



Consolidated Financial Statements
June 30, 2019 and 2018



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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 consolidated financial statements (financial statements) of First Step House, which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated 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, 2019 and 2018, 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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by 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), 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 March 12, 2020, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of First Step House's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering First Step House's internal control over financial reporting and compliance.



Salt Lake City, Utah
March 12, 2020

First Step House
Consolidated Statements of Financial Position
June 30, 2019 and 2018

	2019	2018
Assets		
Current Assets		
Cash	\$ 1,405,908	\$ 1,887,111
Investments in marketable securities	1,010,500	-
Grants and contracts receivable	1,500,205	832,454
Accounts receivable	5,101	5,516
Due from related parties	186,983	-
Prepaid expenses and other assets	130,279	134,581
Total current assets	4,238,976	2,859,662
Deposits	16,287	16,287
Investment in Tax Credit Partnership	412,381	-
Property and Equipment, Net	6,110,080	7,369,151
Total assets	\$ 10,777,724	\$ 10,245,100
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 88,223	\$ 54,777
Construction costs payable	71,125	70,625
Accrued salaries and related costs	208,908	167,126
Accrued expenses	551,279	482,982
Current maturities of long-term debt	111,422	104,597
Total current liabilities	1,030,957	880,107
Long-Term Debt, Less Current Maturities	4,263,191	4,244,524
Total liabilities	5,294,148	5,124,631
Net Assets		
Without donor restrictions	5,266,383	4,884,476
With donor restrictions	217,193	235,993
Total net assets	5,483,576	5,120,469
Total liabilities and net assets	\$ 10,777,724	\$ 10,245,100

First Step House
Consolidated Statement of Activities
Year Ended June 30, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and Revenue			
Contributions			
Individuals	\$ 68,620	\$ 6,648	\$ 75,268
Foundations	30,000	233,140	263,140
Corporations	53,898	115,680	169,578
Special events revenue	17,249	-	17,249
Less costs of direct benefits to donors	(7,304)	-	(7,304)
In-kind donations	154,800	-	154,800
Grants and contracts			
Federal	2,083,520	-	2,083,520
County	1,392,161	-	1,392,161
State	2,565,251	-	2,565,251
City	30,000	-	30,000
Agency	1,875,561	-	1,875,561
Revenue from clients			
Rental income	97,546	-	97,546
Private insurance and client fees	24,580	-	24,580
Housing development income	281,942	-	281,942
Revenue from other sources			
Miscellaneous revenue	3,380	-	3,380
Interest income	7,058	-	7,058
Net assets released from restrictions	374,268	(374,268)	-
Total support and revenue	<u>9,052,530</u>	<u>(18,800)</u>	<u>9,033,730</u>
Expenses			
Program services			
Alcohol and drug rehabilitation	7,298,576	-	7,298,576
Total program services	<u>7,298,576</u>	<u>-</u>	<u>7,298,576</u>
Supporting services			
Management and general	983,487	-	983,487
Fundraising	199,214	-	199,214
Total supporting services	<u>1,182,701</u>	<u>-</u>	<u>1,182,701</u>
Loss on Disposal of Property and Equipment	189,346	-	189,346
Total expenses and losses	<u>8,670,623</u>	<u>-</u>	<u>8,670,623</u>
Change in Net Assets	381,907	(18,800)	363,107
Net Assets, Beginning of Year	<u>4,884,476</u>	<u>235,993</u>	<u>5,120,469</u>
Net Assets, End of Year	<u>\$ 5,266,383</u>	<u>\$ 217,193</u>	<u>\$ 5,483,576</u>

First Step House
Consolidated Statement of Activities
Year Ended June 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue			
Contributions			
Individuals	\$ 32,645	\$ 8,605	\$ 41,250
Foundations	11,000	98,500	109,500
Corporations	30,246	269,504	299,750
Special events revenue	14,700	-	14,700
Less costs of direct benefits to donors	(5,923)	-	(5,923)
In-kind donations	260,034	-	260,034
Grants and contracts			
Federal	1,924,936	-	1,924,936
County	2,015,015	-	2,015,015
State	1,743,452	-	1,743,452
City	36,833	-	36,833
Agency	1,212,212	-	1,212,212
Revenue from clients			
Rental income	62,250	-	62,250
Private insurance and client fees	22,515	-	22,515
Revenue from other sources			
Miscellaneous revenue	2,832	-	2,832
Interest income	477	-	477
Net assets released from restrictions	292,974	(292,974)	-
Total support and revenue	<u>7,656,198</u>	<u>83,635</u>	<u>7,739,833</u>
Expenses			
Program services			
Alcohol and drug rehabilitation	5,987,013	-	5,987,013
Total program services	<u>5,987,013</u>	<u>-</u>	<u>5,987,013</u>
Supporting services			
Management and general	821,951	-	821,951
Fundraising	159,485	-	159,485
Total supporting services	<u>981,436</u>	<u>-</u>	<u>981,436</u>
Total expenses and losses	<u>6,968,449</u>	<u>-</u>	<u>6,968,449</u>
Change in Net Assets	687,749	83,635	771,384
Net Assets, Beginning of Year	<u>4,196,727</u>	<u>152,358</u>	<u>4,349,085</u>
Net Assets, End of Year	<u>\$ 4,884,476</u>	<u>\$ 235,993</u>	<u>\$ 5,120,469</u>

First Step House
Consolidated Statement of Functional Expenses
Year Ended June 30, 2019

	Program Services	Supporting Services		Total
	Alcohol and Drug Rehabilitation	Management and General	Fundraising	
Personnel	\$ 5,112,402	\$ 738,925	\$ 156,196	\$ 6,007,523
Food and kitchen supplies	286,268	15,067	-	301,335
Contract services	213,376	30,840	6,519	250,735
House supplies	97,494	13,674	-	111,168
Depreciation	409,324	59,162	12,506	480,992
Utilities	88,897	12,849	2,716	104,462
Rent	179,135	25,891	5,473	210,499
Miscellaneous	19,942	2,882	609	23,433
Events	12,317	12,317	7,304	31,938
Marketing and advertising	5,581	807	171	6,559
Facilities maintenance	110,680	15,997	3,382	130,059
Insurance	83,495	12,068	2,551	98,114
Interest	109,109	15,770	3,334	128,213
Office supplies	57,751	8,347	1,764	67,862
Vehicle expense	48,857	7,062	1,493	57,412
Telephone	70,413	10,177	2,151	82,741
Travel	11,427	1,652	349	13,428
Housing development	143,386	-	-	143,386
Bad debt	4,503	-	-	4,503
Client expenses	234,219	-	-	234,219
	7,298,576	983,487	206,518	8,488,581
Total functional expenses				
Less expenses included with revenues on the statement of activities				
Costs of direct benefits to donors	-	-	(7,304)	(7,304)
	\$ 7,298,576	\$ 983,487	\$ 199,214	\$ 8,481,277

First Step House
Consolidated Statement of Functional Expenses
Year Ended June 30, 2018

	Program Services	Supporting Services		Total
	Alcohol and Drug Rehabilitation	Management and General	Fundraising	
Personnel	\$ 4,274,196	\$ 617,775	\$ 130,586	\$ 5,022,557
Food and kitchen supplies	283,319	14,911	-	298,230
Contract services	158,769	22,947	4,851	186,567
House supplies	70,747	9,923	-	80,670
Depreciation	333,846	48,252	10,200	392,298
Utilities	84,727	12,246	2,589	99,562
Rent	135,718	19,616	4,146	159,480
Miscellaneous	18,916	2,733	578	22,227
Events	14,613	14,614	-	29,227
Marketing and advertising	4,534	654	139	5,327
Facilities maintenance	88,414	12,780	2,701	103,895
Insurance	54,127	7,824	1,654	63,605
Interest	109,050	15,761	3,332	128,143
Office supplies	48,046	6,945	1,468	56,459
Vehicle expense	31,859	4,605	973	37,437
Telephone	55,119	7,967	1,684	64,770
Travel	16,591	2,398	507	19,496
Bad debt	22,645	-	-	22,645
Client expenses	181,777	-	-	181,777
	\$ 5,987,013	\$ 821,951	\$ 165,408	\$ 6,974,372
Less expenses included with revenues on the statement of activities				
Costs of direct benefits to donors	-	-	(5,923)	(5,923)
	\$ 5,987,013	\$ 821,951	\$ 159,485	\$ 6,968,449

First Step House
Consolidated Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating Activities		
Change in net assets	\$ 363,107	\$ 771,384
Adjustment to reconcile change in net assets to net cash from operating activities		
Depreciation	480,992	392,298
Donated property and equipment	-	(104,915)
Contributions restricted to building project	-	(98,254)
Loss on disposal of property and equipment	189,346	-
Bad debt expense	4,503	22,645
Changes in assets and liabilities		
Grants and contracts receivable	(672,254)	43,362
Accounts receivable	415	(560)
Prepaid expenses and other assets	4,302	(56,813)
Accounts payable	33,446	(29,929)
Accrued salaries and related costs	41,782	31,809
Accrued expenses	68,297	108,594
Unearned revenue	-	(220,485)
Net Cash from Operating Activities	<u>513,936</u>	<u>859,136</u>
Investing Activities		
Purchases of investments in marketable securities	(1,010,500)	-
Proceeds from disposal of property and equipment	4,394	-
Purchases of property and equipment	(272,650)	(1,362,624)
Due from related parties	(186,983)	-
Reimbursements for development costs of LIHTC project	515,733	-
Cash restricted for building project	-	6,749
Net Cash used for Investing Activities	<u>(950,006)</u>	<u>(1,355,875)</u>
Financing Activities		
Principal payments of long-term debt	(104,597)	(100,149)
Payments of construction costs payable	(70,625)	-
Proceeds from issuance of long-term debt	130,089	568,076
Collections of contributions restricted to building project	-	98,254
Net Cash from (used for) Financing Activities	<u>(45,133)</u>	<u>566,181</u>
Net Change in Cash	(481,203)	69,442
Cash, Beginning of Year	<u>1,887,111</u>	<u>1,817,669</u>
Cash, End of Year	<u>\$ 1,405,908</u>	<u>\$ 1,887,111</u>

(continued)

First Step House
Consolidated Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest during the year	\$ 126,420	\$ 119,532
Supplemental Disclosure of Non-Cash Investing and Financing Activities		
Investment of land as capital contribution to tax credit partnership	412,381	-
Property and equipment acquired through in-kind donation	-	104,915
Property and equipment purchases included in construction costs payable	71,125	70,625

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 an administrative building, two residential treatment centers, and two outpatient facilities in Salt Lake City, Utah. Our Veteran’s Recovery Campus located at 440 South 500 East is a residential treatment center servicing 70 patients. 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 47 individuals and provide recovery support services such as case management, house meetings, transportation and assistance with transitioning to permanent housing. In 2019, we assumed operations of an additional 75-unit veterans’ transitional housing facility on the Salt Lake VA campus. 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, 2019 and 2018, First Step House’s support and revenues were derived as follows:

	2019	2018
Residential treatment	56%	55%
Special programs	24%	24%
Contributions and donations	7%	9%
Outpatient treatment	7%	7%
Housing	6%	5%
	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, reunification of non-custodial fathers with their children, family counseling for fathers, assistance obtaining permanent housing, transitional housing for veterans, and peer support. In 2018, First Step House began offering housing case management services for individuals who are not receiving substance use treatment through First Step House. These programs were expanded in 2019.

The single largest special programs grant (comprising 14% of total revenues in 2019 and 12% in 2018) 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.

In February 2019, First Step House entered a partnership with NEF Assignment Corporation. This partnership, 5th East Apartments, LLC, was formed for the construction, ownership, financing, leasing and operation of a 75-unit permanent supportive housing unit apartment complex for incomes at or under 30% of the Area Median Average (AMI) and rents at 25% of AMI. This apartment complex is expected to be completed in July 2020 and services for those living there will be provided by First Step House in collaboration with Salt Lake County Division of Behavioral Health, Optum Salt Lake County, the Housing Authority of Salt Lake City, and Housing Connect. To facilitate the organizational structure of this project, First Step House organized FSH 5th East Managing Member, LLC and FSH 5th East Development, LLC as the sole member. See Note 6 for additional explanation.

In October 2018, First Step House organized 426 Apartments, LP. This partnership was formed for the future construction, ownership, financing, leasing and operation of a 40-unit permanent supportive housing complex. See Note 15 for additional explanation.

Principles of Consolidation

The consolidated financial statements (financial statements) include the accounts of First Step House and all subsidiaries and partnerships in which it has a majority interest or control, which includes FSH 5th East Managing Member, LLC, FSH 5th East Development, LLC and 426 Apartments, LP. All significant intercompany accounts and transactions have been eliminated in the financial statements. Unless otherwise noted, the consolidated entities are collectively referred to as "First Step House."

Grants and Contracts

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, 2019 and 2018, there was no allowance for doubtful accounts.

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, 2019 and 2018, there was no allowance for doubtful accounts.

Investments

Investments in marketable securities – First Step House records investment purchases at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at fair value in the statements of financial position. At June 30, 2019, First Step House’s investments in marketable securities were entirely in money market funds (see Note 5). Interest earned from these investments is reported as interest income in the statement of activities.

Investment in Tax Credit Partnership – The equity method of accounting is used when the Organization does not control the investee but does have the ability to exercise significant influence over the investee. Under the equity method, original investments are recorded at cost and adjusted for the Organization’s share of undistributed earnings or losses of these entities. First Step House has recorded its investment in 5th East Apartments, LLC under the equity method (see Note 6). This managing member interest also provides certain priorities on the payment of cash flows during and after the tax credit compliance period.

Property and Equipment

Property and equipment additions are recorded at acquisition cost or, if donated, at fair 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, 2019 or 2018.

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:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Organization reports contributions restricted by donors as increases in net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

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 \$6,559 and \$5,327 for the years ended June 30, 2019 and 2018, 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). FSH 5th East Managing Member, LLC, FSH 5th East Development, LLC, and 426 Apartments, LP are wholly-owned by First Step House and therefore disregarded entities for federal tax purposes. 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.

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.

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. The consolidated financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and wages, benefits, payroll taxes, occupancy, consulting and professional fees, travel, meetings, supplies and office expenses, insurance, promotion, depreciation, membership, dues, and fees and other, which are allocated on the basis of estimates of time and effort or the space used as appropriate.

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.

Adoption of FASB Accounting Standards Update 2016-14

As of July 1, 2018, the Organization adopted the provisions of FASB Accounting Standards Update (ASU) 2016-14, Presentation of Financial Statements of Not-For-Profit Entities, because the Organization believes the standard improves the usefulness and understandability of the Organization's financial statement reporting. Accordingly, the accompanying financial statements and related notes follow the net asset classifications, presentation and disclosure requirements prescribed by the ASU.

The amendments should be applied on a retrospective basis; however, if presenting comparative financial statements, the ASU allows for the option to omit, for any periods presented before the period of adoption, the analysis of expenses by both natural classification and functional classification (the separate presentation of expenses by functional classification and expenses by natural classification is still required), and the disclosure about liquidity and availability of resources. The Organization has elected not to present comparative information for the disclosure about liquidity and availability of resources.

Note 2 - Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

Cash	\$ 1,188,715
Investments	1,010,500
Grants, contracts, and accounts receivable	<u>1,505,306</u>
	<u><u>\$ 3,704,521</u></u>

As a dynamic non-profit organization, First Step House strives to maintain sufficient liquid resources for the efficient operation of its programs and to further its exempt mission. As part of a liquidity management plan, cash in excess of daily requirements is invested in short-term investments such as money market funds. In addition, First Step House has access to a line-of-credit as described in Note 7.

Note 3 - Grants and Contracts Receivable

Grants and contracts receivable consist of the following at June 30, 2019 and 2018:

	2019	2018
Veterans Administration	\$ 525,973	\$ 136,223
Utah State Department of Health	495,143	424,950
Salt Lake City	178,547	-
Salt Lake County	129,226	26,935
Utah Transit Authority	50,606	36,727
The Road Home	34,858	-
Wells Fargo Foundation	25,000	-
U.S. Department of Housing and Urban Development	24,378	17,007
Department of Workforce Services	15,644	
Optum Salt Lake County	11,343	109,896
Temporary Assistance to Needy Families	-	26,215
Synchrony Bank	-	20,000
Other	<u>9,487</u>	<u>34,501</u>
	1,500,205	832,454
Allowance for doubtful accounts	<u>-</u>	<u>-</u>
	<u><u>\$ 1,500,205</u></u>	<u><u>\$ 832,454</u></u>

Note 4 - Property and Equipment

Property and equipment consists of the following at June 30, 2019 and 2018:

	2019	2018
Land	\$ 968,413	\$ 1,380,794
Buildings and improvements	6,045,744	6,337,193
Furniture and equipment	1,226,129	951,632
Vehicles	204,396	184,755
Software and other	-	31,256
Construction in progress		
Remodel of residential treatment centers	80,940	-
Low-income housing project	-	433,053
Office furniture and computer equipment not yet in use	-	9,105
	8,525,622	9,327,788
Less accumulated depreciation	(2,415,542)	(1,958,637)
	\$ 6,110,080	\$ 7,369,151

At June 30, 2018, \$433,053 of construction in progress represents amounts paid by First Step House to develop a future 75-unit apartment complex for low-income housing. These amounts were reimbursed to First Step House when the settlement agreement closed in February 2019. In that agreement, First Step House made a capital contribution of land (the parking lot of the 440 S. facility) for its managing member interest. This apartment complex, which will be adjacent to the Veteran's Recovery Campus, is anticipated to be completed in July 2020.

At June 30, 2019 and 2018, First Step House valued non-depreciable assets at \$968,413 and \$1,380,794, respectively.

First Step House's property and equipment serves as collateral for long-term debt as further described in Note 11.

Note 5 - Fair Value Measurement and Disclosures

The Organization reports certain assets at fair value in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable.

Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, inputs are developed using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability.

The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to an assessment of the quality, risk or liquidity profile of the asset or liability.

As of June 30, 2019, the Organization's investment assets are classified within Level 1 because they are comprised of money market funds with readily determinable fair values quoted in active financial markets and are as follows:

<u>Description</u>	<u>Fair Value Measurements at Report Date Using</u>			
	<u>Total</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Operating investments				
Money market funds	<u>\$ 1,010,500</u>	<u>\$ 1,010,500</u>	<u>\$ -</u>	<u>\$ -</u>

Note 6 - Investment in Tax Credit Partnership

Effective during the year ended June 30, 2019, First Step House became the .01% managing member of 5th East Apartments, LLC (The LLC), an entity created for the purpose of developing, owning, and operating a 75-unit low-income housing tax credit project adjacent to First Step House's Veteran's Recovery Campus. First Step House made a capital contribution of previously purchased land, which had a cost-basis of \$412,381, to The LLC. Thus, First Step House's investment in The LLC is \$412,381 as of June 30, 2019.

The Project has qualified for and been allocated low-income housing tax credits pursuant to the Internal Revenue Code Section 42, which regulates the use of the Project as to occupant eligibility and unit gross rent, among other requirements. The buildings must meet the provisions of these regulations during each of 15 consecutive years in order to continue to qualify to receive the tax credits. Failure to comply with occupant eligibility and/or unit gross rent, or to correct noncompliance within a specified time period, could result in recapture of the previously taken low-income housing tax credits plus interest. Such potential noncompliance may require an adjustment to the contributed capital by the investor member in the Project and is subject to guaranties between First Step House and the other members of The LLC.

Developer Fee

The LLC has agreed to compensate First Step House a developer fee of \$1,544,890 for services rendered in developing the Project. Of this amount, \$1,166,203 is scheduled to be paid from the equity contributions of the 99.99% investor member in The LLC. Any amount that is not paid from investor member equity contributions will be subject to payment from the available cash flow of The LLC in accordance with the distribution priority of payments for available cash flow as outlined in The LLC's operating agreement. If The LLC does not have sufficient funds to pay the developer fee by December 31, 2032 (the end of the twelfth year of the tax credit compliance period), First Step House is required to make an equity contribution to The LLC in the amount of any remaining unpaid fee. For the year ended June 30, 2019, First Step House recognized \$281,942 of revenue related to developer fees earned through June 30, 2019 based on pro-rata portion of construction completed through June 30, 2019. This amount is included on the statement of activities as housing development income.

Buyout Option and Right of First Refusal

After the completion of the 15-year low-income housing tax credit compliance period, First Step House has the option to buy the interest of the investor member in The LLC for the buyout price as defined in The LLC's operating agreement. There are various options to First Step House – under the most likely scenarios, the buyout price is to be either the fair market value of the investor member's interest based on a calculation of the distribution that the investor member would receive upon liquidation of The LLC after a sale at The LLC's appraised value, or the amount of all taxes attributable to the investor member as a result of the sale of its interest to First Step House.

Guarantees

Development completion - First Step House has agreed to provide any funds that might be necessary to complete construction of the project, cover permanent financing shortfalls, or fund unanticipated development costs. First Step House has not currently been required and does not currently expect to be required to provide funds under this guaranty.

Operating deficit – operating deficits of The LLC are to be funded first by using an operating reserve which is to be established from investor member equity proceeds in the amount of \$420,305. If the reserve is depleted, First Step House is required to provide an equity contribution in the amount of any operating deficits in an amount not to exceed \$387,994. This guaranty is required until the operating results of The LLC meet certain criteria defined in the operating agreement but no sooner than 4 years after stabilized occupancy is achieved. First Step House has not currently been required and does not currently expect to be required to provide funds under this guaranty.

Tax credit – First Step House may be required to provide funds to the investor member if during the tax credit period, the actual tax credits are less than the projected tax credits, including if any tax credits are recaptured. Projected tax credits which are expected to be claimed on tax returns from December 31, 2020 to 2030 total \$6,744,300 of federal credits and \$6,710,000 of State of Utah credits. First Step House has not currently been required and does not currently expect to be required to provide funds under this guaranty.

Summary financial statement information on equity method investments as of June 30, 2019, is as follows:

Current assets	\$ 27,834
Land, buildings and equipment	4,270,724
Other noncurrent assets	<u>67,984</u>
 Total assets	 <u><u>\$ 4,366,542</u></u>
 Current liabilities	 \$ 10,466
Noncurrent liabilities	1,695,000
Equity	<u>2,661,076</u>
 Total liabilities and equity	 <u><u>\$ 4,366,542</u></u>
 Total revenue	 \$ -
Total expenses	<u>-</u>
 Net loss	 <u><u>\$ -</u></u>

Note 7 - Line of Credit

At June 30, 2019 and 2018, First Step House had a \$300,000 line of credit with a bank, secured by property and equipment, and expiring November 2020. The outstanding balance on the line of credit was \$0 at June 30, 2019 and 2018.

Note 8 - Lease Commitments

First Step House leases office space and equipment under various operating leases expiring at various dates through 2024. Total rent expense for the years ended June 30, 2019 and 2018 totaled \$210,500 and \$159,480, respectively. Future minimum payments under the operating leases are as follows:

Year Ending June 30,	Amount
2020	\$ 281,278
2021	197,040
2022	86,579
2023	25,182
2024	8,700
	\$ 598,779

Note 9 - Donated Materials

During the year ended June 30, 2018, First Step House recorded donated vehicles totaling \$104,915. First Step House received donated materials as follows during the years ended June 30, 2019 and 2018:

	Program Services	Management and General	Fundraising	Total
June 30, 2019				
Food	\$ 136,606	\$ 18,194	\$ -	\$ 154,800
June 30, 2018				
Food	\$ 147,363	\$ 7,756	\$ -	\$ 155,119

Note 10 - Concentrations

The majority of First Step House's grant and contract revenues are provided through Salt Lake County, the Veterans Administration, Pay for Success, and the Utah State Department of Health. 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, 2019 and 2018, the largest sources of revenue as a percent of total revenue are as follows:

	2019	2018
Utah State Department of Health	26%	15%
Veterans Administration	21%	23%
Salt Lake County	15%	26%
Pay for Success	12%	12%

Note 11 - Long-Term Debt

Long-term debt consists of the following at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
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.	\$ 460,036	\$ 470,416
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.	662,044	682,998
Note payable to Zions Bank, due in monthly installments of \$11,760 April 2017 through May 2041, interest at 90 day Libor plus 4% (4.076% at June 30, 2019), secured by property.	2,031,235	2,087,159
Note payable to Zions Bank, due in monthly installments of \$2,780 November 2016 through October 2026, with a balloon payment of \$271,102 due November 2026, interest at 5 year Libor plus 3% (4.349% at June 30, 2019), secured by property.	404,916	420,055
Mortgage note payable to Salt Lake City Corporation, monthly principal payments of \$200, non-interest bearing, due October 1, 2027, secured by property.	118,217	120,417
Note payable to Salt Lake City Corporation, due in monthly installments of \$335, beginning May 2018 through March 2022, balloon payment due April 2022, interest at 1%, secured by property.	402,250	402,250
Note payable to Salt Lake City Corporation, no monthly payments required through October 2038, interest at 0%, secured by property.	169,915	165,826
Note payable to Salt Lake City Corporation, no monthly payments required through July 2049, interest at 0%, secured by property.	126,000	-
	<u>4,374,613</u>	<u>4,349,121</u>
Less current maturities	<u>(111,422)</u>	<u>(104,597)</u>
	<u>\$ 4,263,191</u>	<u>\$ 4,244,524</u>

Future maturities of long-term debt are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2020	\$ 111,422
2021	115,223
2022	521,377
2023	123,185
2024	127,365
Thereafter	3,376,041
	<u>\$ 4,374,613</u>

Note 12 - Net Assets with Donor Restrictions

Net assets with donor restrictions represent resources currently available for use, but expendable only for the specific purposes as follows at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Programs	\$ 152,193	\$ 101,342
Medical services	65,000	60,000
Computer equipment and software	-	65,000
Scholarships	-	9,651
	<u>\$ 217,193</u>	<u>\$ 235,993</u>

Note 13 - Related Party Transactions

At June 30, 2019 and 2018, First Step House has receivable amounts due from related parties totaling \$186,983 and \$0, respectively. These amounts represent payments made by First Step House for development costs of 5th East Apartments, LLC (see Note 6) and 426 Apartments, LP (see Note 15) that will be reimbursed to First Step House.

During the year ended June 30, 2019, First Step House recorded development fee revenue totaling \$281,942 from 5th East Apartments, LLC, an entity in which First Step House holds a .01% Managing Member interest (see Note 6).

Note 14 - Employee Benefit Plan

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, 2019 and 2018, First Step House matched employee voluntary contributions up to 4% of employee compensation, resulting in contributions to the Plan of \$81,666 and \$74,248.

Note 15 - Subsequent Event

In December 2019, First Step House transferred 99.995% of its ownership interest in 426 Apartments, LP (The Partnership), an entity created for the purpose of developing, owning, and operating a 40-unit permanent supportive housing complex for incomes at or under 25% of the AMI located at 426 S. 500 E. in Salt Lake City, Utah. After the transfer, First Step House remains as the .005% general partner in The Partnership and has de-consolidated The Partnership from the consolidated financial statements. In connection with the financing close of this project in December 2019, First Step House's \$402,250 note payable to Salt Lake City Corporation was paid-off from The Partnership's equity and debt proceeds, and First Step House's \$169,915 note payable to Salt Lake City Corporation was assumed by The Partnership. As a result of this transaction, First Step House entered into additional commitments and guaranties similar to those related to its investment in 5th East Apartments, LLC (Note 6).

Management has made an evaluation of subsequent events through March 12, 2020, the date on which the financial statements were available to be issued.



Additional Information
June 30, 2019





**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 consolidated financial statements (financial statements) of First Step House, which comprise the consolidated statement of financial position as of June 30, 2019, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated March 12, 2020.

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 cursive script that reads "Eric Sully LLP".

Salt Lake City, Utah
March 12, 2020



Independent Auditor’s Report on Compliance for the Major Federal Program; 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, 2019. 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 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 types of 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 types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2019.

Report on Internal Control over Compliance

Management of First Step House is responsible for establishing and maintaining effective internal control over compliance with the types of 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 the 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 type of 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 over compliance 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
March 12, 2020

First Step House
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2019

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	17-303-UT	\$ 59,909
VA Homeless Providers Grant and Per Diem Program	64.024	18-303-UT	225,630
VA Homeless Providers Grant and Per Diem Program	64.024	not available	1,383,464
VA Homeless Providers Grant and Per Diem Program	64.024	FSH 1963-0438	228,673
Total U.S. Department of Veterans Affairs			1,897,676
<u>U.S. Department of Housing and Urban Development</u>			
Continuum of Care	14.267	not available	185,845
Passed through Salt Lake City Corporation Community Development Block Grant HOME	14.218 14.239	not available not available	30,000 4,088
Passed through Salt Lake County Community Development Block Grant Social Services Block Grant	14.218 93.667	not available not available	112,664 47,424
Total U.S. Department of Housing and Urban Development			380,021
<u>U.S. Department of Transportation, Federal Transit Administration</u>			
Passed through Utah Transit Authority FTA Grant Program 5310	20.513	16-2056JH	87,634
Total U.S. Department of Transportation, Federal Transit Administration			87,634
<u>Corporation for National and Community Service</u>			
Passed through Salt Lake County AmeriCorps Program	94.013	not available	7,500
Total Corporation for National and Community Service			7,500
Total Federal Assistance			\$ 2,372,831

Note A - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal grant activity of First Step House under programs of the federal government for the year ended June 30, 2019. The information is presented in accordance with the 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). Because the schedule presents only a selected portion of the operations of First Step House, it is not intended to and does not present the financial position, changes in net assets, or cash flows of First Step House.

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 the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. No federal financial assistance has been provided to a subrecipient.

Note C - Indirect Cost Rate

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.