Consolidated Financial Statements
June 30, 2022 and 2021

FIRST STEP HOUSE

EideBailly

CPAs & BUSINESS ADVISORS

Independent Auditor's Report

To the Board of Directors and Management
First Step House
Salt Lake City, Utah

Report on the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of First Step House, which comprise the consolidated statements of financial position as of June 30, 2022 and 2021, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of First Step House as of June 30, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities of the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of First Step House and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. 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 Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 First Step House's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 opinion. 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 GAAS and *Government 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 consolidated financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated 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 consolidated 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 First Step House'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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about First Step House's ability to continue as a going concern for a reasonable period of time.

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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 15, 2023, on our consideration of First Step House's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and 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 First Step House's 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 First Step House's internal control over financial reporting and compliance.

Eide Bailly LLP

Salt Lake City, Utah
August 15, 2023

	2022	2021
Assets		
Current Assets		
Cash and cash equivalents	$ 6,238,887	$ 3,642,947
Investments in marketable securities	1,061,069	1,025,789
Grants and contracts receivable	2,101,685	1,859,800
Accounts receivable	16,321	7,972
Due from related parties	92,208	119,489
Developer fee receivable - related parties	79,990	1,248,500
Prepaid expenses and other assets	97,124	180,459
Total current assets	9,687,284	8,084,956
Deposits	35,466	16,125
In-kind rent receivable - related party	2,951,372	3,056,465
Notes receivable - related parties	1,030,000	1,030,000
Investments in tax credit partnerships	412,381	412,381
Property and equipment, net	7,680,919	7,825,477
Total assets	$ 21,797,422	$ 20,425,404
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 206,462	$ 265,626
Accrued salaries and related costs	379,731	360,328
Accrued expenses	994,226	1,352,425
Current maturities of long-term debt	242,433	247,031
Other liabilities	491,300	121,447
Total current liabilities	2,314,152	2,346,857
Refundable advances	1,030,000	1,030,000
Long-term debt, less current maturities	5,437,264	6,034,833
Total liabilities	8,781,416	9,411,690
Net Assets		
Without donor restrictions	9,693,050	7,752,551
With donor restrictions	3,322,956	3,261,163
Total net assets	13,016,006	11,013,714
Total liabilities and net assets	$ 21,797,422	$ 20,425,404

See Notes to Consolidated Financial Statements

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Support, and Gains			
Contributions			
Individuals	$ 24,403	$ 26,710	$ 51,113
Foundations	35,635	242,041	277,676
Corporations	-	204,468	204,468
Special events revenue	50,581	-	50,581
Less costs of direct benefits to donors	(7,537)	-	(7,537)
In-kind donations	180,000	-	180,000
Grants and contracts			
Federal	2,876,674	-	2,876,674
County	1,438,379	-	1,438,379
State	7,533,961	100,000	7,633,961
City	846,914	-	846,914
Agency	4,092,930	-	4,092,930
Clients			
Rental income	96,500	-	96,500
Private insurance and client fees	10,695	-	10,695
Housing development income	76,606	-	76,606
Revenue from other sources			
Miscellaneous revenue	617	-	617
Net investment loss	(72,884)		(72,884)
Interest income	53,589	-	53,589
Net assets released from restrictions	511,426	(511,426)	-
Total revenue, support, and gains	17,748,489	61,793	17,810,282
Expenses and Losses			
Program services			
Alcohol and drug rehabilitation	13,226,700	-	13,226,700
Total program services	13,226,700	-	13,226,700
Supporting services			
Management and general	1,817,307	-	1,817,307
Fundraising	361,641	-	361,641
Total supporting services	2,178,948	-	2,178,948
Provision for loss on Provider Relief Funds	402,342	-	402,342
Total expenses and losses	15,807,990	-	15,807,990
Change in Net Assets	1,940,499	61,793	2,002,292
Net Assets, Beginning of Year	7,752,551	3,261,163	11,013,714
Net Assets, End of Year	$ 9,693,050	$ 3,322,956	$ 13,016,006

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Support, and Gains			
Contributions			
Individuals	$ 106,900	$ 200	$ 107,100
Foundations	57,247	183,328	240,575
Corporations	22,036	73,000	95,036
In-kind donations	204,380	-	204,380
In-kind donations - related party	-	3,152,801	3,152,801
Grants and contracts			
Federal	2,312,309	-	2,312,309
County	1,316,708	-	1,316,708
State	4,314,912	-	4,314,912
City	346,105	-	346,105
Agency	3,698,101	-	3,698,101
Clients			
Rental income	43,191	-	43,191
Private insurance and client fees	2,735	-	2,735
Housing development income	1,290,452	-	1,290,452
Revenue from other sources			
Miscellaneous revenue	2,228	-	2,228
Interest income	32,631	-	32,631
HHS provider relief funds	801,742	-	801,742
Paycheck Protection Program loan forgiveness	1,035,545	-	1,035,545
Net assets released from restrictions	344,609	(344,609)	-
Total revenue, support, and gains	15,931,831	3,064,720	18,996,551
Expenses and Losses			
Program services			
Alcohol and drug rehabilitation	11,741,806	-	11,741,806
Total program services	11,741,806	-	11,741,806
Supporting services			
Management and general	1,508,138	-	1,508,138
Fundraising	307,732	-	307,732
Total supporting services	1,815,870	-	1,815,870
Loss on disposal of property and equipment	3,182	-	-
Total expenses and losses	13,560,858	-	13,560,858
Change in Net Assets	2,370,973	3,064,720	5,435,693
Net Assets, Beginning of Year	5,381,578	196,443	5,578,021
Net Assets, End of Year	$ 7,752,551	$ 3,261,163	$ 11,013,714

	Program Services	Supporting Services		
	Alcohol and Drug Rehabilitation	Management and General	Fundraising	Total
Personnel	$ 9,974,061	$ 1,441,609	$ 304,730	$ 11,720,400
Food and kitchen supplies	427,847	22,518	-	450,365
Contract services	249,145	36,010	7,612	292,767
House supplies	185,297	25,988	-	211,285
Depreciation	378,589	54,720	11,567	444,876
Utilities	158,121	22,854	4,831	185,806
Rent	217,677	31,462	6,651	255,790
In-kind rent	99,838	5,255	-	105,093
Miscellaneous	29,031	4,195	887	34,113
Events	17,058	17,059	-	34,117
Marketing and advertising	2,897	419	89	3,405
Facilities maintenance	348,216	50,330	10,639	409,185
Insurance	162,089	23,428	4,952	190,469
Interest	132,065	19,088	4,035	155,188
Office supplies	232,441	33,596	7,102	273,139
Vehicle expense	83,591	12,082	2,554	98,227
Telephone	108,242	15,645	3,307	127,194
Travel	7,255	1,049	222	8,526
Housing development	38,303	-	-	38,303
Bad debt	1,975	-	-	1,975
Client expenses	372,962	-	-	372,962
Total functional expenses	$ 13,226,700	$ 1,817,307	$ 369,178	$ 15,413,185
Less expenses included with revenues on the statement of activities				
Costs of direct benefits to donors	-	-	(7,537)	(7,537)
	$ 13,226,700	$ 1,817,307	$ 361,641	$ 15,405,648

	Program Services	Supporting Services		
	Alcohol and Drug Rehabilitation	Management and General	Fundraising	Total
Personnel	$ 8,158,240	$ 1,179,158	$ 249,253	$ 9,586,651
Food and kitchen supplies	363,774	19,146	-	382,920
Contract services	226,130	32,684	6,909	265,723
House supplies	190,476	26,714	-	217,190
Depreciation	332,664	48,081	10,164	390,909
Utilities	142,225	20,557	4,345	167,127
Rent	303,055	43,802	9,259	356,116
In-kind rent	91,519	4,817	-	96,336
Miscellaneous	28,241	4,076	863	33,180
Events	1,663	1,663	-	3,326
Marketing and advertising	494	71	15	580
Facilities maintenance	220,934	31,933	6,750	259,617
Insurance	144,362	20,865	4,411	169,638
Interest	131,915	19,066	4,030	155,011
Office supplies	206,198	29,803	6,300	242,301
Vehicle expense	59,379	8,582	1,814	69,775
Telephone	118,451	17,120	3,619	139,190
Consulting - housing development	645,227	-	-	645,227
Bad debt	312	-	-	312
Client expenses	376,547	-	-	376,547
Total functional expenses	$ 11,741,806	$ 1,508,138	$ 307,732	$ 13,557,676

	2022	2021
Operating Activities		
Change in net assets	$ 2,002,292	$ 5,435,693
Adjustment to reconcile change in net assets to net cash from operating activities		
Depreciation	444,876	390,909
Realized and unrealized loss on investments in marketable securities	72,884	-
Bad debt expense	1,975	312
Donated property and equipment	-	(57,980)
In-kind rent donation - related party	-	(3,152,801)
Paycheck Protection Program loan forgiveness	-	(1,035,466)
Loss on disposal of property and equipment	-	3,182
Changes in assets and liabilities		
Grants and contracts receivable	(241,885)	(414,735)
Accounts receivable	(10,324)	448
Developer fee receivable	1,168,510	(373,008)
Due from related parties	(38,050)	(40,833)
Prepaid expenses and other assets	83,335	(22,561)
Deposits	(19,341)	5,628
In-kind rent receivable - related party	105,093	96,336
Accounts payable	(59,164)	88,973
Accrued salaries and related costs	19,403	84,910
Accrued expenses	(358,199)	566,661
Other liabilities	369,853	121,447
Net Cash from Operating Activities	3,541,258	1,697,115
Investing Activities		
Purchases of investments in marketable securities	(2,868,164)	(348)
Proceeds from sale of investments in marketable securities	2,760,000	-
Purchases of property and equipment	(300,318)	(207,797)
Advances to related parties for development costs of LIHTC projects	(23,554)	(602,922)
Reimbursements for development costs of LIHTC projects	88,885	570,721
Net Cash used for Investing Activities	(343,151)	(240,346)
Financing Activities		
Principal payments of long-term debt	(602,167)	(198,112)
Net Change in Cash and Cash Equivalents	2,595,940	1,258,657
Cash and Cash Equivalents, Beginning of Year	3,642,947	2,384,290
Cash and Cash Equivalents, End of Year	$ 6,238,887	$ 3,642,947

	2022	2021
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest during the year	$ 152,096	$ 155,069
Supplemental Disclosure of Non-cash Investing and Financing Activities		
Property and equipment acquired through in-kind donation	$ -	$ 57,980
Issuance of note receivable offset by increase in deferred revenue	-	400,000
Paycheck Protection Program loan forgiveness	-	1,035,466

Note 1 - Principal Activity and Significant Accounting Policies

Organization

First Step House is a nonprofit corporation organized under the laws of the state of Utah on February 14, 1958. First Step House is a behavioral health organization that operates residential and outpatient substance use disorder treatment centers and several apartment complexes that provide clients with a living environment that is conducive to recovery. First Step House receives its funding from government grants and contracts, client fees, and private and individual donations.

The mission of First Step House is to help people build healthy lives of meaning, purpose and recovery. Founded in 1958, First Step House has evolved into a co-occurring capable behavioral health treatment and housing provider. First Step House is accredited by the Joint Commission, the leading healthcare accreditation entity in the U.S., for our continuous compliance with performance standards and commitment to providing safe and quality patient care. We have been a consistent leader in the Salt Lake metro area delivering evidence-based interventions and achieving positive outcomes for individuals and families who struggle with high severity substance use disorders, histories of homelessness, mental health conditions, justice system involvement and primary health concerns. We operate three residential treatment facilities, two outpatient treatment centers, and six transitional housing facilities in Salt Lake County, Utah. We also provide permanent supportive housing services. The scope of services we offer include substance use disorder and mental health assessment, residential and outpatient treatment, recovery residence services, housing, case management, employment support, primary health care, peer support services, and long-term recovery management. Through our programs and services, we serve over 500 individuals per year who struggle with chronic, and often severe, substance use and co-occurring behavioral health disorders. Most of our clients enter treatment with a history of unstable housing or homelessness and criminal involvement. Our clients typically arrive at our doorstep unemployed with very little resources, lack of family support, and numerous barriers to overcome.

For the years ended June 30, 2022 and 2021, First Step House's operational support and revenues were derived as follows:

	2022	2021
Substance use treatment	62%	50%
Transitional housing	13%	14%
Mental health treatment	8%	7%
Case management	7%	7%
Other	6%	9%
Individual, foundational and corporate donations	4%	5%
Loan forgiveness - Grant Revenue	0%	8%
	100%	100%

Some of our revenue sources fund special programs that enable us to offer focused services which are paired with substance use disorder treatment. These programs permit First Step House to offer a variety of services that our clients might not otherwise receive but that are integral to their well-being. Some current examples of these services are employment preparation and placement, peer support and long-term recovery support. The largest group of these programs is housing case management.

Through Pay for Success (PFS), private investors partner with government by paying the upfront costs for the provision of evidence-based social services. Governments repay investors with a modest return on their investment if the program achieves agreed upon outcomes. The PFS program (REACH) serves men coming out of jail who are high-risk, high-need offenders diagnosed with substance use disorders and co-occurring mental health disorders. The program aims at reducing criminal recidivism for high utilizers of the Salt Lake County jail. REACH is First Step House's single largest non-government source of income.

In February 2019, First Step House entered a partnership with NEF Assignment Corporation. This partnership, 5th East Apartments, LLC, was formed for the construction, ownership, financing, leasing and operation of a 75-unit permanent supportive housing unit apartment complex for incomes at or under 30% of the Area Median Average (AMI) and rents at 25% of AMI. This apartment complex was completed in July 2020. To facilitate the organizational structure of this project, First Step House organized FSH 5th East Managing Member, LLC and FSH 5th East Development, LLC as the sole member. See Note 6 for additional explanation.

In December 2019, First Step House entered a partnership with USA Institutional 426 LLC, 426 Apartments SLP, LLC and The Richman Group Capital Corporation. This partnership, 426 Apartments, LP, was formed for the construction, ownership, financing, leasing and operation of a 40-unit permanent supportive housing complex. This apartment complex was completed in February 2021 and services for those living there will be provided by First Step House. To facilitate the organizational structure of this project, First Step House organized 426 Apartments GP, LLC (as the sole member) and 426 Apartments Developer, LLC (as the sole member). See Note 6 for additional explanation.

Principles of Consolidation

The consolidated financial statements include the accounts of First Step House and all subsidiaries and partnerships in which it has a majority interest or control, which includes FSH 5th East Managing Member, LLC, FSH 5th East Development, LLC, 426 Apartments Developer, LLC, and 426 Apartments GP, LLC. All significant intercompany accounts and transactions have been eliminated in the consolidated financial statements. Unless otherwise noted, the consolidated entities are collectively referred to as "the Organization."

Grants and Contracts

The Organization receives substantial funding through federal, state, and other grants and contracts. The majority of these grants and contracts operate on contractually approved fee for service and per diem rates. Accounts receivable and the related revenues are recorded when the services have been provided to the Organization's clients. The Organization records an allowance for doubtful accounts based on management's estimate of grants that are not expected to be collected within one year from the consolidated statement of financial position date. At June 30, 2022 and 2021, there was no allowance for doubtful accounts.

Receivables and Credit Policies

Accounts receivable consist primarily of noninterest-bearing amounts due for program services. The Organization records an allowance for doubtful accounts based on management's estimate of accounts receivable that are not expected to be collected within one year from the consolidated statement of financial position date. At June 30, 2022 and 2021, there was no allowance for doubtful accounts.

Investments

Investments in marketable securities – The Organization records investment purchases at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at fair value in the consolidated statements of financial position. At June 30, 2022 and 2021, the Organization's investments in marketable securities were entirely in money market funds and mutual funds (see Note 5). Interest earned from these investments is reported as interest income in the consolidated statements of activities.

Investments in Tax Credit Partnerships – The equity method of accounting is used when the Organization does not control the investee but does have the ability to exercise significant influence over the investee. Under the equity method, original investments are recorded at cost and adjusted for the Organization's share of undistributed earnings or losses of these entities. The Organization has recorded its investments in 5th East Apartments, LLC and 426 Apartments, LP under the equity method (see Note 6). These managing member interests also provide certain priorities on the payment of cash flows during and after the tax credit compliance period.

Property and Equipment

Property and equipment additions over $5,000 are recorded at cost or, if donated, at fair value on the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 40 years. When assets are sold or otherwise disposed of, the cost and related depreciation are removed from the accounts, and any remaining gain or loss is included in the consolidated statements of activities. Costs for repairs and maintenance that do not improve or extend the useful lives of the respective assets are charged to expense as incurred.

The Organization reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the years ended June 30, 2022 and 2021.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) restrictions. Some donor imposed (or grantor) restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor restrictions are perpetual in nature where the donor stipulates that resources be maintained in perpetuity. The Organization reports contributions restricted by donors as increases in net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions. The Organization reports conditional contributions restricted by donors as increase in net assets without donor restrictions if the restrictions and conditions expire simultaneously in the reporting period.

Revenue and Revenue Recognition

Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. Specifically relating to the Organization's accounting for grants and contracts as reported in the accompanying consolidated statements of activities, the Organization recognizes revenue following either contribution or exchange transaction revenue accounting principles. The Organization's federal and state grants and contracts that are accounted for following contribution revenue accounting principles are conditioned upon certain performance requirements and the incurrence of allowable qualifying expenses. Consequently, at June 30, 2022 and 2021, conditional contributions totaling $1,030,000 and $1,030,000, respectively, which amounts have been received in advance (Note 14), have not been recognized in the accompanying consolidated financial statements. For the years ended June 30, 2022 and 2021, the Organization recognized grant and contract revenue totaling $4,203,649 and $3,435,220, respectively, in accordance with contribution revenue accounting principles. A substantial portion of the Organization's federal and state contracts are renewed on an annual basis and the award period coincides with the Organization's fiscal year. Additionally, at June 30, 2022 and 2021, conditional contributions totaling $1,256,859 and $1,226,479, respectively, for which no amounts had been received in advance, have not been recognized in the accompanying consolidated financial statements because qualifying expenditures have not yet been incurred.

With respect to the Organization's accounting for grants and contracts as reported in the accompanying consolidated statements of activities that are accounted for following exchange transaction accounting principles, the program services in the Organization's client contracts generally include rehabilitation services and/or housing (the performance obligation) in exchange for a contractual agreed-upon amount or established reimbursement rate. These services are generally billed monthly, and revenue is recognized on the dates services are provided. For clients under reimbursement arrangements with third-party payors (including Medicaid programs, Veterans Administration, Salt Lake County, and Housing Authority of Salt Lake City), the client services are treated as a single performance obligation satisfied over time as services are rendered. For the years ended June 30, 2022 and 2021, total program service revenues recognized over time was $12,685,209 and $8,552,915, respectively, which are included in grants and contracts revenue.

Housing development income is recognized over time (as development oversight and services are rendered by the Organization) based on the portion complete of the project as-a-whole (the performance obligation).

Donated Services and In-Kind Contributions

Volunteers contribute time to the Organization's program services, administration, and fundraising and development activities; however, the consolidated financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. The Organization records donated professional services at the respective fair values of the services received.

Income Taxes

First Step House is organized as a Utah nonprofit corporation and has been recognized by the IRS as exempt from federal income taxes under Section 501(a) as an organization described in IRC Section 501(c)(3), qualifies for the charitable contribution deduction not to be a private foundation.

FSH 5th East Managing Member, LLC, FSH 5th East Development, LLC, 426 Apartments Developer, LLC and 426 Apartments GP, LLC are wholly owned by First Step House and, therefore, disregarded entities for federal tax purposes. The Organization is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Organization is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose. The Organization has determined it is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

Management believes that each entity has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the consolidated financial statements. The Organization would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Estimates

The preparation of consolidated 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 at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and those differences could be material.

Functional Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the consolidated statements of activities. The consolidated statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The consolidated 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. The expenses that are allocated include personnel costs, depreciation, utilities, rent, facilities maintenance, contract services, travel, supplies and office expenses, insurance, interest, telephone, and miscellaneous, which are allocated on the basis of estimates of time and effort, or the space used as appropriate.

Financial Instruments and Credit Risk

Deposit concentration risk is managed by placing cash, money market accounts, and certificates of deposit with financial institutions believed by the Organization to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, no losses have been experienced in any of these accounts. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 per depositor, per insured bank, for each account ownership category. At June 30, 2022, the Company had approximately $5.6 million in excess of FDIC-insured limits. Credit risk associated with grants, contracts and accounts receivable is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from governmental agencies supportive of the Organization's mission. Investments are made by diversified investment managers whose performance is monitored by the Organization and the finance committee of the Board of Directors. Although the fair values of investments are subject to fluctuation on a year-to-year basis, the Organization and the finance committee believe that the investment policies and guidelines are prudent for the long-term welfare of the Organization.

Subsequent Events

The Organization has made an evaluation of subsequent events through August 15, 2023, the date on which the consolidated financial statements were available to be issued.

Note 2 - Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the consolidated statement of financial position date, comprise the following:

	2022	2021
Cash and cash equivalents	$ 6,238,887	$ 3,642,947
Investments	1,061,069	1,025,789
Grants and contracts receivable	2,101,685	1,859,800
Accounts receivable, net	16,321	7,972
Due from related parties	92,208	119,489
Developer fee receivable - related parties	79,990	1,248,500
	9,590,160	7,904,497
Less amounts restricted for specific purposes or programs	(371,584)	(204,698)
	$ 9,218,576	$ 7,699,799

As a dynamic non-profit organization, the Organization strives to maintain sufficient liquid resources for the efficient operation of its programs and to further its exempt mission. As part of a liquidity management plan, cash in excess of daily requirements is invested in short-term investments such as money market funds. In addition, the Organization has access to a line-of-credit as described in Note 7.

Note 3 - Grants and Contracts Receivable

Grants and contracts receivable consist of the following at June 30, 2022 and 2021:

	2022	2021
Optum	$ 631,849	$ -
Utah State Department of Health	557,954	528,617
Veterans Administration	335,220	440,346
Salt Lake County	175,499	309,810
Salt Lake City	114,832	42,632
Affordable Care Organizations	103,653	233,853
TriWest	95,922	-
Housing Authority of Salt Lake City	-	30,938
Other	86,756	273,604
	$ 2,101,685	$ 1,859,800

At July 1, 2020, grants and contracts receivable totaled $1,445,065.

Note 4 - Property and Equipment

Property and equipment consists of the following at June 30, 2022 and 2021:

	2022	2021
Land	$ 1,099,213	$ 1,099,213
Buildings and improvements	8,177,867	8,051,211
Furniture and equipment	866,209	726,011
Vehicles	441,308	408,414
Construction in progress	571	-
	10,585,168	10,284,849
Less accumulated depreciation	(2,904,249)	(2,459,372)
	$ 7,680,919	$ 7,825,477

The Organization's property and equipment serves as collateral for long-term debt as further described in Note 11.

Note 5 - Fair Value Measurement and Disclosures

The Organization reports certain assets at fair value in the consolidated financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable.

Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, inputs are developed using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability.

The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to an assessment of the quality, risk, or liquidity profile of the asset or liability.

As of June 30, 2022 and 2021, the Organization's investment assets are classified within Level 1 because they are comprised of money market funds and mutual funds with readily determinable fair values quoted in active financial markets and are as follows:

The following table presents assets measured at fair value on a recurring basis as of June 30, 2022:

		Fair Value Measurements at Report Date Using		
Description	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Operating investments				
Money market funds	$ 295,485	$ 295,485	$ -	$ -
Mutual funds	765,584	765,584	-	-
	$ 1,061,069	$ 1,061,069	$ -	$ -

The following table presents assets measured at fair value on a recurring basis as of June 30, 2021:

		Fair Value Measurements at Report Date Using		
Description	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Operating investments				
Money market funds	$ 1,025,789	$ 1,025,789	$ -	$ -

Note 6 - Investments in Tax Credit Partnerships

Effective during the year ended June 30, 2019, First Step House became the .01% managing member of 5th East Apartments, LLC (The LLC), an entity created for the purpose of developing, owning, and operating a 75-unit low-income housing tax credit project adjacent to First Step House's Veteran's Recovery Campus. First Step House made a capital contribution of previously purchased land, which had a cost-basis of $412,381, to The LLC. First Step House's investment in The LLC is $412,381 as of June 30, 2022 and 2021, respectively.

Effective during the year ended June 30, 2020, First Step House became the .005% managing partner of 426 Apartments, LP (The Partnership), an entity created for the purpose of developing, owning, and operating a 40-unit low-income housing tax credit project located at 426 S. 500 E. in Salt Lake City, Utah. The LLC and The Partnership are hereafter referred to as The Projects.

The Projects have qualified for and been allocated low-income housing tax credits pursuant to the Internal Revenue Code Section 42, which regulates the use of The Projects as to occupant eligibility and unit gross rent, among other requirements. The buildings of The Projects must meet the provisions of these regulations during each of 15 consecutive years in order to continue to qualify to receive the tax credits. Failure to comply with occupant eligibility and/or unit gross rent or to correct noncompliance within a specified time period, could result in recapture of the previously taken low-income housing tax credits plus interest. Such potential noncompliance may require an adjustment to the contributed capital by the investors in The Projects and is subject to guaranties between First Step House and the other members/partners of The Projects.

Developer Fee

The Projects have agreed to compensate First Step House developer fees totaling $2,756,078 ($1,544,890 from The LLC and $1,211,188 from The Partnership) for services rendered in developing The Projects. If The Projects do not have sufficient funds to pay the developer fee by the end of the twelfth year of the tax credit compliance period, First Step House is required to make an equity contribution to The Projects in the amount of any remaining unpaid fee. For the years ended June 30, 2022 and 2021, First Step House recognized $76,606 and $1,290,452, respectively, of revenue related to developer fees earned based on the pro-rata portion of each project's development completed. This amount is included on the consolidated statements of activities as housing development income. As of June 30, 2022 and 2021, amounts receivable from The Projects for developer fees totaled $79,990 and $1,248,500, respectively. At June 30, 2022, the full amount of the developer fees has been recognized as revenue.

Buyout Option and Right of First Refusal

After the completion of the 15-year low-income housing tax credit compliance period, First Step House has the option to buy the interest of the investor member/partner of each project for the buyout price as defined in the operating/partnership agreement. There are various options to First Step House – under the most likely scenarios, the buyout price is to be either the fair market value of the investor member's/partner's interest based on a calculation of the distribution that the investor member/partner would receive upon liquidation of The Projects after a sale at each project's appraised value, or the amount of all taxes attributable to the investor member/partner as a result of the sale of its interest to First Step House.

Guaranties

Operating deficit – operating deficits of The Projects are to be funded first by using operating reserves which are to be established from investor member/partner equity proceeds in the amount of $420,305 (for The LLC) and $145,000 (for The Partnership). If the reserves are depleted, First Step House is required to provide loans to The Projects in the amount of any operating deficits in amounts not to exceed $387,994 (for The LLC) and $250,000 (for The Partnership). This guaranty is required until the operating results of The Projects meet certain criteria defined in the operating/partnership agreement but no sooner than 4 years after stabilized occupancy is achieved. First Step House has not currently been required and does not currently expect to be required to provide funds under these guaranties.

Tax credit – First Step House may be required to provide funds to the investor member if during the tax credit period, the actual tax credits are less than the projected tax credits, including if any tax credits are recaptured. Projected tax credits for The LLC, which are expected to be claimed on tax returns from December 31, 2020 to 2030, total $6,744,300 of federal credits and $6,710,000 of State of Utah credits. Projected tax credits for The Partnership, which are expected to be claimed on tax returns from December 31, 2021 to 2031, total $7,564,820 of federal credits and $1,600,000 of State of Utah credits. First Step House has not currently been required and does not currently expect to be required to provide funds under this guaranty.

Summary financial statement information on equity method investments as of June 30, 2022 and 2021, is as follows:

	5th East Apartments, LLC		426 Apartments, LP	
	2022	2021	2022	2021
Current assets	$ 629,303	$ 1,230,906	$ 544,052	$ 61,378
Land, buildings and equipment	18,537,412	18,573,569	9,974,221	10,372,314
Other noncurrent assets	94,093	94,093	152,361	108,032
Total assets	$ 19,260,808	$ 19,898,568	$ 10,670,634	$ 10,541,724
Current liabilities	$ 431,778	$ 1,622,544	$ 115,384	$ 52,557
Noncurrent liabilities	6,303,721	10,285,874	2,028,947	2,070,747
Equity	12,525,309	7,990,150	8,526,303	8,418,420
Total liabilities and equity	$ 19,260,808	$ 19,898,568	$ 10,670,634	$ 10,541,724
Total revenue	$ 471,842	$ 623,437	$ 255,324	$ 124,654
Total expenses	(766,791)	(1,373,632)	(414,884)	(115,833)
Net income (loss)	$ (294,949)	$ (750,195)	$ (159,560)	$ 8,821

Note 7 - Line of Credit

At June 30, 2022 and 2021, the Organization had a $300,000 line of credit with a bank, secured by property and equipment, which expired November 2022. The outstanding balance on the line of credit was $0 at June 30, 2022 and 2021.

Note 8 - Provider Relief Funds

In connection with the federal government's response to the COVID-19 pandemic, the Organization received $801,742 in federal Provider Relief Fund (PRF) payments from the U.S. Department of Health and Human Services (HHS) during the year ended June 30, 2021. The funds are subject to the terms and conditions imposed by HHS. Among the terms and conditions is a provision that payments are to only be used to prevent, prepare for, and respond to COVID-19 (i.e., reimburse the recipient for healthcare-related expenses or lost patient revenues that are attributable to the COVID-19 pandemic). For the year ended June 30, 2021, First Step House recorded the PRF payments received as revenue because the funds were expected to be retained by First Step House. Subsequently, during the year ended June 30, 2022, First Step House determined that approximately $400,000 of the PRF payments received are expected to be disallowed and repaid to HHS based on HHS's reporting requirements for the PRF. As of and for the year ended June 30, 2022, First Step House has recorded a liability (included in "other liabilities" on the consolidated statement of financial position) and a loss of $402,342 related to the PRF payments previously received.

Note 9 - Lease Commitments

The Organization leases office space, program-use space, and equipment under various operating leases expiring at various dates through 2025. Total rent expense for the years ended June 30, 2022 and 2021, was $255,790 and $356,116, respectively. Future minimum payments under the operating leases are as follows:

Year Ending June 30,	Amount
2023	$ 106,520
2024	72,099
2025	4,097
	$ 182,716

Additionally, during the year ended June 30, 2021, the Organization entered into a 30-year lease agreement for a portion of the 5th East Apartments, LLC building. The lease requires an annual payment of $1, thus, the leased space is substantially being donated to the Organization for use in its alcohol and drug rehabilitation program. For the year ended June 30, 2021, the Organization has recognized the estimated fair value of the 30-year lease as in-kind rent donation - related party on the consolidated statement of activities totaling $3,152,801. Rent expense is being recognized on a straight-line basis annually as the donated space is used. For the years ended June 30, 2022 and 2021, rent expense related to this lease totaled $105,093 and $96,336, respectively. At June 30, 2022 and 2021, the Organization has recorded an in-kind rent receivable of $2,951,372 and $3,056,465, respectively, which represents the remaining value of the lease that will be expensed in future years.

Note 10 - Donated Materials

The Organization received donated materials as follows during the years ended June 30, 2022 and 2021:

	Program Services	Management and General	Fundraising	Total
June 30, 2022				
Food	$ 180,000	$ -	$ -	$ 180,000
Rent	99,838	5,255	-	105,093
	$ 279,838	$ 5,255	$ -	$ 285,093
June 30, 2021				
Food	$ 128,775	$ 17,625	$ -	$ 146,400
Rent	91,519	4,817	-	96,336
Vehicles	46,382	6,348	-	52,730
Other	4,618	632	-	5,250
	$ 271,294	$ 29,422	$ -	$ 300,716

Note 11 - Long-Term Debt

Long-term debt consists of the following at June 30, 2022 and 2021:

	2022	2021
Note payable to Intermountain Healthcare, due in monthly installments of $9,286, beginning June 2020 through May 2027 interest at 2.036%, secured by property.	$ 2,371,302	$ 2,428,601
Note payable to Zions Bank, due in monthly installments of $11,760 April 2017 through May 2041, interest at 90 day Libor plus 4% (6.285% at June 30, 2022), secured by property.	1,848,415	1,911,745
Note payable to Salt Lake City Corporation, due in monthly installments of $2,466, beginning November 2017 through October 2044, interest at 1%, secured by property.	592,109	615,654
Note payable to the state of Utah, due in monthly installments of $2,108, beginning January 2016 through December 2045, interest at 3%, secured by property.	423,998	435,355

	2022	2021
Paycheck Protection Program loan payable to Zions Bank, due in monthly installments of $6,173 through maturity (April 2025), interest at 1%, unsecured (see further explanation below).	$ 206,856	$ 278,477
Note payable to Salt Lake City Corporation, no monthly payments required through July 2049, interest at 0%, secured by property.	126,000	126,000
Mortgage note payable to Salt Lake City Corporation, monthly principal payments of $200, non-interest bearing, due October 1, 2027, secured by property.	111,017	113,417
Note payable to Zions Bank, due in monthly installments of $2,780 November 2016 through October 2026, with a balloon payment of $271,102 due November 2026, interest at 5 year Libor plus 3% (3.619% at June 30, 2022), secured by property, paid in full during the year ended June 2022.	-	372,615
	5,679,697	6,281,864
Less current maturities	(242,433)	(247,031)
	$ 5,437,264	$ 6,034,833

Future maturities of long-term debt are as follows:

Year Ending June 30,	Amount
2023	$ 242,433
2024	247,809
2025	240,913
2026	184,379
2027	2,228,685
Thereafter	2,535,478
	$ 5,679,697

Paycheck Protection Program Loan

During 2020, the Organization applied for and was granted a $1,335,500 loan under the Paycheck Protection Program administered by a Small Business Administration (SBA) approved partner. The loan is uncollateralized and is fully guaranteed by the federal government. The loan accrues interest at a rate of 1% and requires monthly installment payments beginning in November 2020. The Organization is eligible for forgiveness of the loan upon meeting certain requirements. During the year ended June 30, 2021, Organization applied for loan forgiveness and received forgiveness of $1,035,545 of the total loan amount. The remaining $299,955 was not forgiven and was converted to an amortizing loan that matures in April 2025. The outstanding balance on the loan was $206,856 and $278,477 at June 30, 2022 and 2021, respectively.

Note 12 - Net Assets with Donor Restrictions

Net assets with donor restrictions represent resources currently available for use, but expendable only for the specific purposes as follows at June 30, 2022 and 2021:

	2022	2021
Programs	$ 255,866	$ 154,698
Future endowment	115,718	50,000
In-kind rent receivable - related party	2,951,372	3,056,465
	$ 3,322,956	$ 3,261,163

Note 13 - Concentrations

The majority of the Organization's grant and contract revenues are provided through Medicaid, Veterans Administration, Salt Lake County, Pay for Success, and the Utah State Department of Health. A loss of support from these grants and contracts would have a materially adverse effect on the Organization's operations. For the years ended June 30, 2022 and 2021, the largest sources of revenue as a percent of total revenue are as follows:

	2022	2021
Medicaid, Utah State Department of Health	40%	21%
Veterans Administration	12%	10%
Medicaid, administered through Optum	12%	7%

Note 14 - Related Party Transactions

At June 30, 2022 and 2021, First Step House has receivable amounts due from 5th East Apartments, LLC and 426 Apartments, LP as follows:

	2022	2021
Developer fee receivable (Note 6)	$ 79,990	$ 1,248,500
Accrued interest receivable	68,700	30,000
Advances for development costs	13,325	78,656
Supportive housing services	10,183	10,833
	$ 172,198	$ 1,367,989

For the years ended June 30, 2022 and 2021, the Organization recorded development fee revenue totaling $76,606 and $1,290,452, respectively, from 5th East Apartments, LLC and 426 Apartments, LP (see Note 6).

Notes Receivable - Related Party

First Step House, acting as the project sponsor, has entered into two Affordable Housing Subsidy Agreements (one related to 5th East Apartments, LLC for $630,000 and one related to 426 Apartments, LP for $400,000) with the Federal Home Loan Bank of Des Moines (FHLB). During the year ended June 30, 2020, First Step House received the $630,000 subsidy for the development of the 5th East Apartments, LLC project. During the year ended June 30, 2021, First Step House received the $400,000 subsidy for the development of the 426 Apartments, LP project. The terms of the subsidy agreements outline certain conditions and performance requirements that must be met through the duration of the 15-year retention period. If these conditions and requirements are not met, the subsidies would be required to be repaid to the FHLB. Due to these conditions and requirements, First Step House considers the subsidy funds (totaling $1,030,000) to be conditional contributions and has recorded the amount of the subsidy funds received as refundable advances as of June 30, 2022 and 2021, respectively.

During the year ended June 30, 2020, First Step House (acting as the project sponsor), loaned the $630,000 subsidy funds to 5th East Apartments, LLC. The corresponding note receivable bears 0% interest and requires principal payments subject to available cash flow until the project is sold or maturity (December 2049), at which time any unpaid balance is due. The outstanding balance of the note was $630,000 at both June 30, 2022 and 2021, respectively.

During the year ended June 30, 2021, First Step House (acting as the project sponsor), loaned the $400,000 subsidy funds to 426 Apartments, LP. The corresponding note receivable bears 9% interest and requires principal payments subject to available cash flow until the project is sold or maturity (December 2050), at which time any unpaid balance is due. The outstanding balance of the note was $400,000 at both June 30, 2022 and 2021. For the years ended June 30, 2022 and 2021, First Step House has recorded $38,700 and $30,000, respectively, of interest income relating to this note, which is also recorded as a receivable at June 30, 2022 and 2021, respectively.

Note 15 - Employee Benefit Plan

The Organization sponsors a qualified defined contribution plan (the Plan) under Section 401(k) of the Internal Revenue Code covering substantially all full-time employees. The Plan provides that employees who have completed six months of service can voluntarily contribute from 0% to 100% of their earnings to the Plan, up to the maximum contribution allowed by the IRS. Employer contributions are discretionary and are determined and authorized by the Board of Directors each plan year. During the years ended June 30, 2022 and 2021, the Organization matched employee voluntary contributions up to 4% of employee compensation, resulting in contributions to the Plan of $133,410 and $123,271, respectively.

Additional Information
June 30, 2022

FIRST STEP HOUSE

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Consolidated Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors and Management
First Step House
Salt Lake City, Utah

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of First Step House, which comprise the consolidated statement of financial position as of June 30, 2022, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated August 15, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered First Step House's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of First Step House's internal control. Accordingly, we do not express an opinion on the effectiveness of First Step House's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2022-001 that we consider to be a material weakness.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether First Step House's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2022-002.

First Step House's Response to Finding

Government Auditing Standards requires the auditor to perform limited procedures on First Step House's response to the findings identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs. First Step House's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the First Step House's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering First Step House's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Eide Bailly LLP

Salt Lake City, Utah
August 15, 2023

Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance Required by the Uniform Guidance

The Board of Directors and Management
First Step House
Salt Lake City, Utah

Report on Compliance for Each Major Federal Program

Adverse and Unmodified Opinions

We have audited First Step House's compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of First Step House's major federal programs for the year ended June 30, 2022. First Step House's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Adverse Opinion on Provider Relief Fund and American Rescue Plan Rural Distribution

In our opinion, because of the significance of the matter discussed in the Basis for Adverse and Unmodified Opinions section of our report , First Step House did not comply in all material respects, with the compliance requirements referred to above that could have a direct and material effect on Provider Relief Fund and American Rescue Plan Rural Distribution for the year ended June 30, 2022.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, First Step House complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2022.

Basis for Adverse and Unmodified Opinions

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of First Step House and to meet our other ethical responsibilities, in accordance with 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 adverse and unmodified opinions on compliance for each major federal program. Our audit does not provide a legal determination of First Step House's compliance with the compliance requirements referred to above.

Matter Giving Rise to Adverse Opinion on Provider Relief Fund and American Rescue Plan Rural Distribution

As described in the accompanying schedule of findings and questioned costs, First Step House did not comply with requirements regarding Assistance Listing No. 93.498 *Provider Relief Fund and American Rescue Plan Rural Distribution* described in finding number 2022-002 for Activities Allowed or Unallowed, Allowable Costs/Cost Principles and Reporting. Compliance with such requirements is necessary, in our opinion, for First Step House to comply with the requirements applicable to that program.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to First Step House's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on First Step House's compliance based on our audit. 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 GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about First Step House's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 First Step House's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

- Obtain an understanding of First Step House's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of First Step House's internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on First Step House's response to the noncompliance finding identified in our compliance audit described in the accompanying schedule of findings and questioned costs. First Step House's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be a material weakness.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2022-002 to be a material weakness.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on First Step House's response to the internal control over compliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. First Step House's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Eide Bailly LLP

Salt Lake City, Utah
August 15, 2023

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing	Pass-through Entity Identifying Number	Expenditures
U.S. Department of Veteran Affairs			
VA Homeless Providers Grant and Per Diem Program	64.024	FSHI963-1489-660-PD-21	$ 1,758,606
VA Homeless Providers Grant and Per Diem Program	64.024	FSH1963-2491-660-SN-22	313,834
VA Homeless Providers Grant and Per Diem Program	64.024	HAOS171-2259-660-CM-22	16,142
Total U.S. Department of Veterans Affairs			2,088,582
U.S. Department of Health and Human Services			
Passed through Salt Lake County			
Social Services Block Grant	93.667	N/A	40,000
Block Grants for Community Mental Health Services	93.958	N/A	212,642
COVID-19 Block Grants for Prevention and Treatment of Substance Abuse	93.959	N/A	247,539
COVID-19 Provider Relief Fund and American Rescue Plan Rural Distribution	93.498	N/A	801,742
Total U.S. Department of Health and Human Services			1,301,923
U.S. Department of Housing and Urban Development			
Passed through Salt Lake City Corporation			
Community Development Block Grant	14.218	N/A	771,382
Passed through Salt Lake County			
Community Development Block Grant	14.218	N/A	114,880
COVID-19 Community Development Block Grant	14.218	N/A	101,531
Total Cluster - CDBG Entitlements Grants			987,793
Passed through Salt Lake City Corporation			
Emergency Solutions Grant	14.231	N/A	67,914

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing	Pass-through Entity Identifying Number	Expenditures
Passed through Salt Lake County			
Emergency Solutions Grant	14.231	N/A	147,956
COVID-19 Emergency Solutions Grant	14.231	N/A	152,630
Total U.S. Department of Housing and Urban Development			1,356,293
Corporation for National and Community Service			
Passed through Salt Lake County			
AmeriCorps Program	94.013	N/A	12,000
Total Corporation for National and Community Service			12,000
Total Federal Financial Assistance			$ 4,758,798

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal grant activity of First Step House (the Organization) under programs of the federal government for the year ended June 30, 2022. The information is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of First Step House, it is not intended to and does not present the consolidated financial position, changes in net assets, or cash flows of First Step House.

Note 2 - Significant Accounting Policies

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. No federal financial assistance has been provided to a subrecipient.

Note 3 - Indirect Cost Rate

The Organization has elected to use the 10% de minimis cost rate.

Note 4 - Provider Relief Funds

The Organization received amounts from the U.S. Department of Health and Human Services (HHS) through the Provider Relief Fund (PRF) program (Federal Financial Assistance Listing/CFDA #93.498) during the year ended June 30, 2021. The Organization incurred eligible expenses (including lost revenue) and, therefore, recognized revenue totaling $801,742 for the year ended June 30, 2021, on the consolidated financial statements. In accordance with the 2021 compliance supplement, the PRF program expenditures recognized on the schedule are based on the reporting to HHS for Period 1, defined as payments received during April 10, 2020 to June 30, 2020, and Period 2, defined as payments received during July 1, 2020 to December 31, 2020, as required under the PRF program.

The amount of PRF program expenditures included on the schedule requires management to make estimates and assumptions that affect the reported amounts. Accordingly, such expenditures are considered a significant estimate. Estimates and assumptions may include reducing actual expenses by amounts that have been reimbursed or are obligated to be reimbursed by other sources, estimating marginal increases in expenses related to coronavirus and the calculation of lost revenue. Actual results could differ from those estimates.

Section I – Summary of Auditor's Results

FINANCIAL STATEMENTS

Type of auditor's report issued	Unmodified
Internal control over financial reporting	
Material weaknesses identified	Yes
Significant deficiencies identified not considered to be material weaknesses	None reported
Noncompliance material to financial statements noted?	Yes

FEDERAL AWARDS

Internal control over major programs	
Material weaknesses identified	Yes
Significant deficiencies identified not considered to be material weaknesses	None Reported
Type of auditor's report issued on compliance for major programs	Unmodified for two programs and adverse for one
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516	Yes

Identification of major programs:

Name of Federal Program or Cluster	Federal Financial Assistance Listing
CDBG Entitlements Grants Cluster	14.218
United States Department of Veteran Affairs	
VA Homeless Providers Grant and Per Diem Program	64.024
Provider Relief Fund and American Rescue Plan Rural Distribution	93.498

Dollar threshold used to distinguish between type A and type B programs	$ 750,000
Auditee qualified as low-risk auditee?	No

Section II – Financial Statement Findings

2022 – 001 Financial Statement Adjustments and Preparation - Material Weakness

Criteria: The Organization should have policies and procedures in place to ensure that the general ledger accounts are properly reconciled and adjusted. In addition, these policies and procedures should encompass the preparation of the Organization’s financial statements.

Condition: The Organization’s accounts relating to the Provider Relief Fund were materially overstated, resulting in a material adjustment to the financial statements. The Organization’s system of internal control over the preparation of the consolidated financial statements did not detect the error.

Cause: The Organization’s internal control system and its year-end process did not detect all necessary adjustments. With respect to the preparation of the financial statements, the organization’s internal control system is not designed to provide for the full preparation of the financial statements being audited.

Effect: Adjustments were required to properly state certain Provider Relief Fund related account balances.

Recommendation: The Organization should strengthen its year-end process to ensure the proper recording of grant related financial statement account balances and the related effect in the consolidated financial reporting.

Views of Responsible Officials: Management agrees with this finding and is designing and implementing policies and procedures to address the cause of this finding.

Section III – Federal Award Findings and Questioned Costs

2022-002 **Department of Health and Human Services**
Federal Financial Assistance Listing/CFDA #93.498
Provider Relief Fund
Applicable Federal Award Number and Year – Period 2 TIN #870290963

Activities Allowed or Unallowed, Allowable Costs/Cost Principles and Reporting
Material Weakness in Internal Control Over Compliance and Material Noncompliance

Criteria: 2 CFR 200.303(a) establishes that the auditee must establish and maintain effective internal control over the federal award that provides assurance that the entity is managing the federal award in compliance with federal statutes, regulations, and conditions of the federal award.

Condition: The total lost revenues included on the report submitted to the Health Resources and Services Administration (HRSA) for Period 2 (Period 2 Report) utilizing Option 3, as defined by HRSA, contained errors.

Cause: The Organization did not have an internal control process in place to ensure the calculation of lost revenues was properly calculated. Accordingly, errors in the lost revenue calculation spreadsheet were not identified by management.

Effect: The reporting to HRSA for Period 2 was considered incorrect. Lost revenues were included on the report that were not supportable.

Questioned Costs: $402,342. The Organization received $801,742 during Period 2. After the error noted, the corrected lost revenues and eligible expenditures totaled $399,400.

Context: All key items associated with the five quarters of revenue initially claimed as eligible under the Option 3 lost revenue calculation were tested. There were significant differences noted in all five quarters tested for a difference of $402,342 between the funds received and the revised lost revenues calculated.

Repeat Finding from Prior Years: No

Recommendation: We recommend the Organization implement a control process to ensure the lost revenue calculation is accurately calculated.

Views of Responsible Officials: Management agrees with this finding and is designing and implementing policies and procedures to address the cause of this finding.