



Consolidated Financial Statements  
June 30, 2021 and 2020



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## Independent Auditor's Report

The Board of Directors and Management  
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, 2021 and 2020, 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, 2021 and 2020, 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 April 25, 2022, 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

April 25, 2022

First Step House  
Consolidated Statements of Financial Position  
June 30, 2021 and 2020

	2021	2020
<b>Assets</b>		
<b>Current Assets</b>		
Cash	\$ 3,642,947	\$ 2,384,290
Investments in marketable securities	1,025,789	1,025,441
Grants and contracts receivable	1,859,800	1,445,065
Accounts receivable, net of allowance	7,972	8,732
Due from related parties	119,489	46,455
Developer fee receivable - related parties	1,248,500	875,492
Prepaid expenses and other assets	180,459	157,898
Total current assets	8,084,956	5,943,373
Deposits	16,125	21,753
In-Kind Rent Receivable - Related Party	3,056,465	-
Notes Receivable - Related Parties	1,030,000	630,000
Investments in Tax Credit Partnerships	412,381	412,381
Property and Equipment, Net	7,825,477	7,953,791
Total assets	\$ 20,425,404	\$ 14,961,298
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 265,626	\$ 176,653
Accrued salaries and related costs	360,328	275,418
Accrued expenses	1,352,425	785,764
Current maturities of long-term debt	247,031	757,745
Other liabilities	121,447	-
Total current liabilities	2,346,857	1,995,580
Refundable Advances	1,030,000	630,000
Long-Term Debt, Less Current Maturities	6,034,833	6,757,697
Total liabilities	9,411,690	9,383,277
<b>Net Assets</b>		
Without donor restrictions	7,752,551	5,381,578
With donor restrictions	3,261,163	196,443
Total net assets	11,013,714	5,578,021
Total liabilities and net assets	\$ 20,425,404	\$ 14,961,298

First Step House  
Consolidated Statement of Activities  
Year Ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Support, and Gains			
Contributions			
Individuals	\$ 106,900	\$ 200	\$ 107,100
Foundations	57,247	183,328	240,575
Corporations	22,036	73,000	95,036
Special events revenue	0	-	-
Less costs of direct benefits to donors	-	-	-
In-kind donations	204,380	-	204,380
In-kind rent donation - related party	-	3,152,801	3,152,801
Grants and contracts			
Federal	2,312,309	-	2,312,309
County	1,316,708	-	1,316,708
State	4,314,912	-	4,314,912
City	346,105	-	346,105
Agency	3,698,101	-	3,698,101
Clients			
Rental income	43,191	-	43,191
Private insurance and client fees	2,735	-	2,735
Housing development income	1,290,452	-	1,290,452
Revenue from other sources			
Miscellaneous revenue	2,228	-	2,228
Interest income	32,631	-	32,631
Gain on sale of property and equipment	-	-	-
HHS provider relief funds	801,742	-	801,742
Paycheck Protection Program loan forgiveness	1,035,545	-	1,035,545
Net assets released from restrictions	344,609	(344,609)	-
Total revenue, support, and gains	<u>15,931,831</u>	<u>3,064,720</u>	<u>18,996,551</u>
Expenses			
Program services			
Alcohol and drug rehabilitation	11,741,806	-	11,741,806
Total program services	<u>11,741,806</u>	<u>-</u>	<u>11,741,806</u>
Supporting services			
Management and general	1,508,138	-	1,508,138
Fundraising	307,732	-	307,732
Total supporting services	<u>1,815,870</u>	<u>-</u>	<u>1,815,870</u>
Loss on Disposal of Property and Equipment	3,182	-	3,182
Total expenses and losses	<u>13,560,858</u>	<u>-</u>	<u>13,560,858</u>
Change in Net Assets	2,370,973	3,064,720	5,435,693
Net Assets, Beginning of Year	<u>5,381,578</u>	<u>196,443</u>	<u>5,578,021</u>
Net Assets, End of Year	<u>\$ 7,752,551</u>	<u>\$ 3,261,163</u>	<u>\$ 11,013,714</u>

See Notes to Consolidated Financial Statements

First Step House  
Consolidated Statement of Activities  
Year Ended June 30, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>Revenue, Support, and Gains</b>			
Contributions			
Individuals	\$ 65,812	\$ -	\$ 65,812
Foundations	123,685	171,400	295,085
Corporations	11,785	233,000	244,785
Special events revenue	40,500	-	40,500
Less costs of direct benefits to donors	(6,654)	-	(6,654)
In-kind donations	218,919	-	218,919
Grants and contracts			
Federal	2,176,137	-	2,176,137
County	750,492	-	750,492
State	2,587,176	-	2,587,176
City	271,076	-	271,076
Agency	2,701,577	-	2,701,577
Clients			
Rental income	81,377	-	81,377
Private insurance and client fees	1,355	-	1,355
Housing development income	1,183,684	-	1,183,684
Revenue from other sources			
Miscellaneous revenue	2,646	-	2,646
Interest income	31,210	-	31,210
Gain on sale of property and equipment	70,778	-	70,778
Net assets released from restrictions	425,150	(425,150)	-
Total revenue, support, and gains	<u>10,736,705</u>	<u>(20,750)</u>	<u>10,715,955</u>
<b>Expenses</b>			
Program services			
Alcohol and drug rehabilitation	9,206,868	-	9,206,868
Total program services	<u>9,206,868</u>	<u>-</u>	<u>9,206,868</u>
Supporting services			
Management and general	1,181,874	-	1,181,874
Fundraising	232,768	-	232,768
Total supporting services	<u>1,414,642</u>	<u>-</u>	<u>1,414,642</u>
Total expenses and losses	<u>10,621,510</u>	<u>-</u>	<u>10,621,510</u>
Change in Net Assets	115,195	(20,750)	94,445
Net Assets, Beginning of Year	<u>5,266,383</u>	<u>217,193</u>	<u>5,483,576</u>
Net Assets, End of Year	<u>\$ 5,381,578</u>	<u>\$ 196,443</u>	<u>\$ 5,578,021</u>

First Step House  
Consolidated Statement of Functional Expenses  
Year Ended June 30, 2021

	Program Services	Supporting Services		Total
	Alcohol and Drug Rehabilitation	Management and General	Fundraising	
Personnel	\$ 8,158,240	\$ 1,179,158	\$ 249,253	\$ 9,586,651
Food and kitchen supplies	363,774	19,146	-	382,920
Contract services	226,130	32,684	6,909	265,723
House supplies	190,476	26,714	-	217,190
Depreciation	332,664	48,081	10,164	390,909
Utilities	142,225	20,557	4,345	167,127
Rent	303,055	43,802	9,259	356,116
In-kind rent	91,519	4,817	-	96,336
Miscellaneous	28,241	4,076	863	33,180
Events	1,663	1,663	-	3,326
Marketing and advertising	494	71	15	580
Facilities maintenance	220,934	31,933	6,750	259,617
Insurance	144,362	20,865	4,411	169,638
Interest	131,915	19,066	4,030	155,011
Office supplies	206,198	29,803	6,300	242,301
Vehicle expense	59,379	8,582	1,814	69,775
Telephone	118,451	17,120	3,619	139,190
Consulting - housing development	645,227	-	-	645,227
Bad debt	312	-	-	312
Client expenses	376,547	-	-	376,547
Total functional expenses	\$ 11,741,806	\$ 1,508,138	\$ 307,732	\$ 13,557,676

First Step House  
Consolidated Statement of Functional Expenses  
Year Ended June 30, 2020

	<u>Program Services</u>	<u>Supporting Services</u>		
	<u>Alcohol and Drug Rehabilitation</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Personnel	\$ 6,004,624	\$ 867,883	\$ 183,455	\$ 7,055,962
Food and kitchen supplies	322,913	16,995	-	339,908
Contract services	237,684	34,354	7,262	279,300
House supplies	149,446	20,960	-	170,406
Depreciation	422,118	61,010	12,897	496,025
Utilities	126,636	18,303	3,869	148,808
Rent	325,678	47,072	9,950	382,700
Miscellaneous	46,171	6,671	1,411	54,253
Events	11,279	11,278	-	22,557
Marketing and advertising	2,747	397	84	3,228
Facilities maintenance	163,951	23,697	5,009	192,657
Insurance	114,073	16,488	3,485	134,046
Interest	98,448	14,229	3,008	115,685
Office supplies	127,249	18,392	3,888	149,529
Vehicle expense	49,059	7,091	1,499	57,649
Telephone	104,030	15,036	3,178	122,244
Travel	13,962	2,018	427	16,407
Consulting - housing development	591,881	-	-	591,881
Bad debt	2,164	-	-	2,164
Client expenses	292,755	-	-	292,755
	<u>9,206,868</u>	<u>1,181,874</u>	<u>239,422</u>	<u>10,628,164</u>
Less expenses included with revenues on the statement of activities				
Costs of direct benefits to donors	-	-	(6,654)	(6,654)
	<u>\$ 9,206,868</u>	<u>\$ 1,181,874</u>	<u>\$ 232,768</u>	<u>\$ 10,621,510</u>

First Step House  
Consolidated Statements of Cash Flows  
Years Ended June 30, 2021 and 2020

	2021	2020
Operating Activities		
Change in net assets	\$ 5,435,693	\$ 94,445
Adjustment to reconcile change in net assets to net cash from (used for) operating activities		
Depreciation	390,909	496,025
Donated property and equipment	(57,980)	(71,819)
In-kind rent donation - related party	(3,152,801)	-
Paycheck Protection Program loan forgiveness	(1,035,466)	-
Loss (gain) on disposal of property and equipment	3,182	(70,778)
Bad debt expense	312	2,164
Changes in assets and liabilities		
Grants and contracts receivable	(414,735)	55,140
Accounts receivable	448	(5,795)
Developer fee receivable	(373,008)	(875,492)
Due from related parties	(40,833)	-
Prepaid expenses and other assets	(22,561)	(27,619)
Deposits	5,628	(5,466)
In-kind rent receivable - related party	96,336	-
Accounts payable	88,973	88,430
Accrued salaries and related costs	84,910	66,510
Accrued expenses	566,661	234,485
Other liabilities	121,447	-
Net Cash from (used for) Operating Activities	<u>1,697,115</u>	<u>(19,770)</u>
Investing Activities		
Purchases of investments in marketable securities	(348)	(14,941)
Proceeds from sale of property and equipment	-	435,451
Purchases of property and equipment	(207,797)	(2,804,590)
Advances to related parties for development costs of LIHTC projects	(602,922)	(3,515)
Reimbursements for development costs of LIHTC projects	570,721	144,043
Net Cash used for Investing Activities	<u>(240,346)</u>	<u>(2,243,552)</u>
Financing Activities		
Principal payments of long-term debt	(198,112)	(524,756)
Payments of construction costs payable	-	(71,125)
Proceeds from issuance of long-term debt	-	3,837,585
Net Cash from (used for) Financing Activities	<u>(198,112)</u>	<u>3,241,704</u>
Net Change in Cash	1,258,657	978,382
Cash, Beginning of Year	<u>2,384,290</u>	<u>1,405,908</u>
Cash, End of Year	<u>\$ 3,642,947</u>	<u>\$ 2,384,290</u>

(continued)

First Step House  
Consolidated Statements of Cash Flows  
Years Ended June 30, 2021 and 2020

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	2021	2020
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest during the year	\$ 155,069	\$ 117,445
Supplemental Disclosure of Non-cash Investing and Financing Activities		
Assignment/transfer of notes payable to a related party as proceeds in sale of property	\$ -	\$ 172,000
Property and equipment acquired through in-kind donation	57,980	71,819
Issuance of note receivable offset by increase in refundable advances	400,000	630,000
Paycheck Protection Program loan forgiveness	1,035,466	-

**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 behavioral health organization that operates residential and outpatient substance use disorder treatment centers and several apartment complexes that provide clients with a living environment that is conducive to recovery. First Step House receives its funding from government grants and contracts, client fees, and private and individual donations.

The mission of First Step House is to help people build healthy lives of meaning, purpose and recovery. Founded in 1958, First Step House has evolved into a co-occurring capable behavioral health treatment and housing provider. First Step House is accredited by the Joint Commission, the leading healthcare accreditation entity in the U.S., for our continuous compliance with performance standards and commitment to providing safe and quality patient care. We have been a consistent leader in the Salt Lake metro area delivering evidence-based interventions and achieving positive outcomes for individuals and families who struggle with high severity substance use disorders, histories of homelessness, mental health conditions, justice system involvement and primary health concerns. We operate three residential treatment facilities, two outpatient treatment centers, and six transitional housing facilities in Salt Lake County, Utah. We also provide permanent supportive housing services. The scope of services we offer include substance use disorder and mental health assessment, residential and outpatient treatment, recovery residence services, housing, case management, employment support, primary health care, peer support services, and long-term recovery management. 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. Most of our clients enter treatment with a history of unstable housing or homelessness and criminal involvement. Our clients 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, 2021 and 2020, First Step House’s operational support and revenues were derived as follows:

	<u>2021</u>	<u>2020</u>
Substance Use Treatment	46%	49%
Transitional Housing	14%	15%
Loan Forgiveness - Grant Revenue	8%	0%
Case Management	7%	8%
Supportive Living	7%	0%
Individual, Foundational, and Corporate Donations	5%	6%
Pay for Success	4%	12%
Other	9%	10%
	<u>100%</u>	<u>100%</u>

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 clients might not otherwise receive but that are integral to their well-being. Some current examples of these services are employment preparation and placement, peer support and long-term recovery support. The largest group of these programs is housing case management.

Through Pay for Success (PFS), 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. The PFS program (REACH) 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. 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, 5<sup>th</sup> 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 was completed in July 2020. To facilitate the organizational structure of this project, First Step House organized FSH 5<sup>th</sup> East Managing Member, LLC and FSH 5<sup>th</sup> East Development, LLC as the sole member. See Note 6 for additional explanation.

In December 2019, First Step House entered a partnership with USA Institutional 426 LLC, 426 Apartments SLP, LLC and The Richman Group Capital Corporation. This partnership, 426 Apartments, LP, was formed for the construction, ownership, financing, leasing and operation of a 40-unit permanent supportive housing complex. This apartment complex was completed in February 2021 and services for those living there will be provided by First Step House. To facilitate the organizational structure of this project, First Step House organized 426 Apartments GP, LLC (as the sole member) and 426 Apartments Developer, LLC (as the sole member). See Note 6 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 5<sup>th</sup> East Managing Member, LLC, FSH 5<sup>th</sup> East Development, LLC, 426 Apartments Developer, LLC, and 426 Apartments GP, LLC. 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" or "the Organization."

### **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, 2021 and 2020, there was no allowance for doubtful accounts.

### Receivables and Credit Policies

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, 2021 and 2020, 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, 2021 and 2020, 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 consolidated statement of activities.

*Investments in Tax Credit Partnerships* – 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 investments in 5th East Apartments, LLC and 426 Apartments, LP under the equity method (see Note 6). These managing member interests also provide 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 consolidated 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, 2021 and 2020.

### 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**

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, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. Specifically relating to the Organization's accounting for grants and contracts as reported in the accompanying statements of activities, the Organization recognizes revenue following either contribution or exchange transaction revenue accounting principles. The Organization's federal and state grants and contracts that are accounted for following contribution revenue accounting principles are conditioned upon certain performance requirements and the incurrence of allowable qualifying expenses. For the years ended June 30, 2021 and 2020, the Organization recognized grant and contract revenue totaling \$3,435,220 and \$3,022,287, respectively, in accordance with contribution revenue accounting principles. A substantial portion of the Organization's federal and state contracts are renewed on an annual basis and the award period coincides with the Organization's fiscal year. Additionally, at June 30, 2021 and 2020, conditional contributions approximating \$1,226,479 and \$1,637,975, respectively, for which no amounts had been received in advance, have not been recognized in the accompanying financial statements because qualifying expenditures have not yet been incurred.

With respect to the Organization's accounting for grants and contracts as reported in the accompanying statements of activities that are accounted for following exchange transaction accounting principles, the program services in the Organization's client contracts generally include rehabilitation services and/or housing (the performance obligation) in exchange for a contractual agreed-upon amount or established reimbursement rate. These services are generally billed monthly, and revenue is recognized on the dates services are provided. For clients under reimbursement arrangements with third-party payors (including Medicaid programs, Veterans Administration, Salt Lake County, and Housing Authority of Salt Lake City), the client services are treated as a single performance obligation satisfied over time as services are rendered. For the years ended June 30, 2021 and 2020, total program service revenues recognized over time was \$8,552,915 and \$5,464,171, respectively, which are included in grants and contracts revenue.

Housing development income is recognized over time (as development oversight and services are rendered by First Step House) based on the portion complete of the project as-a-whole (the performance obligation).

### **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.

### **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, 426 Apartments Developer, LLC and 426 Apartments GP, LLC 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 consolidated statements of activities. The consolidated 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 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 personnel costs, depreciation, utilities, rent, facilities maintenance, contract services, travel, meetings, supplies and office expenses, insurance, interest, telephone, and miscellaneous, 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.

### Subsequent Events

Management has made an evaluation of subsequent events through April 25, 2022, the date on which the financial statements were available to be issued.

### 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:

	2021	2020
Cash	\$ 3,438,249	\$ 2,187,847
Investments	1,025,789	1,025,441
Grants, contracts, and accounts receivable	1,867,772	1,453,797
Due from related parties	119,489	46,455
Developer fee receivable - related parties	1,248,500	875,492
	\$ 7,699,799	\$ 5,589,032

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, 2021 and 2020:

	2021	2020
Utah State Department of Health	\$ 528,617	\$ 348,445
Veterans Administration	440,346	229,099
Salt Lake County	309,810	167,112
Affordable Care Organizations	233,853	69,564
Salt Lake City	42,632	146,778
Housing Authority of Salt Lake City	30,938	313,251
Other	273,604	170,816
	1,859,800	1,445,065
Allowance for doubtful accounts	-	-
	\$ 1,859,800	\$ 1,445,065

At July 1, 2019, grants and contracts receivable totaled \$1,500,205.

**Note 4 - Property and Equipment**

Property and equipment consists of the following at June 30, 2021 and 2020:

	2021	2020
Land	\$ 1,099,213	\$ 1,099,213
Buildings and improvements	8,051,211	6,066,919
Furniture and equipment	726,011	670,870
Vehicles	408,414	324,440
Construction in progress		
Remodel of residential treatment centers	-	1,930,858
	10,284,849	10,092,300
Less accumulated depreciation	(2,459,372)	(2,138,509)
	\$ 7,825,477	\$ 7,953,791

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, 2021 and 2020, 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>Total</u>	<u>Fair Value Measurements at Report Date Using</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>\$ 1,025,789</u>	<u>\$ 1,025,789</u>	<u>\$ -</u>	<u>\$ -</u>

The following table presents assets measured at fair value on a recurring basis as of June 30, 2020:

<u>Description</u>	<u>Total</u>	<u>Fair Value Measurements at Report Date Using</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>\$ 1,025,441</u>	<u>\$ 1,025,441</u>	<u>\$ -</u>	<u>\$ -</u>

#### **Note 6 - Investments in Tax Credit Partnerships**

Effective during the year ended June 30, 2019, First Step House became the .01% managing member of 5<sup>th</sup> 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. First Step House's investment in The LLC is \$412,381 as of June 30, 2021 and 2020.

Effective during the year ended June 30, 2020, First Step House became the .005% managing partner of 426 Apartments, LP (The Partnership), an entity created for the purpose of developing, owning, and operating a 40-unit low-income housing tax credit project located at 426 S. 500 E. in Salt Lake City, Utah. 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 \$172,000 note payable to Salt Lake City Corporation was assumed by The Partnership. The LLC and The Partnership are hereafter referred to as The Projects.

The Projects have qualified for and been allocated low-income housing tax credits pursuant to the Internal Revenue Code Section 42, which regulates the use of The Projects as to occupant eligibility and unit gross rent, among other requirements. The buildings of The Projects 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 investors in The Projects and is subject to guaranties between First Step House and the other members/partners of The Projects.

#### Developer Fee

The Projects have agreed to compensate First Step House developer fees totaling \$2,756,078 (\$1,544,890 from The LLC and \$1,211,188 from The Partnership) for services rendered in developing The Projects. Of this amount, \$1,166,203 (for The LLC) and \$1,211,188 (for The Partnership) is scheduled to be paid from the equity contributions of the investor member/partner of The Projects. Any amount that is not paid from investor member/partner equity contributions will be subject to payment from the available cash flow of The Projects in accordance with the distribution priority of payments for available cash flow as outlined in operating/partnership agreements. If The Projects do not have sufficient funds to pay the developer fee by the end of the twelfth year of the tax credit compliance period, First Step House is required to make an equity contribution to The Projects in the amount of any remaining unpaid fee. For the years ended June 30, 2021 and 2020, First Step House recognized \$1,290,452 and \$1,183,684, respectively, of revenue related to developer fees earned based on the pro-rata portion of each project's development completed. This amount is included on the consolidated statements of activities as housing development income. As of June 30, 2021 and 2020, amounts receivable from The Projects for developer fees totaled \$1,248,500 and \$875,492, respectively. At June 30, 2021, the full amount of the developer fees has been recognized as revenue.

#### 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/partner of each project for the buyout price as defined in the operating/partnership 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/partner's interest based on a calculation of the distribution that the investor member/partner would receive upon liquidation of The Projects after a sale at each project's appraised value, or the amount of all taxes attributable to the investor member/partner as a result of the sale of its interest to First Step House.

#### Guaranties

Development completion - First Step House has agreed to provide any funds that might be necessary to complete construction of The Projects, 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 Projects are to be funded first by using operating reserves which are to be established from investor member/partner equity proceeds in the amount of \$420,305 (for The LLC) and \$145,000 (for The Partnership). If the reserves are depleted, First Step House is required to provide loans to The Projects in the amount of any operating deficits in amounts not to exceed \$387,994 (for the LLC) and \$250,000 (for The Partnership). This guaranty is required until the operating results of The Projects meet certain criteria defined in the operating/partnership 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 for The LLC, 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. Projected tax credits for The Partnership, which are expected to be claimed on tax returns from December 31, 2021 to 2031, total \$7,564,820 of federal credits and \$1,600,000 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, 2021 and 2020, is as follows:

	5th East Apartments, LLC		426 Apartments, LP	
	2021	2020	2021	2020
Current assets	\$ 1,230,906	\$ 12,505	\$ 61,378	\$ 4,617
Land, buildings and equipment	18,573,569	16,144,378	10,372,314	4,924,055
Other noncurrent assets	94,093	48,619	108,032	29,403
<b>Total assets</b>	<b>\$ 19,898,568</b>	<b>\$ 16,205,502</b>	<b>\$ 10,541,724</b>	<b>\$ 4,958,075</b>
Current liabilities	\$ 1,622,544	\$ 13,544,621	\$ 52,557	\$ 2,858,459
Noncurrent liabilities	10,285,874	-	2,070,747	836,915
Equity	7,990,150	2,660,881	8,418,420	1,262,701
<b>Total liabilities and equity</b>	<b>\$ 19,898,568</b>	<b>\$ 16,205,502</b>	<b>\$ 10,541,724</b>	<b>\$ 4,958,075</b>
Total revenue	\$ 623,437	\$ -	\$ 124,654	\$ -
Total expenses	(1,373,632)	(97,647)	(115,833)	(73,377)
<b>Net income (loss)</b>	<b>\$ (750,195)</b>	<b>\$ (97,647)</b>	<b>\$ 8,821</b>	<b>\$ (73,377)</b>

**Note 7 - Line of Credit**

At June 30, 2021 and 2020, First Step House had a \$300,000 line of credit with a bank, secured by property and equipment, which expires November 2022. The outstanding balance on the line of credit was \$0 at June 30, 2021 and 2020.

**Note 8 - Provider Relief Funds**

In connection with the federal government’s response to the Covid-19 pandemic, First Step House received \$801,742 in federal Provider Relief Fund (PRF) payments from the U.S. Department of Health and Human Services (HHS) during the year ended June 30, 2021. The funds are subject to the terms and conditions imposed by HHS. Among the terms and conditions is a provision that payments are to only be used to prevent, prepare for, and respond to Covid-19 (i.e. reimburse the recipient for healthcare-related expenses or lost patient revenues that are attributable to the Covid- 19 pandemic). First Step House has recorded the PRF payments received as revenue because the funds are expected to be retained by First Step House based on HHS’ reporting guidelines.

**Note 9 - Lease Commitments**

First Step House leases office space, program-use space, and equipment under various operating leases expiring at various dates through 2025. Total rent expense for the years ended June 30, 2021 and 2020, was \$356,116 and \$382,700, respectively. Future minimum payments under the operating leases are as follows:

Year Ending June 30,	Amount
2022	\$ 71,940
2023	32,239
2024	15,757
2025	4,098
	\$ 124,034

Additionally, during the year ended June 30, 2021, First Step House entered into a 30-year lease agreement for a portion of the 5<sup>th</sup> East Apartments, LLC building. The lease requires an annual payment of \$1, thus, the leased space is substantially being donated to First Step House for use in its alcohol and drug rehabilitation program. For the year ended June 30, 2021, First Step House has recognized the estimated fair value of the 30-year lease as in-kind rent donation - related party on the consolidated statement of activities totaling \$3,152,801. Rent expense is being recognized on a straight-line basis annually as the donated space is used. For the year ended June 30, 2021, rent expense related to this lease totaled \$96,336. At June 30, 2021, First Step House has recorded an in-kind rent receivable of \$3,056,465, which represents the remaining value of the lease that will be expensed in future years.

**Note 10 - Donated Materials**

First Step House received donated materials as follows during the years ended June 30, 2021 and 2020:

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
<u>June 30, 2021</u>				
Food	\$ 128,775	\$ 17,625	\$ -	\$ 146,400
Rent	91,519	4,817	-	96,336
Vehicles	46,382	6,348	-	52,730
Other	4,618	632	-	5,250
	<u>\$ 271,294</u>	<u>\$ 29,422</u>	<u>\$ -</u>	<u>\$ 300,716</u>
<u>June 30, 2020</u>				
Food	\$ 129,391	\$ 17,709	\$ -	\$ 147,100
Vehicles	63,173	8,646	-	71,819
	<u>\$ 192,564</u>	<u>\$ 26,355</u>	<u>\$ -</u>	<u>\$ 218,919</u>

**Note 11 - Long-Term Debt**

Long-term debt consists of the following at June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</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.	\$ 435,355	\$ 447,394
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.	615,654	638,965
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, 2021), secured by property.	1,911,745	1,972,718
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, 2021), secured by property.	372,615	389,144
Mortgage note payable to Salt Lake City Corporation, monthly principal payments of \$200, non-interest bearing, due October 1, 2027, secured by property.	113,417	115,817

	2021	2020
Note payable to Salt Lake City Corporation, no monthly payments required through July 2049, interest at 0%, secured by property.	126,000	126,000
Paycheck Protection Program loan payable to Zions Bank, due in monthly installments of \$6,173 through maturity (April 2025), interest at 1%, unsecured (see further explanation below).	278,477	1,335,500
Note payable to Intermountain Healthcare, due in monthly installments of \$9,286, beginning June 2020 through May 2027 interest at 2.036%, secured by property.	2,428,601	2,489,904
	6,281,864	7,515,442
Less current maturities	(247,031)	(757,745)
	\$ 6,034,833	\$ 6,757,697

Future maturities of long-term debt are as follows:

Year Ending June 30,	Amount
2022	\$ 247,031
2023	259,266
2024	265,480
2025	259,626
2026	204,101
Thereafter	5,046,360
	\$ 6,281,864

#### Paycheck Protection Program Loan

During April 2020, the Organization applied for and was granted a \$1,335,500 loan under the Paycheck Protection Program administered by a Small Business Administration (SBA) approved partner. The loan is uncollateralized and is fully guaranteed by the federal government. The loan accrues interest at a rate of 1% and requires monthly installment payments beginning in November 2020. The Organization is eligible for forgiveness of the loan upon meeting certain requirements. During the year ended June 30, 2021, Organization applied for loan forgiveness and received forgiveness of \$1,035,545 of the total loan amount. The remaining \$299,955 was not forgiven and was converted to an amortizing loan that matures in April 2025. The outstanding balance on the loan was \$278,477 at June 30, 2021.

**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, 2021 and 2020:

	2021	2020
Programs	\$ 154,698	\$ 196,443
Medical services	50,000	-
In-kind rent receivable - related party	3,056,465	-
	\$ 3,261,163	\$ 196,443

**Note 13 - Concentrations**

The majority of First Step House's grant and contract revenues are provided through Medicaid, Veterans Administration, Salt Lake County, 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, 2021 and 2020, the largest sources of revenue as a percent of total revenue are as follows:

	2021	2020
Medicaid, Utah State Department of Health	21%	22%
Veterans Administration	10%	18%
Pay for Success	3%	11%

**Note 14 - Related Party Transactions**

At June 30, 2021 and 2020, First Step House has receivable amounts due from 5<sup>th</sup> East Apartments, LLC and 426 Apartments, LP as follows:

	2021	2020
Developer fee receivable (Note 6)	\$ 1,248,500	\$ 875,492
Advances for development costs	78,656	46,455
Supportive housing services	10,833	-
Accrued interest receivable	30,000	-
	\$ 1,367,989	\$ 921,947

For the years ended June 30, 2021 and 2020, First Step House recorded development fee revenue totaling \$1,290,452 and \$1,183,684, respectively, from 5th East Apartments, LLC and 426 Apartments, LP (see Note 6).

### **Notes Receivable - Related Party**

First Step House, acting as the project sponsor, has entered into two Affordable Housing Subsidy Agreements (one related to 5<sup>th</sup> East Apartments, LLC for \$630,000 and one related to 426 Apartments, LP for \$400,000) with the Federal Home Loan Bank of Des Moines (FHLB). During the year ended June 30, 2020, First Step House received the \$630,000 subsidy for the development of the 5<sup>th</sup> East Apartments, LLC project. During the year ended June 30, 2021, First Step House received the \$400,000 subsidy for the development of the 426 Apartments, LP project. The terms of the subsidy agreements outline certain conditions and performance requirements that must be met through the duration of the 15-year retention period. If these conditions and requirements are not met, the subsidies would be required to be repaid to the FHLB. Due to these conditions and requirements, First Step House considers the subsidy funds (totaling \$1,030,000) to be conditional contributions and has recorded the amount of the subsidy funds received as refundable advances as of June 30, 2021.

During the year ended June 30, 2020, First Step House (acting as the project sponsor), loaned the \$630,000 subsidy funds to 5<sup>th</sup> East Apartments, LLC. The corresponding note receivable bears 0% interest and requires principal payments subject to available cash flow until the project is sold or maturity (December 2049), at which time any unpaid balance is due.

During the year ended June 30, 2021, First Step House (acting as the project sponsor), loaned the \$400,000 subsidy funds to 426 Apartments, LP. The corresponding note receivable bears 9% interest and requires principal payments subject to available cash flow until the project is sold or maturity (December 2050), at which time any unpaid balance is due. For the year ended June 30, 2021, First Step House has recorded \$30,000 of interest income, which is also recorded as a receivable at June 30, 2021.

### **Note 15 - 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, 2021 and 2020, First Step House matched employee voluntary contributions up to 4% of employee compensation, resulting in contributions to the Plan of \$123,271 and \$94,460, respectively.



Additional Information  
June 30, 2021





**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  
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, 2021, 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 April 25, 2022.

**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) as a basis for designing 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. As a result of our audit procedures, we identified a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2021-001, that we consider to be a material weakness.

**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 financial statements. 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*.

**Entity's Response to Finding**

First Step House's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. First Step House's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Salt Lake City, Utah  
April 25, 2022



## **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 and Management  
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, 2021. 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, 2021.

### **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 and therefore, material weaknesses and significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2021-002 that we consider to be a significant deficiency.

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

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

*Eide Bailly LLP*

Salt Lake City, Utah  
April 25, 2022

First Step House  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2021

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing/Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
<b><u>U.S. Department of Veteran Affairs</u></b>			
VA Homeless Providers Grant and Per Diem Program	64.024	18-303-UT	\$ 75,210
VA Homeless Providers Grant and Per Diem Program	64.024	20-303-UT	173,431
VA Homeless Providers Grant and Per Diem Program	64.024	FSH 1963-0438	88,522
VA Homeless Providers Grant and Per Diem Program	64.024	FSH 1962-0428	1,276,622
VA Homeless Providers Grant and Per Diem Program	64.024	not available	292,251
<b>Total U.S. Department of Veterans Affairs</b>			<b>1,906,036</b>
<b><u>U.S. Department of Health and Human Services</u></b>			
Passed through Salt Lake County Social Services Block Grant	93.667	not available	57,728
<b>Total U.S. Department of Health and Human Services</b>			<b>57,728</b>
<b><u>U.S. Department of Housing and Urban Development</u></b>			
Passed through Salt Lake City Corporation CDBG Entitlements Grants	14.218	not available	97,000
Passed through Salt Lake County CDBG Entitlements Grants	14.218	not available	86,061
Total Cluster - CDBG Entitlements Grants			183,061
Passed through Salt Lake City Corporation Emergency Solutions Grant	14.231	not available	27,533
Passed through Salt Lake County Emergency Solutions Grant Project - CARES Act	14.231	not available	141,203
Continuum of Care	14.267	not available	69,830
<b>Total U.S. Department of Housing and Urban Development</b>			<b>421,627</b>
<b><u>U.S. Department of Treasury</u></b>			
Passed through Salt Lake County Coronavirus Aid, Relief, and Economic Security	21.019	not available	236,000
<b>Total U.S. Department of Treasury</b>			<b>236,000</b>
<b><u>U.S. Department of Transportation, Federal Transit Administration</u></b>			
Passed through Utah Transit Authority Transit Services Programs Cluster FTA Grant Program 5310	20.513	16-2056JH	177,169
<b>Total U.S. Department of Transportation, Federal Transit Administration</b>			<b>177,169</b>
<b><u>Corporation for National and Community Service</u></b>			
Passed through Salt Lake County AmeriCorps Program	94.013	not available	5,000
<b>Total Corporation for National and Community Service</b>			<b>5,000</b>
<b>Total Federal Assistance</b>			<b>\$ 2,803,560</b>

**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, 2021. 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 House has elected to use the 10% de minimis cost rate.

**Note D - Provider Relief Funds**

First Step House received amounts from the U.S. Department of Health and Human Services (HHS) through the Provider Relief Fund (PRF) program (Federal Financial Assistance Listing/CFDA #93.498) during the year ended June 30, 2021. The Organization incurred eligible expenses (including lost revenue) and, therefore, recognized revenue totaling \$801,742 for the year ended June 30, 2021 on the financial statements. However, the PRF expenditures are not recognized on the schedule based on HHS guidance until the expenditures are required to be included on the report to HHS, as required under the PRF program. For the funds received by First Step House, there were no HHS reporting requirements for the year ended June 30, 2021.

**Section I – Summary of Auditor’s Results**

**FINANCIAL STATEMENTS**

Type of auditor's report issued	Unmodified
Internal control over financial reporting	
Material weaknesses identified	Yes
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	Yes
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

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**Section II – Financial Statement Findings**

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**2021 – 001      Financial Statement Adjustment  
Material Weakness**

*Criteria:* First Step House should have policies and procedures in place to properly account for all transactions. In addition, these policies and procedures should encompass the preparation of the financial statements, including required disclosures.

*Condition:* In connection with the audit procedures performed, an audit adjustment was required to properly reflect the below-market lease arrangement between 5<sup>th</sup> East Apartments, LLC and First Step House. First Step House’s system of internal control did not include controls to properly reflect this transaction in the financial statements.

*Cause:* First Step House’s processes and controls did not detect the required adjustment referred to above.

*Effect:* An audit adjustment was required to properly state certain general ledger account balances. The classifications and disclosures in the financial statements could be incomplete or incorrect and not be detected by management.

*Recommendation:* First Step House should strengthen its processes and controls to identify and properly account for all transactions that have a significant impact on the financial statements, including disclosures.

*Views of Responsible Officials:* Management agrees with this finding.

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Section III – Federal Award Findings and Questioned Costs

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**2021 – 002      United States Department of Veteran Affairs 64.024  
VA Homeless Providers Grant and Per Diem Program  
Allowable Costs  
Significant Deficiency in Internal Control over Compliance**

*Criteria:* First Step House should maintain proper documentation of authorization of disbursements.

*Condition:* In connection with the audit procedures performed, supporting documentation of authorization for two disbursements tested was not maintained.

*Cause:* First Step House's internal control system was not sufficient to maintain documentation of authorization of all disbursements.

*Effect:* Disbursements could be processed without proper authorization.

*Questioned Costs:* None reported

*Context/Sampling:* A non statistical sample of 42 transactions were selected for testing which accounted for \$759,552 of \$1,906,036 of federal program expenditures.

*Recommendation:* First Step House should strengthen its maintenance of supporting documents for disbursements to ensure that the approval for all disbursements is properly maintained.

*Views of Responsible Officials:* Management agrees with this finding.