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THE TWELFTH STEP HOUSE OF SAN DIEGO, INC

FINANCIAL STATEMENTS

Fiscal Years Ended June 30, 2021, and 2020

THE TWELFTH STEP HOUSE OF SAN DIEGO, INC.

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JUNE 30, 2021

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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, 2021 and 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, 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.

CWDL, Certified Public Accountants

San Diego, California
January 27, 2022

THE TWELFTH STEP HOUSE OF SAN DIEGO, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash and cash equivalents	\$ 325,681	\$ 212,423
Board restricted funds	500,506	463,380
Accounts receivable	309,358	185,226
Deposits/Prepaid expenses	4,536	23,479
Other assets	8,231	9,591
Property and equipment, net	823,113	861,588
Total Assets	<u>\$ 1,971,425</u>	<u>\$ 1,755,687</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 19,889	\$ 29,801
Accrued liabilities	41,469	75,355
Notes payable	395,986	412,795
Line of credit	80,000	38,536
Refundable advance	161,258	189,800
Total Liabilities	<u>698,602</u>	<u>746,287</u>
Net Assets		
Net assets without donor restrictions	1,272,823	1,009,400
Total Net Assets	<u>1,272,823</u>	<u>1,009,400</u>
Total Liabilities and Net Assets	<u>\$ 1,971,425</u>	<u>\$ 1,755,687</u>

THE TWELFTH STEP HOUSE OF SAN DIEGO, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2021 AND JUNE 30, 2020

	Net Assets Without Donor Restrictions	
	2021	2020
SUPPORT AND REVENUES		
Contributions	\$ 30,347	\$ 46,474
Grant - County of San Diego	1,284,114	1,476,387
Other grants	242,833	100,000
Participant fees	129,092	129,557
Interest and investment income	16,297	16,713
Debt forgiveness	189,800	-
Other miscellaneous income	-	394
Net unrealized losses on investments	51,072	(40,825)
Total revenues and support	\$ 1,943,555	\$ 1,728,700
Expenses		
Program services	\$ 1,345,465	\$ 1,315,341
Fundraising	-	2,000
Management and general	334,667	269,244
Total Expenses	1,680,132	1,586,585
CHANGE IN NET ASSETS	263,423	142,115
Net Assets - Beginning of year	1,009,400	867,285
Net Assets - End of year	\$ 1,272,823	\$ 1,009,400

THE TWELFTH STEP HOUSE OF SAN DIEGO, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2021

	Program Services	Fundraising	Management and General	Total
EXPENSES				
Personnel expenses				
Salaries and wages	\$ 532,646	\$ -	\$ 197,006	\$ 729,652
Employee benefits	101,158	-	-	101,158
Payroll taxes	58,588	-	3,139	61,727
Total personnel expenses	692,392	-	200,145	892,537
Non-personnel expenses				
Auto expense	11,234	-	-	11,234
Banquet expense	7,836	-	-	7,836
Rent expense	78,945	-	-	78,945
Equipment rental	13,648	-	-	13,648
Repairs and maintenance	78,525	-	-	78,525
Depreciation and amortization expense	-	-	133,734	133,734
Utilities expense	57,744	-	-	57,744
Supplies	3,768	-	-	3,768
Office expense	39,026	-	-	39,026
Printing and publishing	1,824	-	-	1,824
Dues & Subscriptions (Membership fees)	720	-	-	720
Laundry and linen	2,496	-	-	2,496
Membership	288	-	-	288
Insurance	69,504	-	-	69,504
Taxes and license	18,842	-	-	18,842
Outside services	84,432	-	-	84,432
Computer and internet services	39,871	-	-	39,871
Bank and investment fees	8,710	-	60	8,770
Food expense	59,761	-	-	59,761
Training/Education/Staff meetings	15,122	-	728	15,850
Miscellaneous expense	26,753	-	-	26,753
Drug testing	2,688	-	-	2,688
Interest expense	23,462	-	-	23,462
Income tax expense	7,874	-	-	7,874
Total non-personnel expenses	653,073	-	134,522	787,595
TOTAL EXPENSES	\$ 1,345,465	\$ -	\$ 334,667	\$ 1,680,132

THE TWELFTH STEP HOUSE OF SAN DIEGO, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2020

	Program Services	Fundraising	Management and General	Total
EXPENSES				
Personnel expenses				
Salaries and wages	\$ 515,883	\$ -	\$ 191,408	\$ 707,291
Employee benefits	144,128	-	-	144,128
Payroll taxes	32,788	-	34,445	67,233
Total personnel expenses	692,799	-	225,853	918,652
Non-personnel expenses				
Organizational development	-	-	78,371	78,371
Auto expense	191,408	-	-	191,408
Banquet expense	18,252	230	770	19,252
Rent expense	-	-	-	-
Equipment rental	-	-	-	-
Repairs and maintenance	-	-	-	-
Depreciation and amortization expense	7,569	-	20,816	28,385
Utilities expense	-	-	-	-
Supplies	-	-	-	-
Laundry and linen	-	-	-	-
Taxes and license	-	-	-	-
Outside services	43,925	-	20	43,945
Computer and internet services	(27,329)	-	24,282	(3,047)
Travel and lodging	-	-	-	-
Food expense	-	7,155	543,212	550,367
Training/Education/Staff meetings	-	-	25,750	25,750
Miscellaneous expense	(100,000)	-	-	(100,000)
Drug testing	-	-	-	-
Tax expense	-	-	-	-
Income tax expense	7,569	-	-	7,569
Start-Up Expenses	-	-	-	-
Bad debt expense	34,445	-	-	34,445
Total non-personnel expenses	(38,472)	7,385	828,465	797,378
TOTAL EXPENSES	\$ 654,327	\$ 7,385	\$ 1,054,318	\$ 1,716,030

THE TWELFTH STEP HOUSE OF SAN DIEGO, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2021 AND JUNE 30, 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities		
Change in Net Assets	\$ 263,423	\$ 142,115
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	133,734	42,296
Increase (decrease) in cash resulting from changes in:		
Accounts receivable	(124,132)	57,597
Other assets	20,303	(9,206)
Board restricted funds	(37,126)	28,936
Accounts payable	(9,912)	(18,780)
Accrued liabilities	(33,886)	(143,783)
Net cash provided by operating activities	<u>212,404</u>	<u>99,175</u>
Cash flows from investing activities		
Purchase of property and equipment	(95,259)	-
Net cash used in investing activities	<u>(95,259)</u>	<u>-</u>
Cash flows from financing activities		
Net borrowing (repayment) on line of credit	41,464	(143,782)
PPP loan proceeds	(28,542)	189,800
Payments on note payable	(16,809)	(14,682)
Net cash provided by financing activities	<u>(3,887)</u>	<u>31,336</u>
Net increase (decrease) in cash	113,258	130,511
Cash - Beginning	212,423	81,912
Cash - Ending	<u>\$ 325,681</u>	<u>\$ 212,423</u>
Supplemental Information		
Cash paid during the year for interest	<u>\$ 23,462</u>	<u>\$ 29,016</u>

THE TWELFTH STEP HOUSE OF SAN DIEGO, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

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."

THE TWELFTH STEP HOUSE OF SAN DIEGO, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

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.

THE TWELFTH STEP HOUSE OF SAN DIEGO, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

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, 2021, the Company received approximately 73.2% of its revenues from the County of San Diego Grant. Total revenues received from the Grant were \$1,284,114.

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.

New Accounting Pronouncements

In February 2016, FASB issued ASU 2016-02, *Leases* (ASU 2016-02). ASU 2016-02 requires a lessee to recognize a lease asset representing its right to use the underlying asset for the lease term and a lease liability for the payments to be made to lessor, on its statement of financial position for all operating leases greater than 12 months. ASU 2016-02 will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2021. Although the full impact of ASU 2016-02 on the Foundation's financial statements has not yet been determined, the future adoption of this guidance will require the Foundation to record assets and liabilities on its statement of financial position relating to facility and other leases currently being accounted for as operating leases.

THE TWELFTH STEP HOUSE OF SAN DIEGO, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 3 – CASH

The Company's cash and cash equivalents as of June 30, 2021 consist of non-interest bearing checking and interest-bearing savings accounts totaling \$325,681.

NOTE 4 – RECEIVABLES

The Company's receivables as of June 30, 2021 consist principally of participant fees totaling \$309,358.

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, 2021.

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, 2021 was \$380,409.

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, 2021 was \$15,577.

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, 2021 was \$80,000.

THE TWELFTH STEP HOUSE OF SAN DIEGO, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

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 original PPP loan was forgiven on July 2, 2021. Subsequent, the Company applied and received an additional PPP loan proceeds in the amount of approximately \$161,258. 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, 2021 the Company provided services to clients as summarized below:

<u>Program Services</u>	<u>Units of Services Provided to Clients</u>
Bed Nights	18,550 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, 2021

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	\$ 178,865	\$ 172,745
Equities	116,886	84,411
Mutual Funds	187,029	163,965
Cash/Money Market	17,727	17,727
Total	<u>\$ 500,507</u>	<u>\$ 438,848</u>

NOTE 13 – SUBSEQUENT EVENTS

The Company’s management has evaluated events from July 1, 2021 through January 27, 2022, the date the financial statements were available to be issued. Management identified that the Paycheck Protection Program loan was fully forgiven on October 22, 2021.