



Financial Statements
June 30, 2017 and 2016



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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of First Step House, which comprise the statements of financial position as of June 30, 2017 and 2016, 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 as of June 30, 2017 and 2016, 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 Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis 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 expenditures 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 November 16, 2017, 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 16, 2017

First Step House
Statements of Financial Position
June 30, 2017 and 2016

	2017	2016
Assets		
Current Assets		
Cash	\$ 1,817,669	\$ 934,799
Grants and contracts receivable, net of allowance of \$66,225 and \$40,546 in 2017 and 2016	898,461	969,769
Accounts receivable, net of allowance of \$4,600 and \$4,228 in 2017 and 2016	4,956	4,802
Prepaid expenses and other assets	77,768	82,602
Restricted cash	6,749	-
Total current assets	2,805,603	1,991,972
Deposits	16,287	5,659
Property and Equipment, Net	6,238,580	6,163,176
Total assets	\$ 9,060,470	\$ 8,160,807
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 84,706	\$ 28,516
Construction costs payable	15,295	62,795
Accrued salaries and related costs	135,317	114,564
Accrued expenses	374,388	339,904
Unearned revenue	220,485	-
Line of credit	-	442,752
Current maturities of long-term debt	90,884	66,109
Total current liabilities	921,075	1,054,640
Long-term debt, less current maturities	3,790,310	3,441,194
Total liabilities	4,711,385	4,495,834
Net Assets		
Unrestricted	4,196,727	3,518,448
Temporarily restricted	152,358	146,525
Total net assets	4,349,085	3,664,973
	\$ 9,060,470	\$ 8,160,807

First Step House
Statement of Activities
Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and Revenue			
Government grants and contracts	\$ 5,008,449	\$ -	\$ 5,008,449
Other grants and contracts	429,568	-	429,568
Public support	100,744	202,874	303,618
Program income - client fees	127,234	-	127,234
Rental income	53,132	-	53,132
In-kind donations	181,815	-	181,815
Interest income	390	-	390
Other income	2,751	-	2,751
Net assets released from restrictions	197,041	(197,041)	-
Total support and revenue	<u>6,101,124</u>	<u>5,833</u>	<u>6,106,957</u>
Expenses			
Program Services			
Alcohol and drug rehabilitation	4,586,797	-	4,586,797
Total program services	<u>4,586,797</u>	<u>-</u>	<u>4,586,797</u>
Supporting Services			
Management and general	580,015	-	580,015
Fundraising	226,688	-	226,688
Total supporting services	<u>806,703</u>	<u>-</u>	<u>806,703</u>
Loss on Disposal of Fixed Assets	29,345	-	29,345
Total expenses and losses	<u>5,422,845</u>	<u>-</u>	<u>5,422,845</u>
Change in Net Assets	678,279	5,833	684,112
Net Assets, Beginning of Year	<u>3,518,448</u>	<u>146,525</u>	<u>3,664,973</u>
Net Assets, End of Year	<u>\$ 4,196,727</u>	<u>\$ 152,358</u>	<u>\$ 4,349,085</u>

First Step House
Statement of Activities
Year Ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and Revenue			
Government grants and contracts	\$ 3,919,808	\$ -	\$ 3,919,808
Other grants and contracts	208,231	-	208,231
Public support	247,523	146,525	394,048
Program income - client fees	152,094	-	152,094
Rental income	49,861	-	49,861
In-kind donations	127,903	-	127,903
Interest income	369	-	369
Other income	645	-	645
Net assets released from restrictions	130,794	(130,794)	-
Total support and revenue	<u>4,837,228</u>	<u>15,731</u>	<u>4,852,959</u>
Expenses			
Program Services			
Alcohol and drug rehabilitation	3,301,196	-	3,301,196
Total program services	<u>3,301,196</u>	<u>-</u>	<u>3,301,196</u>
Supporting Services			
Management and general	783,918	-	783,918
Fundraising	77,585	-	77,585
Total supporting services	<u>861,503</u>	<u>-</u>	<u>861,503</u>
Total expenses	<u>4,162,699</u>	<u>-</u>	<u>4,162,699</u>
Change in Net Assets	674,529	15,731	690,260
Net Assets, Beginning of Year	2,843,919	130,794	2,974,713
Net Assets, End of Year	<u>\$ 3,518,448</u>	<u>\$ 146,525</u>	<u>\$ 3,664,973</u>

First Step House
Statement of Functional Expenses
Year Ended June 30, 2017

	Program Services	Supporting Services		Total
	Alcohol and Drug Rehabilitation	Management and General	Fundraising	
Personnel	\$ 3,239,126	\$ 405,239	\$ 187,194	\$ 3,831,559
Food and kitchen supplies	262,889	13,836	-	276,725
Contract services	103,721	12,976	5,994	122,691
House supplies	64,350	11,770	-	76,120
Depreciation	248,285	45,411	-	293,696
Utilities	76,373	9,555	4,414	90,342
Rent	91,129	11,401	5,266	107,796
Miscellaneous	21,814	2,729	1,261	25,804
Events	9,332	9,332	-	18,664
Marketing and advertising	3,937	-	-	3,937
Facilities maintenance	75,480	8,927	-	84,407
Insurance	44,544	5,573	2,574	52,691
Interest	109,888	13,748	6,351	129,987
Office supplies	48,612	6,082	2,809	57,503
Vehicle expense	25,247	3,159	1,459	29,865
Telephone	43,002	5,380	2,485	50,867
Travel	22,387	2,801	1,294	26,482
Recreation for residents	9,208	1,152	532	10,892
Bad debt	39,501	4,942	2,283	46,726
Client expenses	47,972	6,002	2,772	56,746
Total functional expenses	\$ 4,586,797	\$ 580,015	\$ 226,688	\$ 5,393,500

First Step House
Statement of Functional Expenses
Year Ended June 30, 2016

	Program Services	Supporting Services		Total
	Alcohol and Drug Rehabilitation	Management and General	Fundraising	
Personnel	\$ 2,341,806	\$ 591,276	\$ 65,008	\$ 2,998,090
Food and kitchen supplies	201,819	10,622	-	212,441
Contract services	92,561	23,370	2,569	118,500
House supplies	50,539	14,163	-	64,702
Depreciation	134,265	37,627	-	171,892
Utilities	57,102	14,417	1,585	73,104
Rent	66,932	16,899	1,858	85,689
Miscellaneous	43,959	11,099	1,220	56,278
Events	7,646	7,646	-	15,292
Marketing and advertising	5,133	-	-	5,133
Facilities maintenance	33,336	8,189	-	41,525
Insurance	34,362	8,676	954	43,992
Interest	53,186	13,429	1,476	68,091
Office supplies	30,493	7,699	846	39,038
Vehicle expense	19,690	4,971	547	25,208
Telephone	30,181	7,620	838	38,639
Travel	2,773	700	77	3,550
Recreation for residents	13,928	3,517	387	17,832
Bad debt	48,459	1,998	220	50,677
Client expenses	33,026	-	-	33,026
	\$ 3,301,196	\$ 783,918	\$ 77,585	\$ 4,162,699
Total functional expenses	\$ 3,301,196	\$ 783,918	\$ 77,585	\$ 4,162,699

First Step House
Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating Activities		
Change in net assets	\$ 684,112	\$ 690,260
Adjustment to reconcile change in net assets to net cash from operating activities		
Depreciation	293,696	171,892
Donated property and equipment	(18,756)	(5,563)
Contributions restricted to building project	(35,000)	-
Loss on disposal of property and equipment	29,345	-
Bad debt expense	46,726	50,677
Changes in assets and liabilities		
Grants and contracts receivable	45,629	(432,800)
Accounts receivable	(21,201)	5,206
Prepaid expenses and other assets	4,834	(44,466)
Deposits	(10,628)	-
Accounts payable	56,190	(10,898)
Accrued salaries and related costs	20,753	21,759
Accrued expenses	34,484	79,051
Unearned revenue	220,485	-
Net Cash from Operating Activities	<u>1,350,669</u>	<u>525,118</u>
Investing Activities		
Purchases of property and equipment	(427,189)	(2,706,945)
Increase in cash restricted for building project	(6,749)	-
Net Cash used for Investing Activities	<u>(433,938)</u>	<u>(2,706,945)</u>
Financing Activities		
Change in line of credit	-	(1,257)
Payments of long-term debt	(68,861)	(3,518)
Proceeds from issuance of long-term debt	-	2,186,629
Collections of contributions restricted to building project	35,000	-
Net Cash from Financing Activities	<u>(33,861)</u>	<u>2,181,854</u>
Net Change in Cash	882,870	27
Cash, Beginning of Year	<u>934,799</u>	<u>934,772</u>
Cash, End of Year	<u>\$ 1,817,669</u>	<u>\$ 934,799</u>

(continued)

First Step House
Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	2017	2016
Supplemental Disclosures of Cash Transactions		
Cash paid for interest during the year	\$ 129,987	\$ 68,091
Supplemental Disclosures of Noncash Investing and Financing Activities		
Conversion of Line of Credit into Note Payable	\$ 442,752	\$ -
Property and equipment acquired through in-kind donation	18,756	5,563
Property and equipment purchases included in construction costs payable	15,295	62,795

Note 1 - Principal Activity and Significant Accounting Policies

Organization

First Step House is a nonprofit corporation organized under the laws of the State of Utah on February 14, 1958. First Step House is a residential and outpatient substance use disorder treatment center. First Step House also maintains additional facilities (apartment complexes) to provide their patients with a living environment that is conducive to recovery. First Step House receives its funding from government grants and contracts, patient fees, and private and individual donations.

Since our founding in 1958, First Step House has grown into a specialized nonprofit behavioral health treatment and housing provider. We currently operate two residential treatment centers and two outpatient facilities in Salt Lake City, Utah. Our Veteran’s Recovery Campus located at 440 South 500 East has a residential treatment center servicing 34 patients and 18 transitional housing units. Grant Street is a 64-bed residential treatment center located in the Fairpark neighborhood. Our primary outpatient facility is at 2200 South State and serves a census of 75-100 patients. Our second outpatient facility serves participants in our REACH program. In addition to our treatment centers, we own and operate five transitional housing facilities that house a total of 53 individuals and provide recovery support services such as case management, house meetings, transportation and assistance with transitioning to permanent housing. Through our programs and services, we serve over 500 individuals per year who struggle with chronic, and often severe, substance use and co-occurring behavioral health disorders. many of our patients have a co-occurring mental health disorder, many of our patients are veterans, and a large majority of our patients have significant, co-morbid health conditions, such as diabetes, high blood pressure, and severe dental problems. Most of our patients enter treatment with a history of unstable housing or homelessness and criminal involvement. Our patients typically arrive at our doorstep unemployed with very little resources, lack of family support, and numerous barriers to overcome.

For the years ended June 30, 2017 and 2016, First Step House’s revenues were derived as follows:

	2017	2016
Residential treatment	63%	53%
Special programs	17%	15%
Contributions and donations	8%	15%
Outpatient treatment	6%	10%
Housing	6%	7%
	100%	100%

Some of our revenue sources fund special programs that enable us to offer focused services which are paired with substance use disorder treatment. These programs permit First Step House to offer a variety of services that our patients might not otherwise receive but that are integral to their well-being. Some current examples of these services are: dental services provided through University of Utah School of Dentistry, courses and education on financial responsibility and improving credit scores, reunification of non-custodial fathers with their children, family counseling for fathers, assistance obtaining permanent housing, transitional housing for veterans, and peer support.

The single largest special programs grant (comprising 5% of total revenue) is REACH (Recovery, Engagement, Assessment, Career and Housing). REACH is a Pay for Success program. Through Pay for Success, private investors partner with government by paying the upfront costs for the provision of evidence-based social services. Governments repay investors with a modest return on their investment if the program achieves agreed upon outcomes. This program serves men coming out of jail who are high-risk, high-need offenders diagnosed with substance use disorders and co-occurring mental health disorders. The program aims at reducing criminal recidivism for high-utilizers of the Salt Lake County jail. Additionally, REACH is First Step House's single largest non-government source of income.

Contracts and Grants

First Step House 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. Accounts receivable and the related revenues are recorded when the services have been provided to First Step House clients. First Step House records an allowance for doubtful accounts based on management's estimate of grants that are not expected to be collected within one year from the statement of financial position date. At June 30, 2017 and 2016, the allowance was \$66,225 and \$40,546, respectively.

Receivables and Credit Policies

Patient accounts receivable consist primarily of noninterest-bearing amounts due for program services. First Step House 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 statement of financial position date. At June 30, 2017 and 2016, the allowance was \$4,600 and \$4,228, 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 House 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, 2017 or 2016.

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.

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

First Step House 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 House. The restrictions stipulate that resources be maintained permanently but permit First Step House to expend the income generated in accordance with the provisions of the agreements. There are no permanently restricted net assets at June 30, 2017.

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 Services and In-Kind Contributions

Volunteers contribute time to First Step House’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 House records donated professional services at the respective fair values of the services received.

Advertising Costs

Advertising costs are expensed as incurred and totaled \$3,937 and \$5,133 for the years ended June 30, 2017 and 2016, respectively.

Income Taxes

First Step House 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 has been determined not to be a private foundation under Section 509(a)(1). First Step House is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, First Step House is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose. First Step House 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 House 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 House 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 House 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 House 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 House's mission.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying 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 November 16, 2017, 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, 2017 and 2016:

	2017	2016
Salt Lake County	\$ 398,670	\$ 272,276
Salt Lake City	7,864	66,000
University of Utah	5,943	18,167
Veterans Administration	475,179	501,788
Temporary Assistance to Needy Families	53,795	121,788
Utah Transit Authority	16,735	-
Other	6,500	30,296
	964,686	1,010,315
Allowance for doubtful accounts	(66,225)	(40,546)
	\$ 898,461	\$ 969,769

Note 3 - Property and Equipment

Property and equipment consists of the following at June 30, 2017 and 2016:

	2017	2016
Land	\$ 855,794	\$ 855,794
Buildings and improvements	5,817,658	5,497,814
Construction in progress	197,597	319,126
Furniture and equipment	839,002	688,323
Vehicles	63,612	55,612
Software and other	31,256	19,150
	7,804,919	7,435,819
Less accumulated depreciation	(1,566,339)	(1,272,643)
	\$ 6,238,580	\$ 6,163,176

At June 30, 2017, construction in progress represents costs for three building remodels in progress and placed into service in July 2017. At June 30, 2016, construction in progress represents costs for two building remodels placed into service in January 2017.

At June 30, 2017 and 2016, First Step House valued non-depreciable assets at \$855,794.

First Step House's Veteran's Recovery Campus (440 S 500 E) and the 411 N Grant Street facility are held as collateral on the \$2,136,333 Zion's loan. The \$433,337 Zion's loan is collateralized with the 440 S 500 E property, the recovery residence at 474 N Grant St, and the 406 N 800 W recovery residence. The \$123,017 loan payable to Salt Lake City is collateralized with the 379 Redwood Road recovery residence. The \$702,250 loan payable to Salt Lake City Corporation is collateralized with the 440 S 500 E property. 440 S 500 E is also held as collateral on the note payable to the State of Utah of \$483,257. See Note 8 for further details related to these loans.

Note 4 - Lease Commitments

First Step House leases office space and equipment under various operating leases expiring at various dates through 2022.

Future minimum payments under the operating leases are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2018	\$ 153,445
2019	93,782
2020	77,610
2021	72,903
2022	<u>60,234</u>
	<u>\$ 457,974</u>

Total rent expense for the years ended June 30, 2017 and 2016 totaled \$107,797 and \$85,689, respectively.

Note 5 - Donated Materials

First Step House received donated materials as follows during the years ended June 30, 2017 and 2016:

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
<u>June 30, 2017</u>				
Food	<u>\$ 138,733</u>	<u>\$ 24,326</u>	<u>\$ -</u>	<u>\$ 163,059</u>
<u>June 30, 2016</u>				
Food	<u>\$ 116,223</u>	<u>\$ 6,117</u>	<u>\$ -</u>	<u>\$ 122,340</u>

First Step House recorded donated software totaling \$10,756 and \$5,563 during the years ended June 30, 2017 and 2016, respectively. First Step House recorded donated vehicles totaling \$8,000 and \$0 in the years ended June 30, 2017 and 2016, respectively.

Note 6 - Concentrations

The majority of First Step House’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 House’s operations.

For the years ended June 30, 2017 and 2016, the four largest sources of revenue as a percent of total revenue are as follows:

	2017	2016
Salt Lake County	43%	40%
Veterans Administration	26%	26%
Department of Workforce Services	7%	8%
Pay for Success	5%	1%

Note 7 - Line of Credit

At June 30, 2017, First Step House had a \$300,000 (\$600,000 at June 30, 2016) revolving line of credit with a bank, secured by property and equipment. The outstanding line of credit balance was \$0 and \$442,752 at June 30, 2017 and 2016, respectively. In November 2016, the balance on the line of credit was converted into a long-term note payable to Zion’s Bank. As of June 30, 2017, the balance of this note was \$433,337 (see Note 8).

Note 8 - Long-Term Debt

Long-term debt consists of the following at June 30, 2017 and 2016:

	2017	2016
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	\$ 483,257	\$ 493,882
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	705,250	700,000
Note payable to Zions Bank, converted from construction note in May 2016, due in monthly installments of \$11,760 through May 2041, interest at 4.076%, secured by property.	2,136,333	2,188,004

(continued)

First Step House
Notes to Financial Statements
June 30, 2017 and 2016

	2017	2016
Mortgage note payable to Salt Lake City, monthly principal payments of \$200, non-interest bearing, due October 1, 2027, secured by property.	\$ 123,017	\$ 125,417
Note payable to Zions Bank, converted from line of credit in November 2016, due in monthly installments of \$2,780 through November 2026, interest at 4.349%, secured by property.	433,337	-
	3,881,194	3,507,303
Less current maturities	(90,884)	(66,109)
	\$ 3,790,310	\$ 3,441,194

Future maturities of long-term debt are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2018	\$ 90,884
2019	107,810
2020	111,373
2021	115,173
2022	119,076
Thereafter	3,336,878
	\$ 3,881,194

Note 9 - Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following at June 30, 2017 and 2016:

	2017	2016
Computer equipment and software	\$ 65,000	\$ 65,000
Clinical services	61,439	47,986
Scholarships	19,170	33,539
Transitional housing renovations	6,749	-
	\$ 152,358	\$ 146,525

Note 10 - Employee Benefits

First Step House sponsors 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 years ended June 30, 2017 and 2016, First Step House matched employee voluntary contributions up to 2%, resulting in contributions to the Plan of \$22,682 and \$23,043, respectively.



Additional Information
June 30, 2017





**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
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, which comprise the statement of financial position as of June 30, 2017, 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 16, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered First Step House'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's internal control. Accordingly, we do not express an opinion on the effectiveness of First Step House'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 been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether First Step House'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*.

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.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Salt Lake City, Utah
November 16, 2017



Independent Auditor’s Report on Compliance for the Major Federal Program and Report on Internal Control over Compliance Required by the Uniform Guidance

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

Report on Compliance for The Major Federal Program

We have audited First Step House’s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on First Step House’s major federal program for the year ended June 30, 2017. First Step House’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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor’s Responsibility

Our responsibility is to express an opinion on the compliance for First Step House’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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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’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’s compliance.

Opinion on Its Major Federal Program

In our opinion, First Step House 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, 2017.

Report on Internal Control over Compliance

Management of First Step House 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'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 Uniform Guidance, 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 First Step House'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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Salt Lake City, Utah
November 16, 2017

First Step House
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Grantor/ Pass-Through Number	Expenditures
<u>U.S. Department of Veteran Affairs</u>			
VA Homeless Providers Grant and Per Diem Program	64.024	15-302-UT	\$ 239,634
VA Homeless Providers Grant and Per Diem Program	64.024		1,326,602
VA Homeless Providers Grant and Per Diem Program	64.024		7,813
VA Homeless Providers Grant and Per Diem Program	64.024	02-15-UT	157,932
VA Homeless Providers Grant and Per Diem Program	64.024	04-87-UT	86,986
Total U.S. Department of Veterans Affairs			1,818,967
<u>U.S. Department of Health and Human Services</u>			
Passed through Utah State Department of Workforce Services Temporary Assistance for Needy Families (TANF)	93.558		411,820
Total U.S. Department of Health and Human Services			411,820
<u>U.S. Department of Housing and Urban Development</u>			
Passed through Salt Lake City Corporation Community Development Block Grant	14.218		29,248
Total U.S. Department of Housing and Urban Development			29,248
<u>U.S. Department of Transportation, Federal Transit Administration</u>			
Passed through Utah Transit Authority FTA Grant Program 5310	20.513	16-2056JH	22,504
Total U.S. Department of Housing and Urban Development			22,504
Total Federal Assistance			\$ 2,282,539

Note A - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of First Step House, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Uniform Guidance. First Step House received federal awards both directly from federal agencies and indirectly through pass-through entities. No federal financial assistance has been provided to a subrecipient.

Note B - 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 Subpart E – Cost Principles of the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. First Step House’s summary of significant accounting policies is presented in Note 1 in First Step House’s basic financial statements.

First Step has not elected to use the 10% de minimis cost rate.

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	None reported
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 Uniform Guidance 2 CFR 200.516	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	\$ 750,000
Auditee qualified as low-risk auditee?	Yes

Section II – Financial Statement Findings

None reported.

Section III – Federal Award Findings and Questioned Costs

None reported.