debt	(2,400)	(2,853)
Proceeds from issuance of long-term debt	1,196,375	-
Collections of contributions restricted to building project	-	64,896
Net Cash from Financing Activities	1,193,975	62,043
Net Change in Cash	157,985	(21,634)
Cash, Beginning of Year	776,787	798,421
Cash, End of Year	\$ 934,772	\$ 776,787
Supplemental Disclosures of Cash Transactions		
Cash paid for interest during the year	\$ 14,643	\$ 14,594
Supplemental Disclosures of Noncash Investing and Financing Activities		
Property and equipment acquired through in-kind donation	\$ 18,875	\$ -
Property and equipment purchases included in construction costs payable	460,701	-
	\$ 479,576	\$ -
	\$ -	\$ -

See Notes to Financial Statements

## **Note 1 - Principal Activity and Significant Accounting Policies**

### **Organization**

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 fee for service and per diem rates. Generally, accounts receivable and the related revenues are recorded when the services have been provided to First Step clients.

### **Receivables and Credit Policies**

Accounts receivable consist primarily of noninterest-bearing amounts due for programs services. 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, 2015 and 2014, the allowance was \$1,956 and \$2,325, 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 statements 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, 2015 or 2014.

## **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. Unrestricted board-designated net assets consist of net assets designated by the Board of Directors for operating reserve and quasi-endowment.

*Temporarily Restricted Net Assets* – Net assets subject to donor restrictions that may or will be met by expenditures or actions of First Step and/or the passage of time, and certain income earned on permanently restricted net assets that has not yet been appropriated for expenditure by First Step's Board of Directors.

First Step reports contributions restricted by donors as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

*Permanently Restricted Net Assets* – 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 action of First Step. The restrictions stipulate that resources be maintained permanently but permit First Step to expend the income generated in accordance with the provisions of the agreements.

## **Revenue and Revenue Recognition**

Revenue is recognized when earned. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

## **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 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 totaled \$6,025 and \$4,347 for the years ended June 30, 2015 and 2014 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 October 13, 2015, 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:

	2015	2014
Salt Lake County	\$ 136,711	\$ 129,140
Veterans Administration	311,970	227,978
ATR Recovery Support	1,866	13,699
Temporary Assistance to Needy Families	131,969	-
Other	5,130	11,520
	\$ 587,646	\$ 382,337

**Note 3 - Property and Equipment**

Property and equipment consists of the following at June 30:

	2015	2014
Land	\$ 248,894	\$ 248,894
Buildings and improvements	1,264,857	1,251,264
Construction in progress (including purchased land and building)	3,160,529	1,417,921
Furniture and equipment	333,073	500,415
Vehicles	55,612	66,601
Software and other	58,252	-
	5,121,217	3,485,095
Less accumulated depreciation	(1,100,751)	(1,227,119)
	\$ 4,020,466	\$ 2,257,976

Depreciation expense totaled \$102,719 and \$127,988 for the years ended June 30, 2015 and 2014, respectively.

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

**Note 4 - Lease Commitments**

First Step leases office space and equipment under various operating leases expiring at various dates through 2020.

Future minimum payments under the operating leases are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2016	\$ 25,681
2017	14,363
2018	14,143
2019	10,080
2020	4,860
	<u>\$ 69,127</u>

Total rent expense for the years ended June 30, 2015 and 2014 totaled \$81,200 and \$80,005, respectively.

**Note 5 - Donated Materials**

First Step received donated materials of \$138,623 and \$108,573 during the years ended June 30, 2015 and 2014, respectively. Donated materials represent primarily the donation of food and beverages to provide meals to the recipients of First Step's services.

**Note 6 - Donated Property and Equipment**

First Step recorded donated software totaling \$18,875 and \$0 during the years ended June 30, 2015 and 2014, respectively.

**Note 7 - 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 8 - 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% (3.28% and 3.23% as of June 30, 2015 and 2014, respectively). 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, 2015 and 2014 was \$444,009.

**Note 9 - Long-Term Debt**

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

	2015	2014
Note payable to the State of Utah, due in monthly installments of \$2,108, beginning January 2016 through December 2045, interest at 3%, secured by property	\$ 495,000	\$ -
Note payable to Salt Lake City Corporation, due in monthly installments of \$2,466, beginning November 2017 through October 2044, interest at 1%, secured by property	700,000	-
Construction note payable to Zions Bank, in the amount up to \$2,580,000, interest only payments through maturity in November 2015, interest calculated using the 90 day LIBOR rate plus 4%, secured by property	1,375	-
Mortgage note payable to Salt Lake City, monthly principal payments of \$200, non-interest bearing, due October 1, 2027, secured by property.	127,817	130,217
	1,324,192	130,217
Less current portion	(7,580)	(2,400)
	\$ 1,316,612	\$ 127,817

Future maturities of mortgage payable are as follows:

Year ending June 30,	Amount
2016	\$ 7,580
2017	12,997
2018	28,425
2019	36,501
2020	37,072
Thereafter	1,201,617
	\$ 1,324,192

**Note 10 - Temporarily Restricted Net Assets**

Temporarily restricted net assets consist of the following at June 30:

	2015	2014
Computer equipment and software	\$ 93,800	\$ -
Clinical services	24,494	-
Transitional housing renovations	5,000	-
Furniture	5,000	-
Building construction project	2,500	64,896
	\$ 130,794	\$ 64,896

**Note 11 - Employee Benefits**

During the year ended June 30, 2015, First Step began sponsoring a qualified defined contribution plan (the Plan) under Section 401(k) of the Internal Revenue Code covering substantially all full-time employees. The Plan provides that employees who have completed six months of service can voluntarily contribute from 0% to 100% of their earnings to the Plan, up to the maximum contribution allowed by the IRS. Employer contributions are discretionary and are determined and authorized by the Board of Directors each plan year. During the year ended June 30, 2015, First Step matched employee voluntary contributions of up to 2%, resulting in contributions to the Plan of \$9,248.

**Note 12 - Commitments and Contingencies**

First Step entered into a construction contract with Kier Construction Corporation (Kier) on September 2, 2014 to construct new offices and a residential facility. The total construction contract is \$3,127,226, subject to additions and deductions provided in the contract. At June 30, 2015, \$1,594,924 had been completed on the contract.

Kier, as the general contractor on the construction project, has a contract with a subcontractor (Subcontractor). Due to a dispute, Kier terminated this subcontract. Subcontractor subsequently filed a construction lien against property owned by First Step. The lien totals approximately \$36,000. Under the contract between the First Step and Kier, Kier has assumed all liability relative to this matter, however at June 30, 2015, there is a lien against First Step property.

First Step is subject to the usual contingencies in the normal course of operations relating to the performance of its tasks under its various programs. During the year ended June 30, 2015 a former employee submitted a claim to the Department of Labor related to alleged discrimination. Management disagrees with the claim and intends to defend itself in this matter. Management does not believe that the ultimate settlement of this claim will have a material adverse effect on First Step.



Additional Information  
June 30, 2015

**First Step House, Inc.**



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, 2015, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 13, 2015.

**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 in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not yet been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs, that we consider to be a significant deficiency (2015-A).

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether First Step House, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of 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 finding identified in our audit is described in the accompanying schedule of findings and questioned cost. 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 13, 2015



## **Independent Auditor's Report on Compliance for Its Major Federal Program and Report 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, 2015. 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, 2015.

## **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  
October 13, 2015

First Step House, Inc.  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2015

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Expenditures
<b><u>U.S. Department of Veteran Affairs</u></b>		
VA Homeless Providers Grant and Per Diem Program*	64.024	\$ 821,070
VA Homeless Providers Grant and Per Diem Program*	64.024	106,851
VA Homeless Providers Grant and Per Diem Program*	64.024	83,620
VA Homeless Providers Grant and Per Diem Program*	64.024	22,918
VA Homeless Providers Grant and Per Diem Program*	64.024	<u>239,634</u>
<b>Total U.S. Department of Veterans Affairs</b>		<u>1,274,093</u>
<b><u>U.S. Department of Health and Human Services</u></b>		
Passed through Utah State Department of Workforce Services Temporary Assistance for Needy Families (TANF)	93.558	<u>145,072</u>
<b>Total U.S. Department of Health and Human Services</b>		<u>145,072</u>
<b><u>U.S. Department of Housing and Urban Development</u></b>		
Passed through Salt Lake City Corporation Community Development Block Grant	14.218	<u>30,270</u>
<b>Total U.S. Department of Housing and Urban Development</b>		<u>30,270</u>
<b>Total Federal Assistance</b>		<u><u>\$ 1,449,435</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, Inc.'s summary of significant accounting policies is presented in Note 1 in the First Step House, Inc.'s basic financial statements.

**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 VA Homeless Providers Grant and Per Diem Program	64.024
Dollar threshold used to distinguish between type A and type B programs	\$ 300,000
Auditee qualified as low-risk auditee?	Yes

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**Section II – Financial Statement Findings**

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**2015-A**

**Preparation of Financial Statements and Schedule of Federal Expenditures  
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 and the schedule of expenditures of federal awards (SEFA) 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 SEFA 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 SEFA and the related disclosures.

**Management Response and Corrective Plan:**

The Board of Directors and First Step House, Inc.'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.

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**Section III – Federal Award Findings and Questioned Costs**

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None.

No federal award findings reported in the prior year.