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THE TWELFTH STEP HOUSE OF SAN DIEGO, INC.

FINANCIAL STATEMENTS

Fiscal Year Ended June 30, 2022 and 2021

THE TWELFTH STEP HOUSE OF SAN DIEGO, INC.

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JUNE 30, 2022

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INDEPENDENT AUDITORS' REPORT

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

Report on Audit of Financial Statements

Opinion

We have audited the accompanying financial statements of The Twelfth Step House of San Diego, Inc., as of and for the years ended June 30, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Foundation's basic financial statements as listed in the table of contents. 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, 2022 and 2021, and the changes to 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of The Twelfth Step House of San Diego, Inc., and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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. In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about The Twelfth Step House of San Diego, Inc., ability to continue as a going concern for one year beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements


Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements. In performing an audit in accordance with generally accepted auditing standards:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2022, on our consideration of The Twelfth Step House of San Diego, Inc., internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of The Twelfth Step House of San Diego, Inc., internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Twelfth Step House of San Diego, Inc., internal control over financial reporting and compliance.



San Diego, California
December 31, 2022

THE TWELFTH STEP HOUSE OF SAN DIEGO, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2022 AND 2021

| | <u>2022</u> | <u>2021</u> |
|---|---------------------|---------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 394,446 | \$ 325,681 |
| Board restricted funds | 474,516 | 500,506 |
| Accounts receivable | 228,394 | 309,358 |
| Deposits/Prepaid expenses | - | 4,536 |
| Other assets | 7,911 | 8,231 |
| Property and equipment, net | 785,086 | 823,113 |
| Total Assets | <u>\$ 1,890,353</u> | <u>\$ 1,971,425</u> |
| LIABILITIES AND NET ASSETS | | |
| Liabilities | | |
| Accounts payable | \$ 15,784 | \$ 19,889 |
| Accrued liabilities | 38,956 | 41,469 |
| Notes payable | 367,472 | 395,986 |
| Line of credit | 157,968 | 80,000 |
| Refundable advance | - | 161,258 |
| Total Liabilities | <u>580,180</u> | <u>698,602</u> |
| Net Assets | | |
| Net assets without donor restrictions | 1,310,173 | 1,272,823 |
| Total Net Assets | <u>1,310,173</u> | <u>1,272,823</u> |
| Total Liabilities and Net Assets | <u>\$ 1,890,353</u> | <u>\$ 1,971,425</u> |

THE TWELFTH STEP HOUSE OF SAN DIEGO, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2022 AND JUNE 30, 2021

| | Net Assets Without Donor Restrictions | |
|---------------------------------------|--|---------------------|
| | 2022 | 2021 |
| SUPPORT AND REVENUES | | |
| Contributions | \$ 24,205 | \$ 30,347 |
| Grant - County of San Diego | 1,237,239 | 1,284,114 |
| Other grants | 50,000 | 242,833 |
| Participant fees | 145,357 | 129,092 |
| Interest and investment income | 17,528 | 16,297 |
| Debt forgiveness | 161,258 | 189,800 |
| Other miscellaneous income | 4,744 | - |
| Net unrealized losses on investments | (12,459) | 51,072 |
| Total revenues and support | \$ 1,627,872 | \$ 1,943,555 |
| Expenses | | |
| Program services | \$ 1,416,212 | \$ 1,345,465 |
| Management and general | 174,310 | 334,667 |
| Fundraising | - | - |
| Total Expenses | 1,590,522 | 1,680,132 |
| CHANGE IN NET ASSETS | 37,350 | 263,423 |
| Net Assets - Beginning of year | 1,272,823 | 1,009,400 |
| Net Assets - End of year | \$ 1,310,173 | \$ 1,272,823 |

THE TWELFTH STEP HOUSE OF SAN DIEGO, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2022

| | Program Services | Fundraising | Management and General | Total |
|--|---------------------|-------------|---------------------------|---------------------|
| EXPENSES | | | | |
| Personnel expenses | | | | |
| Salaries and wages | \$ 657,165 | \$ - | \$ 122,637 | \$ 779,802 |
| Employee benefits | 103,932 | - | - | 103,932 |
| Payroll taxes | 63,502 | - | 3,130 | 66,632 |
| Total personnel expenses | 824,599 | - | 125,767 | 950,366 |
| Non-personnel expenses | | | | |
| Auto expense | 9,349 | - | - | 9,349 |
| Banquet expense | 2,620 | - | - | 2,620 |
| Rent expense | 83,322 | - | 10,126 | 93,448 |
| Equipment rental | 16,242 | - | - | 16,242 |
| Repairs and maintenance | 48,127 | - | - | 48,127 |
| Depreciation and amortization expense | - | - | 38,347 | 38,347 |
| Utilities expense | 64,370 | - | - | 64,370 |
| Supplies | 2,424 | - | - | 2,424 |
| Office expense | 30,887 | - | - | 30,887 |
| Printing and publishing | 5,556 | - | - | 5,556 |
| Dues & Subscriptions (Membership fees) | 2,121 | - | - | 2,121 |
| Laundry and linen | 2,564 | - | - | 2,564 |
| Membership | 180 | - | - | 180 |
| Insurance | 44,246 | - | - | 44,246 |
| Taxes and license | 21,443 | - | - | 21,443 |
| Outside services | 104,256 | - | - | 104,256 |
| Computer and internet services | 40,138 | - | - | 40,138 |
| Bank and investment fees | 8,370 | - | 70 | 8,440 |
| Food expense | 64,729 | - | - | 64,729 |
| Training/Education/Staff meetings | 15,285 | - | - | 15,285 |
| Miscellaneous expense | 2,050 | - | - | 2,050 |
| Drug testing | 1,694 | - | - | 1,694 |
| Interest expense | 21,640 | - | - | 21,640 |
| Total non-personnel expenses | 591,613 | - | 48,543 | 640,156 |
| TOTAL EXPENSES | \$ 1,416,212 | \$ - | \$ 174,310 | \$ 1,590,522 |

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 | | | | |
| Perso 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-p 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 EXPENSES | \$ 1,345,465 | \$ - | \$ 334,667 | \$ 1,680,132 |

THE TWELFTH STEP HOUSE OF SAN DIEGO, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2022 AND JUNE 30, 2021

| | 2022 | 2021 |
|--|-------------------|-------------------|
| Cash flows from operating activities | | |
| Change in Net Assets | \$ 37,350 | \$ 263,423 |
| Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities: | | |
| Depreciation | 38,347 | 133,734 |
| Increase (decrease) in cash resulting from changes in: | | |
| Accounts receivable | 80,964 | (124,132) |
| Other assets | 4,856 | 20,303 |
| Board restricted funds | 25,990 | (37,126) |
| Accounts payable | (4,105) | (9,912) |
| Accrued liabilities | (2,513) | (33,886) |
| Net cash provided by operating activities | 180,889 | 212,404 |
| Cash flows from investing activities | | |
| Purchase of property and equipment | (320) | (95,259) |
| Net cash used in investing activities | (320) | (95,259) |
| Cash flows from financing activities | | |
| Net borrowing (repayment) on line of credit | 77,968 | 41,464 |
| PPP loan proceeds | (161,258) | (28,542) |
| Payments on note payable | (28,514) | (16,809) |
| Net cash provided by financing activities | (111,804) | (3,887) |
| Net increase (decrease) in cash | 68,765 | 113,258 |
| Cash - Beginning | 325,681 | 212,423 |
| Cash - Ending | \$ 394,446 | \$ 325,681 |
| Supplemental Information | | |
| Cash paid during the year for interest | \$ 21,640 | \$ 23,462 |

THE TWELFTH STEP HOUSE OF SAN DIEGO, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

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.

Allocation of Functional Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Personnel costs and occupancy expenses are allocated based on time and effort. The financial statements also report categories of expenses that are attributed to program service activities or supporting services activities. These expenses are generally directly attributable to a functional category with no significant allocations between program service activities and supporting service activities occurring.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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.

Economic Concentrations

The corporation's operations are concentrated in San Diego County. During the year ended June 30, 2022, the Company received approximately 73.2% of its revenues from the County of San Diego Grant. Total revenues received from the Grant were \$1,237,239.

Change in Accounting Principle

ASU 2020-07 Presentation and Discussion by Not-for-Profit Entities for Contributed Nonfinancial Assets improves generally accepted accounting principles (GAAP) by increase the transparency of contributed nonfinancial assets for not-for-profit (NFP) entities through enhancements to presentation and disclosure. The amendments in the update address public concerns about the lack of transparency relating to the measurement of contributed nonfinancial assets recognized by NFP's as well as the amount of those contributions used in a NFP's programs and other activities. The ASU should be applied on a retrospective basis and is effective for annual periods beginning after June 15, 2021, and interim periods within annual periods beginning after June 15, 2022. Early adoption is permitted. The amendment will not change the recognition and measurement requirements for those contributed nonfinancial assets.

The not-for-profit (NFP) has implemented the provisions of this ASU as of June 30, 2022, because management believes it improves the Foundation's financial reporting.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

New Accounting Pronouncements

In November, FASB issued ASU 2021-09, Leases (ASU 2021-09). ASU 2021-09 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 2021-09 will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2021. Although the full impact of ASU 2021-09 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.

NOTE 3 – CASH

The Company's cash and cash equivalents as of June 30, 2022, consist of non-interest bearing checking and interest-bearing savings accounts totaling \$394,446.

NOTE 4 – RECEIVABLES

The Company's receivables as of June 30, 2022, consist principally of participant fees totaling \$228,394.

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, 2022.

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, 2022, was \$367,742.

THE TWELFTH STEP HOUSE OF SAN DIEGO, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 8 – NOTES PAYABLE, continued

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 was paid in full on August 20, 2021.

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, 2022 was \$157,968.

NOTE 10 - CONTRIBUTED NONFINANCIAL ASSETS

During the fiscal years ended June 30, 2022 and 2021, the Foundation did not receive any nonfinancial assets.

NOTE 11 – SUPPLEMENTARY INFORMATION

During the year ended June 30, 2022 the Company provided services to clients as summarized below:

| | |
|-------------------------|--|
| <u>Program Services</u> | <u>Units of Services Provided to Clients</u> |
| Bed Nights | 12,939 Beds (Including 5,198 for Drug Medical) |

THE TWELFTH STEP HOUSE OF SAN DIEGO, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

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.

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 | \$ 138,590 | \$ 138,590 |
| Equities | 78,456 | 78,456 |
| Mutual Funds | 181,636 | 181,636 |
| Cash/Money Market | 75,834 | 75,834 |
| Total | <u>\$ 474,516</u> | <u>\$ 474,516</u> |

NOTE 13 – SUBSEQUENT EVENTS

The Company's management has evaluated events from July 1, 2022 through December 31, 2022, the date the financial statements were available to be issued.