

**THE TWELFTH STEP HOUSE OF SAN DIEGO  
dba – Heartland House**

**FINANCIAL REPORT**

**JUNE 30, 2015**

With report of certified public accountant

RONALD E. GRUND, C.P.A.

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## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Director  
The Twelfth Step House of San Diego  
San Deigo, California

I have audited the accompanying financial statements of The Twelfth Step House of San Diego, which comprise the statement of financial position as of June 30, 2015 and 2014, and the related statements of activities, functional expenses and cash flows for the years 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***

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 risks of material misstatement of the financial statements, whether due to fraud or error. In making those 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### ***Opinion***

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Twelfth Step House of San Diego as of June 30, 2015 and 2014, 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.



RONALD E. GRUND, C.P.A.

San Diego, California

August 27, 2015

**THE TWELFTH STEP HOUSE OF SAN DIEGO**  
**STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2015**  
**(with comparative totals for June 2014)**

<b>ASSETS:</b>	<b>2015</b>	<b>2014</b>
CASH AND CASH EQUIVALENTS	\$ 163,035.68	\$ 145,832.15
ACCOUNTS RECEIVABLE	20,009.46	28,135.51
PREPAID EXPENSES/DEPOSIT	10,722.00	3,421.00
PROPERTY AND EQUIPMENT, NET	56,553.89	37,353.89
<b>TOTAL ASSETS</b>	<b>\$ 250,321.03</b>	<b>\$ 214,742.55</b>
<b>LIABILITIES:</b>		
ACCOUNTS PAYABLE	\$ 3,369.65	\$ 8,018.76
CLIENT FEES PAID IN ADVANCE	1,250.00	-
VEHICLE CONTRACT PAYABLE (NON INTEREST BEARING)	-	1,385.41
<b>TOTAL LIABILITIES</b>	<b>4,619.65</b>	<b>9,404.17</b>
<b>NET ASSETS:</b>		
UNRESTRICTED	245,701.38	205,338.38
<b>TOTAL NET ASSETS</b>	<b>245,701.38</b>	<b>205,338.38</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 250,321.03</b>	<b>\$ 214,742.55</b>

**THE TWELFTH STEP HOUSE OF SAN DIEGO**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED JUNE 30, 2015**  
**(with combined fund totals for the year 2014)**

<b>Support and Revenue:</b>	<u><b>2015</b></u>	<u><b>2014</b></u>
Support:		
Contributions	\$ 35,660.30	\$ 26,795.54
Revenue:		
Grant - County of San Diego	207,314.90	206,588.89
Participants Fees	266,195.50	240,580.38
Interest Income	33.56	37.48
Other miscellaneous	<u>444.96</u>	<u>2,457.34</u>
<b>Total Support and Revenue</b>	509,649.22	476,459.63
<b>Expenses:</b>		
Program services	<u>470,123.22</u>	<u>449,047.51</u>
<b>Total Expenses</b>	<u>470,123.22</u>	<u>449,047.51</u>
<b>Increase (decrease) in net assets</b>	40,363.00	27,412.12
<b>Net assets, beginning of year</b>	<u>205,338.38</u>	<u>177,926.26</u>
<b>Net assets, end of year</b>	<u><u>\$ 245,701.38</u></u>	<u><u>\$ 205,338.38</u></u>

THE TWELFTH STEP HOUSE OF SAN DIEGO  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2015  
(with comparative totals for the year 2014)

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	\$ 40,363.00	27,412.12
Adjustments to reconcile change in net assets to net cash provided by(used in) operating activities		
Depreciation	6,399.00	13,584.00
(Increase) decrease in operating assets:		
Accounts receivable	8,126.05	4,274.21
Prepaid expenses/deposit	(7,301.00)	(2,058.00)
Increase (decrease) in operating liabilities		
Accounts payable	(4,649.11)	76.60
Client fees paid in advance	<u>1,250.00</u>	<u>-</u>
NET CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES	44,187.94	43,288.93
CASH FLOWS USED IN CAPITAL/FINANCING ACTIVITIES		
Purchase of equipment	(25,599.00)	-
Principal payments on vehicle contract payable	<u>(1,385.41)</u>	<u>(5,446.06)</u>
NET CASH FLOWS USED IN CAPITAL/FINANCING ACTIVITIES	<u>(26,984.41)</u>	<u>5,446.06</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	17,203.53	37,842.87
CASH AND CASH EQUIVALENTS :		
Beginning of the year	<u>145,832.15</u>	<u>107,989.28</u>
End of the year	<u>\$ 163,035.68</u>	<u>\$ 145,832.15</u>

SUPPLEMENTARY INFORMATION: INCOME TAXES PAID - NONE

SEE NOTES TO FINANCIAL STATEMENTS

**THE TWELFTH STEP HOUSE OF SAN DIEGO  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2015  
(with combined fund totals for June 2014)**

EXPENSE CATEGORY	PROGRAM SERVICES			2014 TOTAL PROG. SVCS.
	2015 TWELFTH STEP HOUSE	2015 SOBER LIVING	2015 TOTAL PROG. SVCS.	
SALARIES AND WAGES	\$ 194,610.15	\$ -		\$ 194,610.15
EMPLOYEE BENEFITS	37,241.31	-		37,241.31
FOOD	48,986.90	-		48,986.90
BAD DEBTS	6,820.00	-		6,820.00
HOUSE SUPPLIES	14,129.33	-		14,129.33
OFFICE EXPENSES	8,124.30	199.91		8,324.21
LICENSES AND FEES	2,994.99	-		2,994.99
TELEPHONE & UTILITIES	21,916.12	4,546.17		26,462.29
INSURANCE	20,645.57	-		20,645.57
FACILITIES RENTAL	24,700.00	31,020.00		55,720.00
REPAIRS & MAINTENANCE - BUILDING	12,287.14	1,260.58		13,547.72
REPAIRS & MAINTENANCE - EQUIPMENT	2,007.04	-		2,007.04
DEPRECIATION	6,399.00	-		6,399.00
EQUIPMENT RENTAL	2,809.28	-		2,809.28
RECREATION/PARTICIPANT GIFTS	2,572.55	-		2,572.55
IN COUNTY TRAVEL	3,692.82	-		3,692.82
OUTSIDE SERVICES	15,674.97	-		15,674.97
EDUCATION & TRAINING	2,568.46	-		2,568.46
EQUIPMENT PURCHASED (UNDER \$ 5,000)	1,379.97	-		1,379.97
OTHER, MISCELLANEOUS	1,320.22	-		1,320.22
DRUG TESTING	2,216.44	-		2,216.44
TOTALS	<u>\$ 433,096.56</u>	<u>\$ 37,026.66</u>		<u>\$ 470,123.22</u>

SEE NOTES TO FINANCIAL STATEMENTS

**THE TWELFTH STEP HOUSE OF SAN DIEGO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**Note 1. Nature of Organization and Summary of Significant Accounting Policies**

**Nature of Organization:**

The Twelfth 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.

A summary of the Company's significant accounting policies follows:

**Method of accounting:**

The accompanying financial statements have been prepared in accordance with the accrual method of accounting.

**Financial statement presentation:**

The Company complies with Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations." Under SFAS No. 117, the Company reports information regarding its financial position and activities according to its three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. In addition, the Company presents a statement of cash flows



## Contributions:

The Company also complies with SFAS No. 116, "Accounting for Contributions Received and Contributions Made." Under SFAS No. 116, contributions are defined as a transfer of cash or other assets to an entity or a settlement or cancellation of its liabilities in a voluntary non-reciprocal transfer. Other assets in this connection include use of facilities (or utilities), services and unconditional promises to give these items in the future. In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted depending on the existence and/or nature of any donor restrictions.

Generally contributions received, including unconditional promises to give, are recognized as revenues in the period received at fair value. In situations where promises to give are conditioned on the Company incurring certain qualifying expenses such promises become unconditional when the expenses are incurred. Accordingly, these revenues and costs are recognized as costs are incurred.

The Company reports grants, contracts, and gifts of cash and other assets as temporarily restricted support if they are received with stipulations that limit the use of the assets. When a restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. However, the Company, as permitted under SFAS 116 follows a practice of recording as unrestricted income all contributions (grants) where restrictions lapse in the same fiscal year in which they are received.

## Cash and cash equivalents:

For purposes of reporting cash, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

## 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.

**Donated services:**

The Company 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 Company's programs and fund raising activities have benefited from the significant amounts of time donated by other volunteers; however, no accounting recognition has been given to these additional donated services.

**Use of Estimates:**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**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.

**Economic Concentrations:**

The Company's operations are concentrated in San Diego County. For the year 2015 approximately 40% of revenues were generated from the County of San Diego.

Management is not aware of the existence of any severe or substantial cut backs pending due to the described concentrations of economic risk.

**Subsequent Events:**

The Company has evaluated subsequent events through August 27, 2015 which is the date the financial statements were first available to be issued.

**Note 2. Property and Equipment**

Property and equipment are stated at cost and consists of the following:

Land	\$ 18,327.00
Building	74,895.26
Equipment	52,429.54

Remodeling costs	15,602.34
Vehicles	60,406.57
Less: accumulated depreciation	<u>(165,106.82)</u>
Net property and equipment	<u>\$ 56,553.89</u>

### Note 3. Commitments and contingencies

The Company receives substantial funding from government agencies which is restricted under the terms of the related funding agreements. Expenditures are charged against these restricted funds 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.

At June 30, 2015 the Company's residential treatment facilities are all rented under the terms of month to month rental agreements.

### Note 4. Temporarily/Permanently Restricted Net Assets

At June 30, 2015 the Company had no temporarily or permanently restricted net assets.

### Note 5. Pension Costs

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

### Note 6. Income Tax Status

No provision for income taxes has been provided in the financial statements as the Company has qualified for exemption from income taxes under Federal and State Revenue Codes. The Company is subject to income taxes on unrelated business income, if any.

### Note 7. Supplementary Information on Program Outputs (Measures of Performance)

The Company provided services to clients as summarized below:

<u>Program Service</u>	<u>Units of Service Provided to Clients</u>
Bed nights	11,077(including 1,277 sober living bed nights)