

# **THE TWELFTH STEP HOUSE OF SAN DIEGO, INC.**

## **Financial Statements**

**For the year ended June 30, 2020  
(With Comparative Totals for June 30, 2019)**



**THE TWELFTH STEP HOUSE OF SAN DIEGO, INC.**  
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**JUNE 30, 2020**  
**(With comparative totals for June 30, 2019)**

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## 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, 2020, 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.

### **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, Inc. as of June 30, 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.

## Emphasis of Matter

As discussed in Note 2 to the financial statements, the Company has adopted the provisions of Financial Accounting Standards Board Accounting Standards Update No. 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. Accordingly, all contributions received have been reviewed and adjusted accordingly to adopt this standard. Our opinion is not modified with respect to this matter.

*CWDL, Certified Public Accountants*

San Diego, California  
December 15, 2020

**THE TWELFTH STEP HOUSE OF SAN DIEGO, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2020**  
**(With comparative totals for June 30, 2019)**

	<u>2020</u>	<u>2019</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 212,423	\$ 81,912
Board restricted funds	463,380	492,316
Accounts receivable	185,226	242,823
Deposits/Prepaid expenses	23,479	12,523
Other assets	9,591	11,341
Property and equipment, net	861,588	903,884
<b>Total Assets</b>	<u>\$ 1,755,687</u>	<u>\$ 1,744,799</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable	\$ 29,801	\$ 48,581
Accrued liabilities	75,355	219,138
Notes payable	412,795	427,477
Line of credit	38,536	182,318
Refundable advance	189,800	-
<b>Total Liabilities</b>	<u>746,287</u>	<u>877,514</u>
<b>Net Assets</b>		
Net assets without donor restrictions	1,009,400	867,285
<b>Total Net Assets</b>	<u>1,009,400</u>	<u>867,285</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 1,755,687</u>	<u>\$ 1,744,799</u>

**THE TWELFTH STEP HOUSE OF SAN DIEGO, INC.**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2020**  
**(With comparative totals for June 30, 2019)**

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	<b>Net Assets Without Donor Restrictions</b>	
	<b>2020</b>	<b>2019</b>
<b>SUPPORT AND REVENUES</b>		
Contributions	\$ 46,474	\$ 60,183
Grant - County of San Diego	1,476,387	1,143,486
Other grants	100,000	-
Participant fees	129,557	212,988
Interest and investment income	16,713	36,929
Other miscellaneous income	394	1,240
Net unrealized losses on investments	(40,825)	-
<b>Total revenues and support</b>	<b>1,728,700</b>	<b>1,454,826</b>
<b>Expenses</b>		
Program services	1,315,341	1,437,069
Fundraising	2,000	5,239
Management and general	269,244	104,644
<b>Total Expenses</b>	<b>1,586,585</b>	<b>1,546,952</b>
<b>CHANGE IN NET ASSETS</b>	<b>142,115</b>	<b>(92,126)</b>
<b>Net Assets - Beginning of year</b>	<b>867,285</b>	<b>959,411</b>
<b>Net Assets - End of year</b>	<b>\$ 1,009,400</b>	<b>\$ 867,285</b>

**THE TWELFTH STEP HOUSE OF SAN DIEGO, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2020**  
**(With comparative totals for June 30, 2019)**

	2020				2019
	Program Services	Fundraising	Management and General	Total	Total
<b>EXPENSES</b>					
<b>Personnel expenses</b>					
Salaries and wages	\$ 515,883	\$ -	\$ 191,408	\$ 707,291	\$ 662,405
Employee benefits	144,128	-	-	144,128	113,252
Payroll taxes	32,788	-	34,445	67,233	58,095
<b>Total personnel expenses</b>	<b>692,799</b>	<b>-</b>	<b>225,853</b>	<b>918,652</b>	<b>833,752</b>
<b>Non-personnel expenses</b>					
Auto expense	23,042	-	-	23,042	22,915
Banquet expense	18,252	2,000	-	20,252	18,334
Rent expense	78,371	-	-	78,371	85,235
Equipment rental	11,326	-	-	11,326	9,229
Repairs and maintenance	97,580	-	-	97,580	22,936
Depreciation and amortization expense	320	-	41,976	42,296	40,810
Utilities expense	63,288	-	-	63,288	41,208
Supplies	25,750	-	-	25,750	30,843
Office expense	20,816	-	128	20,944	7,204
Printing and publishing	4,533	-	-	4,533	2,856
Dues & Subscriptions (Membership fees)	1,907	-	-	1,907	544
Laundry and linen	770	-	-	770	1,815
Recreation	103	-	600	703	56
Insurance	24,492	-	-	24,492	26,506
Taxes and license	12,643	-	-	12,643	21,111
Outside services	71,058	-	-	71,058	119,096
Computer and internet services	23,677	-	-	23,677	20,522
Bank and investment fees	10,005	-	112	10,117	8,885
Travel and lodging	230	-	-	230	771
Food expense	73,560	-	-	73,560	72,450
Equipment expense	7,758	-	-	7,758	3,277
Training/Education/Staff meetings	14,574	-	575	15,149	27,225
Miscellaneous expense	(5,531)	-	-	(5,531)	2,486
Drug testing	7,155	-	-	7,155	2,985
Interest expense	29,016	-	-	29,016	40,631
Income tax expense	7,569	-	-	7,569	-
Start-Up Expenses	-	-	-	-	52,300
Bad debt expense	278	-	-	278	24,022
<b>Total non-personnel expenses</b>	<b>622,542</b>	<b>2,000</b>	<b>43,391</b>	<b>667,933</b>	<b>713,200</b>
<b>TOTAL EXPENSES</b>	<b>\$ 1,315,341</b>	<b>\$ 2,000</b>	<b>\$ 269,244</b>	<b>\$ 1,586,585</b>	<b>\$ 1,546,952</b>

**THE TWELFTH STEP HOUSE OF SAN DIEGO, INC.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2020**  
**(With comparative totals for June 30, 2019)**

	<u>2020</u>	<u>2019</u>
<b>Cash flows from operating activities</b>		
Change in Net Assets	\$ 142,115	\$ (92,126)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	42,296	40,810
Increase (decrease) in cash resulting from changes in:		
Accounts receivable	57,597	(139,743)
Other assets	(9,206)	(6,843)
Board restricted funds	28,936	(6,490)
Accounts payable	(18,780)	24,516
Accrued liabilities	(143,783)	183,756
Client fees paid in advance	-	(1,250)
<b>Net cash provided by operating activities</b>	<u>99,175</u>	<u>2,630</u>
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	-	(30,965)
<b>Net cash used in investing activities</b>	<u>-</u>	<u>(30,965)</u>
<b>Cash flows from financing activities</b>		
Net borrowing (repayment) on line of credit	(143,782)	62,261
PPP loan proceeds	189,800	-
Payments on note payable	(14,682)	18,051
<b>Net cash provided by financing activities</b>	<u>31,336</u>	<u>80,312</u>
<b>Net increase (decrease) in cash</b>	130,511	51,977
<b>Cash - Beginning</b>	81,912	29,935
<b>Cash - Ending</b>	<u>\$ 212,423</u>	<u>\$ 81,912</u>
<b>Supplemental Information</b>		
Cash paid during the year for interest	<u>\$ 29,016</u>	<u>\$ 40,631</u>



**THE TWELFTH STEP HOUSE OF SAN DIEGO, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

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**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 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."

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.

Support, Contributions, and Grant Revenue

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, 2020, the Company received approximately 85.4% of its revenues from the County of San Diego Grant. Total revenues received from the Grant were \$1,476,387.

Change in Accounting Principle

In June 2018, FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (ASU 2018-08). ASU 2018-08 clarifies how a not-for-profit entity determines whether a resource provider is participating in an exchange transaction or a contribution, helps an entity to evaluate whether contributions are considered conditional or unconditional by stating that a conditional contribution must have (1) a barrier that must be overcome and (2) a right of return or release of obligation, and modifies the simultaneous release option currently in GAAP, which allows a not-for-profit entity to recognize a restricted contribution directly in unrestricted net assets/net assets without donor restrictions if the restriction is met in the same period that revenue is recognized. Accounting for contributions is an issue primarily for not-for-profit entities because contributions are a significant source of revenue. However, the amendments in the ASU 2018-08 apply to all organizations that receive or make contributions of cash and other assets, including business enterprises. The amendments do not apply to transfers of assets from governments to businesses. For contributions received, ASU 2018-08 will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. For contributions made, ASU 2018-08 will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020.

The Company has implemented the provisions of this ASU as of June 30, 2020.

**NOTE 3 – CASH**

The Company's cash and cash equivalents as of June 30, 2020 consist of non-interest bearing checking and interest-bearing savings accounts totaling \$212,423.

**NOTE 4 – RECEIVABLES**

The Company's receivables as of June 30, 2020 consist principally of participant fees totaling \$185,226.

**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, 2020.

**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, 2020 was \$390,584.

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, 2020 was \$22,211.

**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, 2020 was \$38,536.

**NOTE 10 – REFUNDABLE ADVANCE**

In April 2020, the Company received loan proceeds in the amount of approximately \$189,800 under the Paycheck Protection Program (PPP) Loan from the Small Business Administration (SBA). The PPP, established as part of the Coronavirus Aid, Relief and Economic Securities Act (CARES Act), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable after 24 weeks as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries.

The unforgiven portion of the PPP loan is payable over two years at an interest rate of 1%, with a deferral of payments for the first six months. The Foundation believes it has used the proceeds for purposes consistent with the PPP. While the Foundation currently believes that it has used of the loan proceeds in accordance with the conditions for forgiveness of the loan, there is not a guarantee that the Foundation will be approved by the SBA for forgiveness of the loan, in whole or in part. Given these facts and circumstances the Foundation has accounted for the PPP loan in accordance with ASC Topic 958.

**NOTE 11 – SUPPLEMENTARY INFORMATION**

During the year ended June 30, 2020 the Company provided services to clients as summarized below:

<u>Program Services</u>	<u>Units of Services Provided to Clients</u>
Bed Nights	15,719 Beds (Including 7,869 for Drug Medical)

**NOTE 12 – 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.

**THE TWELFTH STEP HOUSE OF SAN DIEGO, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

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**NOTE 12 – 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	\$ 200,446	\$ 200,708
Equities	123	7,688
Mutual Funds	237,129	237,787
Cash/Money Market	17,197	17,197
Total	<u>\$ 454,895</u>	<u>\$ 463,380</u>

**NOTE 13 – SUBSEQUENT EVENTS**

The Company’s management has evaluated events from July 1, 2020 through December 15, 2020, 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, 2020.