THE TWELFTH STEP HOUSE OF SAN DIEGO, INC.

Financial Statements

For the year ended June 30, 2019
(With Comparative Totals for June 30, 2018)

THE TWELFTH STEP HOUSE OF SAN DIEGO, INC.
TABLE OF CONTENTS
JUNE 30, 2019
(With comparative totals for June 30, 2018)

Independent Auditors' Report 1
Statement of Financial Position 3
Statement of Activities 4
Statement of Functional Expenses 5
Statement of Cash Flows 6
Notes to the Financial Statements 7-11

INDEPENDENT AUDITORS' REPORT

Board of Directors of
The Twelfth Step House of San Diego, Inc.
San Diego, California

We have audited the accompanying financial statements of The Twelfth Step House of San Diego, Inc., which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses, 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 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 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, Inc. as of June 30, 2019, 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.

CWDL, Certified Public Accountants

San Diego, California
November 13, 2019

Member of AICPA
5151 Murphy Canyon Road, Ste. 135, San Diego, CA 92123
P: (858) 565-2700 F: (858) 565-7399 E: info@cwdlcpa.com www.cwdlcpa.com
CalCPA

THE TWELFTH STEP HOUSE OF SAN DIEGO, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2019
(With comparative totals for June 30, 2018)

	2019	2018
ASSETS		
Cash and cash equivalents	$ 81,912	$ 29,935
Board restricted funds	492,316	485,826
Accounts receivable	242,823	103,080
Deposits/Prepaid expenses	12,523	1,701
Other assets	11,341	15,320
Property and equipment, net	903,884	913,729
Total Assets	$ 1,744,799	$ 1,549,591
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	$ 48,581	$ 24,065
Accrued liabilities	219,138	35,382
Client fees paid in advance	-	1,250
Note payable	427,477	409,426
Line of credit	182,318	120,057
Total liabilities	877,514	590,180
Net Assets		
Net assets without donor restrictions	867,285	959,411
Total net assets	867,285	959,411
Total Liabilities and Net Assets	$ 1,744,799	$ 1,549,591

THE TWELFTH STEP HOUSE OF SAN DIEGO, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019
(With comparative totals for June 30, 2018)

	Net Assets Without Donor Restrictions	
	2019	**2018**
SUPPORT AND REVENUES		
Contributions	$ 60,183	$ 181,519
Grant - County of San Diego	1,143,486	237,574
Other grants	-	21,819
Participant fees	212,988	410,338
Rental income	-	4,200
Interest and investment income	36,929	19,711
Other miscellaneous income	1,240	10,602
Total revenues and support	1,454,826	885,763
Expenses		
Program services	1,437,069	885,991
Fundraising	5,239	20,956
Management and general	104,644	16,945
Total expenses	1,546,952	923,892
CHANGE IN NET ASSETS	(92,126)	(38,129)
Net Assets - Beginning of year	959,411	997,540
Net Assets - End of year	$ 867,285	$ 959,411

THE TWELFTH STEP HOUSE OF SAN DIEGO, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019
(With comparative totals for June 30, 2018)

	2019				2018
	Program Services	Fundraising	Management and General	Total	Total
EXPENSES					
Personnel expenses					
Salaries and wages	$ 662,405	$ -	$ -	$ 662,405	$ 295,983
Employee benefits	113,252	-	-	113,252	12,181
Payroll taxes	58,095	-	-	58,095	27,861
Total personnel expenses	833,752	-	-	833,752	336,025
Non-personnel expenses					
Organizational development	-	-	6,948	6,948	15,649
Auto expense	22,915	-	-	22,915	15,768
Banquet expense	-	5,085	13,249	18,334	22,053
Rent expense	75,257	-	9,978	85,235	91,491
Equipment rental	9,229	-	-	9,229	861
Repairs and maintenance	22,608	-	328	22,936	51,109
Depreciation and amortization expense	2,792	-	38,018	40,810	11,968
Utilities expense	41,208	-	-	41,208	45,218
Supplies	30,843	-	-	30,843	9,381
Office expense	7,204	-	-	7,204	10,037
Printing and publishing	2,800	-	56	2,856	-
Dues & Subscriptions (Membership fees)	533	-	11	544	2,726
Laundry and linen	1,815	-	-	1,815	3,026
Recreation	45		11	56	2,310
Insurance	26,166	-	340	26,506	49,823
Taxes and license	17,499	-	3,612	21,111	14,806
Outside services	98,416	-	20,680	119,096	15,826
Computer and internet services	17,142		3,380	20,522	35,155
Bank and investment fees	8,885	-	-	8,885	8,881
Travel and lodging	771	-	-	771	4,295
Food expense	71,018	154	1,278	72,450	68,875
Equipment expense	3,189	-	88	3,277	-
Training/Education/Staff meetings	27,209	-	16	27,225	33,504
Miscellaneous expense	2,486	-	-	2,486	4,277
Drug testing	2,985	-	-	2,985	6,047
Interest expense	33,980	-	6,651	40,631	21,703
Tax expense	-	-	-	-	4,655
Unrealized loss on investments	-	-	-	-	14,024
Start-Up Expenses	52,300			52,300	-
Bad debt expense	24,022	-	-	24,022	24,399
Total non-personnel expenses	603,317	5,239	104,644	713,200	587,867

THE TWELFTH STEP HOUSE OF SAN DIEGO, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2019
(With comparative totals for June 30, 2018)

	2019	2018
Cash flows from operating activities		
Change in Net Assets	$ (92,126)	$ (38,129)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	40,810	11,968
Increase (decrease) in cash resulting from changes in:		
Accounts receivable	(139,743)	-
Other assets	(6,843)	-
Board restricted funds	(6,490)	-
Accounts payable	24,516	-
Accrued liabilities	183,756	-
Client fees paid in advance	(1,250)	-
Net cash provided by (used in) by operating activities	2,630	(26,161)
Cash flows from investing activities		
Purchase of property and equipment	(30,965)	(11,968)
Net cash used in investing activities	(30,965)	(11,968)
Cash flows from financing activities		
Net barrowing (repayment) on line of credit	62,261	-
Payments on note payable	18,051	-
Net cash provided by financing activities	80,312	-
Net increase (decrease) in cash	51,977	(38,129)
Cash - Beginning	29,935	484,227
Cash - Ending	$ 81,912	$ 446,098
Supplemental Information		
Cash paid during the year for interest	$ 40,631	$ 3,144

NOTE 1 – ORGANIZATION

The Twelfth Step House of San Diego, Inc. (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, 2019, there are no restricted funds.

Support, Contributions, and Grant Revenue

The financial statements of the Company have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America. The financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 dated August 2016, and the provisions of the American Institute of Certified Public Accountants (AICPA) "Audit and Accounting Guide for Not-for-Profit Organizations" (the "Guide"). (ASC) 958-205 was effective January 1, 2018.

All donor-restricted contributions are recorded as increases in net assets with donor restrictions. When a restriction expires, either by the passage of time or the purpose is satisfied, the net assets with donor restriction are reclassified to net assets without donor restrictions and reported in the statement of activities as "net assets released from restrictions."

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Support, Contributions, and Grant Revenue (continued)

Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restriction unless their use is restricted by explicit donor stipulation or by law. Possible expirations of net assets with donor restriction are (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

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.

NOTE 2 – 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, 2019, the Company received approximately 78.6% of its revenues from the County of San Diego Grant. Total revenues received were $1,143,486.

NOTE 3 – CASH

The Company's cash and cash equivalents as of June 30, 2019 consist of non-interest bearing checking and interest-bearing savings accounts totaling $81,912.

NOTE 4 – RECEIVABLES

The Company's receivables as of June 30, 2019 consist principally of participant fees totaling $242,823.

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, 2019.

NOTE 7 – PENSION COSTS

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

NOTE 8 – NOTES PAYABLE

In March of 2017, the Company obtained a loan with the Bank of Southern California for the purchase of a multi-family residence. The loan was for $420,000, bearing interest at 4.93% and maturing on April 6, 2027. The current outstanding principal amount as of June 30, 2019 was $400,213.

In March of 2019, the Company entered into an auto finance loan for the purchase of a transportation van for residence to be used for program services. The term of the loan was for 60 months at $553 per month. The Company expects to pay the loan off within 24 months. The outstanding balance as of June 30, 2019 was $27,264.

NOTE 9 – LINE OF CREDIT

During fiscal year 2017-18, the Company opened a revolving line of credit with available credit up to $300,000 to provide cash flow for its start-up costs related to the new Medi-Cal services. The amount is backed by its Board Restricted investments. The outstanding balance as of June 30, 2019 was $182,318.

NOTE 10 – SUPPLEMENTARY INFORMATION

During the year ended June 30, 2019 the Company provided services to clients as summarized below:

Program Services	Units of Services Provided to Clients
Bed Nights	10,220 Beds (Including 8,072 for Drug Medical)

NOTE 11 – 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.

NOTE 11 – BOARD RESTRICTED FUNDS (continued)

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	$ 200,467	$ 203,962
Equities	40,564	51,994
Mutual Funds	205,792	207,864
Cash/Money Market	28,496	28,496
Total	$ 475,319	$ 492,316

NOTE 12 – SUBSEQUENT EVENTS

The Company's management has evaluated events from July 1, 2019 through November 13, 2019, the date the financial statements were available to be issued. There have been no other subsequent events that would require recognition or disclosure in the financial statements as of June 30, 2019.