

**THE TWELFTH STEP HOUSE OF SAN DIEGO
AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2016**

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BECK and COMPANY, CPAs
(dba Beck & Grund., CPA's)
INDEPENDENT AUDITOR'S REPORT
THE TWELFTH STEP HOUSE OF SAN DIEGO
AUDITED FINANCIAL STATEMENTS
JUNE 30, 2016

To the Board of Directors
THE TWELFTH STEP HOUSE OF SAN DIEGO

We have audited the accompanying financial statements of THE TWELFTH STEP HOUSE OF SAN DIEGO which comprise the balance sheets as of JUNE 30, 2016 and the related statement of revenues, expenses and changes in fund balances and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 THE TWELFTH STEP HOUSE OF SAN DIEGO as of JUNE 30, 2016, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

The financial statements as of December 31, 2014 (shown for comparative purposes) were audited by another auditor. Their report dated April 20, 2015 expressed an unmodified opinion on those statements.



Beck and Company, CPA's, Inc.

November 10, 2016

THE TWELFTH STEP HOUSE OF SAN DIEGO
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2016
(With Comparative Totals for 06/30/2015)

	2016	2015
<u>ASSETS:</u>		
Cash and Cash Equivalents	\$ 484,227	\$ 163,036
Board Restricted Funds	507,838	-
Accounts Receivable	26,812	20,009
Deposits/Prepaid Expenses	6,564	10,722
Property and Equipment	203,334	203,334
Accumulated Depreciation	(172,059)	(165,107)
Land	18,327	18,327
TOTAL ASSETS	\$ 1,075,043	\$ 250,321
 <u>LIABILITIES:</u>		
Accounts Payable	\$ 6,277	\$ 3,370
Client Fees Paid In Advance	1,250	1,250
Payroll Taxes Payable	2,949	
TOTAL LIABILITIES	10,477	4,620
 NET ASSETS		
Unrestricted Net Assets	556,728	245,701
Board Restricted Net Assets	507,838	
TOTAL NET ASSETS	1,064,566	245,701
 TOTAL LIABILITIES AND NET ASSETS	 \$ 1,075,043	 \$ 250,321

**THE TWELFTH STEP HOUSE OF SAN DIEGO
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016
(With Comparative Totals for 06/30/2015)**

	2016	2015
<u>SUPPORT AND REVENUES</u>		
SUPPORT		
Contributions	\$ 49,926	\$ 35,660
REVENUES		
Grant - County of San Diego	206,589	207,315
Participants Fees	305,465	266,196
Estate Proceeds	826,699	
In Kind Donations	13,695	
Interest and Investment Income	10,969	34
Other Miscellaneous	1,572	1,282
	1,414,915	510,486
<u>EXPENSES</u>		
Program Services	596,050	470,123
	596,050	470,123
Increase (Decrease) in Net Assets	818,865	40,363
NET ASSETS, BEGINNING OF THE YEAR	245,701	205,338
NET ASSETS, END OF THE YEAR	\$ 1,064,565	\$ 245,701

THE TWELFTH STEP HOUSE OF SAN DIEGO
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2016
(With Comparative Totals for 06/30/2015)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ 818,865	\$ 40,363
Adjustments to reconcile change in net assets to net cash provided (used) in operating activities by operating activities:		
Depreciation and amortization	6,952	17,027
(Increase) decrease in:		
Assessments Receivable	(6,802)	(5,096)
Other Assets	4,158	89
Increase (decrease) in:		
Accounts Payable	2,908	294
Deferred future event income	-	(354)
Customer deposits	-	4,544
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	826,080	56,867
CASH FLOWS FROM CAPITAL INVESTING ACTIVITIES		
Acquisition of equipment	-	(22,826)
Sub Total	65,226	34,041
NET INCREASE (DECREASE) IN CASH	65,226	34,041
CASH AT BEGINNING OF YEAR	419,001	388,229
CASH AT END OF YEAR	\$ 484,227	\$ 422,270
SUPPLEMENTAL DISCLOSURE		
Income taxes paid	\$ -	\$ -

See accompanying notes to financial statements

**THE TWELFTH STEP HOUSE OF SAN DIEGO
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2016**

	<u>2016</u>		<u>2015</u>	
	<u>TWELFTH STEP HOUSE</u>	<u>SOBER LIVING</u>	<u>Total</u>	<u>TOTAL SVCS.</u>
ORGANIZATIONAL DEVELOPMENT	\$ 3,455		\$ 3,455	\$ -
SALARIES & WAGES	219,280		219,280	194,610
EMPLOYEE BENEFITS	22,872		22,872	19,578
PAYROLL TAXES	20,118		20,118	17,663
AUTO EXPENSES	2,129		2,129	
BANQUET EXPENSES	29,077		29,077	
RENT	32,400	36,520	68,920	55,720
EQUIPMENT RENTAL	417		417	2,809
REPAIRS & MAINTENANCE-BUILDING	18,464		18,464	13,547
REPAIRS & MAINTENANCE-EQUIPMENT	7,426		7,426	2,007
DEPRECIATION EXPENSE	6,952		6,952	6,399
TELEPHONE & UTILITIES	25,152	5,268	30,420	26,462
SUPPLIES	11,979		12,544	14,129
OFFICE EXPENSES	5,485	565	5,485	8,324
PRINTING & PUBLISHING	3,370		3,370	
MEMBERSHIP FEES	467		467	
LAUNDRY & LINEN	1,977		1,977	
RECREATION/GIFTS	2,419		2,419	2,573
INSURANCE	33,065		33,065	20,646
TAXES & LICENSES	5,344		5,344	2,995
OUTSIDE SERVICES	16,083		16,083	15,675
BANK, CC, & INVESTMENT FEES	4,508		4,508	
TRAVEL & LODGING	3,427		3,427	3,693
FOOD	53,859		53,859	48,987
EQUIPMENT	1,781		1,781	1,380
TRAINING/EDUCATION/STAFF MTGS	4,822		4,822	2,569
MISCELLANEOUS EXPENSE	527		527	1,320
DRUG TESTING	3,812		3,812	2,216
BAD DEBT EXPENSE	13,031		13,031	6,820
TOTALS	<u>\$ 553,697</u>	<u>\$ 42,353</u>	<u>\$ 596,050</u>	<u>\$ 470,122</u>

See accompanying notes to financial statements

**THE TWELFTH STEP HOUSE OF SAN DIEGO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 – ORGANIZATION

THE TWELFTH STEP HOUSE OF SAN DIEGO (the Company- also known as Heartland House) is a not-for-profit organization incorporated in 1960 under the General Non – profit Corporation law of the State of California. The Company’s mission is to establish, operate and maintain in San Diego County a rehabilitation center for the care, treatment and rehabilitation of men suffering from alcoholism or drug abuse. The Company operates a residential recovery home which is licensed by the State of California Department of Alcohol and Drug Programs.

The Company is funded through government grants, user fees and contributions and provides a living environment conducive to continued sobriety, conducts an educational program that serves the newly recovering alcoholic or drug abuser, provides a means for establishing a long term support system that generates attitudes that support self-sufficiency and enhance self-worth.

NOTE 2 – DATE OF MANAGEMENT’S REVIEW

In preparing the financial statements, the corporation has evaluated events and transactions for potential recognition or disclosure through date of the audit report, which is the date that the financial statements were available to be issued.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statements and Fund Accounting

The accompanying financial statements are prepared on the accrual basis of accounting in accordance with Generally Accepted Accounting Principles (GAAP). The organization’s accounting records are maintained on the accrual basis of accounting.

The corporation complies with the statement of Financial Accounting Standards (SFAS) No. 117, “Financial Statements of Not-for-profit organizations. Under SFAS No. 117, information regarding its financial position and activities is reported according to its three classes of net assets: unrestricted, temporarily restricted and permanently restricted. The corporation also presents a statement of cash flows. For the year ending December 31, 2015 there are no restricted funds.

Support, Contributions, and Grant Revenue

All Support, Contributions, and Grant(s) revenue are considered to be available for unrestricted use unless specifically restricted by the donor. For Contributions the corporation complies with SFAS No. 116 “Accounting for Contributions Received and Contributions Made.” Under SFAS No.116 contributions are defined as an unconditional transfer of cash or other asset(s) to an entity, or a settlement or cancellation of it’s liabilities in a voluntary non-reciprocal transfer. Other assets include use of facilities (or utilities), services and unconditional promises to give these items in the future. Generally contributions received are recognized as revenues in the period received at fair market value. In situations where contributions are restricted or conditional upon the corporation incurring certain qualifying expenses such contributions become unrestricted or unconditional upon the expense being incurred. Accordingly these revenues and costs are recognized when incurred.

THE TWELFTH STEP HOUSE OF SAN DIEGO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

The corporation reports grants, contracts, and gifts as temporarily restricted if they are received with stipulations that limit the timing and/or use of the assets. When a restriction expires either due to time and or the stipulation is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. However as permitted under SFAS No. 116 the corporation follows the practice of recording as unrestricted income all contributions and grants where restrictions lapse in the same fiscal year in which they are received.

Special Events and Fundraising

For special fund raising events, revenues and expenses are recorded when incurred at gross.

Donated Services and Supplies

The corporation follows the practice of recording donated services only in instances where non-financial assets are thereby created or enhanced or where services are provided which require specialized skills, are provided by such skilled individuals and would typically need to be purchased. In addition, the corporation's programs and fund raising activities have benefited from the significant amounts of time and goods donated by other volunteers which has been expressed in the financial statements at an equivalent fair market value as In Kind Donations.

Cash and cash equivalents

In reporting cash the corporation considers all highly liquid assets and any investments with maturities of 90 days or less to be cash equivalents.

Fair value of financial instruments

The recorded value of the Company's financial instruments approximates their fair values. Financial instruments include cash, accounts receivable and accounts payable.

Property and Equipment

Property and equipment are recorded at cost for purchased assets and fair market value at the date of acquisition for donated assets.

Property and equipment acquired with grant funds are considered to be owned by the granting agency and accordingly reflected as program expenditures and are not capitalized by the Company. Donations of assets are recorded as unrestricted support unless the donor stipulates a specific period over which the asset must be used by the Company. Depreciation is provided on the straight-line basis over the estimated useful lives of the assets.

**THE TWELFTH STEP HOUSE OF SAN DIEGO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

**NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)**

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles may require management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates and assumptions, if made.

Economic Concentrations

The corporation's operations are concentrated in San Diego County. During the year ended JUNE 30, 2016 the Company received approximately 74% of its revenues from two sources, which are considered an Economic Concentration as follows:

1. San Diego County for \$206,589.
2. A one-time contribution from an estate for \$800,000 as more fully described in Note 8 below.

With the exception of the one-time estate contribution, management is not aware of the existence of any severe or substantial cut backs pending due to concentrations of economic risk.

NOTE 4 – COMMITMENTS AND CONTINGENCIES

The corporation receives substantial funding from government agencies which may be restricted under the terms of the related funding agreements. When restricted, expenditures are charged against these restricted funds and are subject to audit by the funding agencies. It is possible future audits will result in expenditure disallowances; however, based on their knowledge of the funding agencies and the fact that no material cost disallowances have occurred in the past, management believes that any such disallowances will not be material.

NOTE 5 – INCOME TAXES

The corporation qualifies for exemption from income taxes under Federal and State Revenue codes. Therefore no tax provision is necessary and has not been provided for in the financial statements. The corporation is subject to taxation on unrelated business income, if any. There was no unrelated business income for the year ended JUNE 30, 2016.

NOTE 6 – PENSION COSTS

The corporation's employees are not covered by a sponsored pension plan.

**THE TWELFTH STEP HOUSE OF SAN DIEGO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 7 – SUPPLEMENTARY INFORMATION

During the year ended June 30, 2016 the Company provided services to clients as summarized below:

<u>Program Service</u>	<u>Units of Service Provided to Clients</u>
Bed nights	9,451 (including 1,277 sober living bed nights)

NOTE 8 – BOARD RESTRICTED FUNDS

During the year ended June 30, 2016 the corporation received a one-time donation of \$800,000 from an estate. While the estate did not stipulate any restrictions as to the use of the funds, the board of directors of the corporation has chosen to restrict those funds for the moment as they put together a plan as to how the corporation will best use those funds. The funds are in broker and bank accounts in various investment instruments: The investments are being carried on the books at their cost basis. Any gains or losses in market value will be recorded at the time of redemption.

The Fair Value Measurement of the instruments are measured along the following criteria:

- Level 1 input: Quoted prices in active markets for identical assets
- Level 2 input: Significant observable inputs
- Level 3 input: Significant unobservable inputs

The following methods and assumptions were used to estimate the fair value of each class of financial investments:

- The fair value is determined based on quoted market prices.

Fair values of the Association’s financial investments are as follows, and all values are classified as Level 1 inputs:

	Carrying Value	Fair Value
Fixed Income	\$ 153,260	\$ 158,107
Equities	52,049	63,905
Mutual Funds	252,623	273,642
Total	\$ 457,932	\$ 495,654