

THE TWELTH STEP HOUSE OF SAN DIEGO

Financial Statements

For the year ended June 30, 2017
(With Comparative Totals for June 30, 2016)



COSSOLIAS | WILSON
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CERTIFIED PUBLIC ACCOUNTANTS

THE TWELVE STEP HOUSE OF SAN DIEGO

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THE TWELVE STEP HOUSE OF SAN DIEGO
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017
(With comparative totals for June 30, 2016)

	2017				2016
	Program Services	Fundraising	Management and General	Total	Total
EXPENSES					
Personnel expenses					
Salaries and wages	\$ 185,206	\$ 9,825	\$ 69,975	\$ 265,006	\$ 219,280
Employee benefits	16,354	1,063	6,734	24,151	22,872
Payroll taxes	21,153	522	4,440	26,115	20,118
Total personnel expenses	222,713	11,410	81,149	315,272	262,270
Non-personnel expenses					
Organizational development	-	-	14,901	14,901	3,455
Auto expense	5,565	-	618	6,183	2,129
Banquet expense	-	21,097	-	21,097	29,077
Rent expense	74,080	-	-	74,080	68,920
Equipment rental	504	-	-	504	417
Repairs and maintenance	26,926	-	692	27,618	25,890
Depreciation expense	1,002	-	-	1,002	6,952
Utilities expense	30,083	339	1,019	31,441	30,420
Supplies	11,992	-	-	11,992	11,979
Office expenses	5,480	-	655	6,135	6,049
Printing and publishing	619	-	81	700	3,370
Membership fees	915	-	-	915	467
Laundry and linen	1,842	-	-	1,842	1,977
Recreation	2,709	943	-	3,652	2,419
Insurance	18,228	631	4,493	23,352	33,065
Taxes and license	11,439	-	-	11,439	5,344
Outside services	4,010	-	2,429	6,439	16,083
Computer and internet services	12,479	-	522	13,001	-
Bank and investment fees	6,925	-	-	6,925	4,508
Travel and lodging	901	-	235	1,136	3,427
Food expense	54,998	-	-	54,998	53,859
Equipment expense	1,124	-	-	1,124	1,781
Training/Education/Staff meetings	11,974	22	423	12,419	4,822
Miscellaneous expense	1,907	-	-	1,907	527
Drug testing	6,152	-	-	6,152	3,812
Interest expense	3,144	-	-	3,144	-
Bad debt expense	14,358	-	-	14,358	13,031
Total non-personnel expenses	309,356	23,032	26,068	358,456	333,780
TOTAL EXPENSES	\$ 532,069	\$ 34,442	\$ 107,217	\$ 673,728	\$ 596,050

THE TWELVE STEP HOUSE OF SAN DIEGO
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017
(With comparative totals for June 30, 2016)

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Change in Net Assets	\$ (67,025)	\$ 818,865
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	1,002	6,952
Increase (decrease) in cash resulting from changes in:		
Accounts receivable	(12,227)	(6,803)
Other assets	(5,662)	4,158
Board restricted funds	645	(507,838)
Accounts payable	(1,025)	2,908
Accrued liabilities	5,952	2,949
Deferred revenues	-	-
Net cash provided by (used in) by operating activities	<u>(78,340)</u>	<u>321,191</u>
Cash flows from investing activities		
Purchase of property and equipment	(600,000)	-
Net cash used in investing activities	<u>(600,000)</u>	<u>-</u>
Cash flows from financing activities		
Issuance of note payable	418,190	-
Net cash provided by financing activities	<u>418,190</u>	<u>-</u>
Net increase (decrease) in cash	(260,150)	321,191
Cash - Beginning	<u>484,227</u>	<u>163,036</u>
Cash - Ending	<u>\$ 224,077</u>	<u>\$ 484,227</u>
Supplemental Information		
Cash paid during the year for interest	<u>\$ 3,144</u>	<u>\$ -</u>

THE TWELVE STEP HOUSE OF SAN DIEGO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30,2017

NOTE 1 – ORGANIZATION

The Twelve 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 – 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 June 30, 2017, 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 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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

THE TWELVE STEP HOUSE OF SAN DIEGO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Economic Concentrations

The corporation's operations are concentrated in San Diego County. During the year ended June 30, 2017, the Company received approximately 34% of its revenues from the County of San Diego Grant. Total revenues received were \$207,004.

NOTE 3 – CASH

The Company's cash and cash equivalents as of June 30, 2017 consist of non-interest bearing checking and interest-bearing savings accounts totaling \$224,077.

NOTE 4 – RECEIVABLES

The Company's receivables as of June 30, 2017 consist principally of participant fees totaling \$39,039.

NOTE 5 – 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 6 – 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, 2017.

NOTE 7 – PENSION COSTS

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

**THE TWELVE STEP HOUSE OF SAN DIEGO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30,2017**

NOTE 8 – SUPPLEMENTARY INFORMATION

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

Program Services	Units of Services Provided to Clients
Bed Nights	9,309 (Including 4,015 Sober Living Bed Nights)

NOTE 9 – 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	\$ 154,539	\$ 152,142
Equities	52,049	53,530
Mutual Funds	235,434	248,063
Cash/Money Market	53,458	53,458
Total	\$ 495,480	\$ 507,193

NOTE 10 – SUBSEQUENT EVENTS

The Company’s management has evaluated events from July 1, 2017 through August 4, 2017, the date the financial statements were available to be issued. Management did not identify any transactions that require disclosure or that would have an impact on the financial statements.