



Consolidated Financial Statements  
June 30, 2023 and 2022



Independent Auditor’s Report.....	1
Consolidated Financial Statements	
Consolidated Statements of Financial Position .....	4
Consolidated Statement of Activities .....	5
Consolidated Statements of Functional Expenses.....	7
Consolidated Statements of Cash Flows.....	9
Notes to Consolidated Financial Statements.....	11
Additional Information	
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 <i>Government Auditing Standards</i> .....	29
Independent Auditor’s Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance Required by the Uniform Guidance.....	31
Schedule of Expenditures of Federal Awards .....	34
Notes to Schedule of Expenditures of Federal Awards .....	36
Schedule of Findings and Questioned Costs .....	37



## Independent Auditor's Report

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

### Report on the Audit of 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, 2023 and 2022, 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, 2023 and 2022, 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.

#### ***Change in Accounting Principle***

As discussed in Note 1 to the consolidated financial statements, First Step House has adopted the provisions of FASB Accounting Standards Codification Topic 842, *Leases*, as of July 1, 2022, using the modified retrospective approach with an adjustment at the beginning of the adoption period. Our opinion is not modified with respect to this matter.

### ***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 consolidated 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 consolidated financial statements are available to be issued.

### ***Auditor's Responsibilities of 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 GAAS. 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 March 22, 2024, 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.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Salt Lake City, Utah  
March 22, 2024

First Step House  
Consolidated Statements of Financial Position  
June 30, 2023 and 2022

	2023	2022
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 8,183,691	\$ 6,238,887
Operating investments	1,192,211	1,061,069
Grants and contracts receivable	1,987,168	2,101,685
Accounts receivable - other	13,204	16,321
Due from related parties	490,308	92,208
Developer fee receivable - related parties	79,990	79,990
Prepaid expenses and other assets	432,657	97,124
Total current assets	12,379,229	9,687,284
Deposits	5,466	35,466
In-kind rent receivable - related party	2,846,279	2,951,372
Notes receivable - related parties	1,030,000	1,030,000
Investments in tax credit partnerships	428,236	412,381
Property and equipment, net	10,029,627	7,680,919
Operating lease right-of-use assets	54,861	-
Finance lease right-of-use assets	65,036	-
Total assets	\$ 26,838,734	\$ 21,797,422
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 226,039	\$ 206,462
Accrued salaries and related costs	455,776	379,731
Accrued expenses	1,223,615	994,226
Current maturities of long-term debt	1,319,763	242,433
Operating lease liability	55,682	-
Current maturities of finance lease liabilities	27,857	-
Other liabilities	473,571	491,300
Total current liabilities	3,782,303	2,314,152
<b>Long-term Liabilities</b>		
Refundable advances	1,030,000	1,030,000
Long-term debt, less current maturities and unamortized discount	5,189,680	5,437,264
Finance lease liabilities, less current maturities	38,720	-
Total liabilities	10,040,703	8,781,416
<b>Net Assets</b>		
Without donor restrictions	13,488,915	9,693,050
With donor restrictions	3,309,116	3,322,956
Total net assets	16,798,031	13,016,006
Total liabilities and net assets	\$ 26,838,734	\$ 21,797,422

First Step House  
Consolidated Statement of Activities  
Year Ended June 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Support, and Gains			
Contributions			
Individuals	\$ 26,526	\$ 29,202	\$ 55,728
Foundations	83,500	271,600	355,100
Corporations	28,580	212,455	241,035
Special events revenue	80,144	-	80,144
Less costs of direct benefits to donors	(16,000)	-	(16,000)
In-kind donations	215,293	-	215,293
Grants and contracts			
Federal	2,917,122	-	2,917,122
County	1,092,735	-	1,092,735
State	10,594,120	100,000	10,694,120
City	453,709	-	453,709
Agency	4,401,026	-	4,401,026
Clients			
Rental income	174,393	-	174,393
Housing development income	85,941	-	85,941
Revenue from other sources			
Miscellaneous revenue	23,289	-	23,289
Net investment return	126,889	-	126,889
Interest income	85,496	-	85,496
Net assets released from restrictions	627,097	(627,097)	-
Total revenue, support, and gains	<u>20,999,860</u>	<u>(13,840)</u>	<u>20,986,020</u>
Expenses and Losses			
Program services expense			
Alcohol and drug rehabilitation	14,735,929	-	14,735,929
Total program services expenses	<u>14,735,929</u>	<u>-</u>	<u>14,735,929</u>
Supporting services expense			
Management and general	2,060,633	-	2,060,633
Fundraising	405,181	-	405,181
Total supporting services expenses	<u>2,465,814</u>	<u>-</u>	<u>2,465,814</u>
Loss on disposal of property and equipment	2,252	-	2,252
Total expenses and losses	<u>17,203,995</u>	<u>-</u>	<u>17,203,995</u>
Change in Net Assets	3,795,865	(13,840)	3,782,025
Net Assets, Beginning of Year	<u>9,693,050</u>	<u>3,322,956</u>	<u>13,016,006</u>
Net Assets, End of Year	<u>\$ 13,488,915</u>	<u>\$ 3,309,116</u>	<u>\$ 16,798,031</u>

First Step House  
Consolidated Statement of Activities  
Year Ended June 30, 2022

	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	<u>17,748,489</u>	<u>61,793</u>	<u>17,810,282</u>
Expenses and Losses			
Program services expense			
Alcohol and drug rehabilitation	13,226,700	-	13,226,700
Total program services expenses	<u>13,226,700</u>	<u>-</u>	<u>13,226,700</u>
Supporting services expense			
Management and general	1,817,307	-	1,817,307
Fundraising	361,641	-	361,641
Total supporting services expenses	<u>2,178,948</u>	<u>-</u>	<u>2,178,948</u>
Provision for loss on Provider Relief Funds	402,342	-	402,342
Total expenses and losses	<u>15,807,990</u>	<u>-</u>	<u>15,807,990</u>
Change in Net Assets	1,940,499	61,793	2,002,292
Net Assets, Beginning of Year	<u>7,752,551</u>	<u>3,261,163</u>	<u>11,013,714</u>
Net Assets, End of Year	<u>\$ 9,693,050</u>	<u>\$ 3,322,956</u>	<u>\$ 13,016,006</u>

First Step House  
Consolidated Statement of Functional Expenses  
Year Ended June 30, 2023

	Program Services	Supporting Services		
	Substance Use Treatment, Housing, and other Programs	Management and General	Fundraising	Total
Personnel	\$ 11,587,621	\$ 1,674,827	\$ 354,028	\$ 13,616,476
Food and kitchen supplies	489,574	25,767	-	515,341
Contract services	207,235	29,953	6,332	243,520
House supplies	198,582	27,851	-	226,433
Depreciation and amortization	434,168	61,294	15,324	510,786
Utilities	199,484	28,833	6,095	234,412
Occupancy	192,549	27,183	6,796	226,528
In-kind rent	99,838	5,255	-	105,093
Miscellaneous	38,262	5,530	1,169	44,961
Events	25,416	25,416	-	50,832
Marketing and advertising	7,215	1,043	220	8,478
Facilities maintenance	277,397	40,094	8,475	325,966
Insurance	178,182	25,754	5,444	209,380
Interest	139,257	20,128	4,255	163,640
Office supplies	200,708	29,010	6,132	235,850
Vehicle expense	110,784	16,012	3,385	130,181
Telephone	113,386	16,388	3,464	133,238
Travel	2,042	295	62	2,399
Bad debt	2,516	-	-	2,516
Client expenses	231,713	-	-	231,713
	14,735,929	2,060,633	421,181	17,217,743
Less expenses included with revenues on the statement of activities costs of direct benefits to donors	-	-	(16,000)	(16,000)
Total expenses included in the expense section on the statement of activities	\$ 14,735,929	\$ 2,060,633	\$ 405,181	\$ 17,201,743

First Step House  
Consolidated Statement of Functional Expenses  
Year Ended June 30, 2022

	Program Services	Supporting Services		
	Substance Use Treatment, Housing, and other Programs	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 and amortization	378,589	54,720	11,567	444,876
Utilities	158,121	22,854	4,831	185,806
Occupancy	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
	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)
Total expenses included in the expense section on the statement of activities	\$ 13,226,700	\$ 1,817,307	\$ 361,641	\$ 15,405,648

First Step House  
Consolidated Statements of Cash Flows  
Years Ended June 30, 2023 and 2022

	2023	2022
Operating Activities		
Change in net assets	\$ 3,782,025	\$ 2,002,292
Adjustment to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	510,786	444,876
Interest expense attributable to amortization of debt discount	11,765	-
Realized and unrealized (gain) loss on operating investments	(131,142)	72,884
Bad debt expense	2,516	1,975
Loss on disposal of property and equipment	2,252	-
Changes in assets and liabilities		
Grants and contracts receivable	114,517	(241,885)
Accounts receivable	601	(10,324)
Developer fee receivable	-	1,168,510
Due from related parties	(51,167)	(38,050)
Prepaid expenses and other assets	(335,533)	83,335
Deposits	30,000	(19,341)
In-kind rent receivable - related party	105,093	105,093
Accounts payable	19,577	(59,164)
Accrued salaries and related costs	76,045	19,403
Accrued expenses	229,389	(358,199)
Operating lease asset and liability	821	-
Other liabilities	(17,729)	369,853
Net Cash from Operating Activities	<u>4,349,816</u>	<u>3,541,258</u>
Investing Activities		
Purchases of operating investments	-	(2,868,164)
Proceeds from sale of operating investments	-	2,760,000
Purchases of property and equipment	(2,828,845)	(300,318)
Advances to related parties for development costs of LIHTC projects	(346,933)	(23,554)
Investments in tax credit partnership	(15,855)	-
Reimbursements for development costs of LIHTC projects	-	88,885
Net Cash used for Investing Activities	<u>(3,191,633)</u>	<u>(343,151)</u>
Financing Activities		
Principal payments on long-term debt	(254,700)	(602,167)
Proceeds from issuance of long-term debt, net of discount	1,072,681	-
Principal payments on financing lease liabilities	(31,360)	-
Net Cash from (used for) Financing Activities	<u>786,621</u>	<u>(602,167)</u>
Net Change in Cash and Cash Equivalents	1,944,804	2,595,940
Cash and Cash Equivalents, Beginning of Year	<u>6,238,887</u>	<u>3,642,947</u>
Cash and Cash Equivalents, End of Year	<u>\$ 8,183,691</u>	<u>\$ 6,238,887</u>

First Step House  
Consolidated Statements of Cash Flows  
Years Ended June 30, 2023 and 2022

---

	<u>2023</u>	<u>2022</u>
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest	\$ 174,733	\$ 152,096
Supplemental Disclosure of Non-cash Investing and Financing Activities		
Finance lease liabilities arising from obtaining right-of-use assets	\$ 47,389	\$ -

## **Note 1 - Principal Activity and Significant Accounting Policies**

### **Organization**

Since 1958, First Step House has helped people in the Salt Lake Valley get back on their feet after addiction and homelessness. First Step House is a 501(c)3 nonprofit corporation organized under the laws of the state of Utah on February 14, 1958. First Step House is accredited as a behavioral healthcare provider by the Joint Commission. It receives funding from government grants and contracts, client fees, and private grants and donations.

First Step House collaborates with local government and other service providers to identify community needs and prevent gaps in the social fabric. The target population is very low-income, with serious and chronic behavioral health conditions such as substance use disorder and mental illness. Most First Step House clients have experienced homelessness or are at risk of becoming homeless. Many have been incarcerated, sometimes for significant periods of time. At First Step House, they regain stability, dignity, and hope.

First Step House provides treatment, deeply affordable housing, and integrated support services to about 1,500 people each year. Core programs include residential and outpatient treatment for substance use, treatment to reduce criminal recidivism, deeply affordable transitional and permanent housing, and a suite of integrated services including a medical clinic and nursing care management, an employment program, housing case management, transportation, food and nutrition, and peer support services.

In response to the rising rate of homelessness in Salt Lake City over the past 10 years, First Step House made a commitment to develop deeply affordable housing to meet the long-term needs of people who are most vulnerable. In 2019 and 2020, First Step House opened two apartment buildings with 115 units of permanent supportive housing for people with serious mental illness and long histories of homelessness. Two more permanent supportive housing projects are in development currently.

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.”

### **Cash and Cash Equivalents**

All cash and highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes, are considered to be cash and cash equivalents.

### **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, 2023 and 2022, 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, 2023 and 2022, there was no allowance for doubtful accounts.

### **Investments**

*Operating Investments* – 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, 2023 and 2022, the Organization’s operating investments consisted of money market funds, mutual funds, and index-based variable annuities (see Note 5). Net investment return/(loss) is reported in the statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

*Investments in Tax Credit Partnerships* – The equity method of accounting is used when the Organization does not have a controlling financial interest in 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 and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 40 years, or in the case of capitalized leased assets, the lesser of the useful life of the asset or the lease term. 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, 2023 and 2022.

### 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 guidance are conditioned upon certain performance requirements and the incurrence of allowable qualifying expenses.

Consequently, at June 30, 2023 and 2022, conditional contributions totaling approximately \$1,430,000 and \$1,257,000, respectively, have not been recognized in the accompanying consolidated financial statements because qualifying expenditures have not yet been incurred. For the years ended June 30, 2023 and 2022, the Organization recognized grant and contract revenue totaling \$3,893,272 and \$4,203,649, respectively, in accordance with contribution revenue accounting guidance. 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, 2023 and 2022, conditional contributions totaling \$1,030,000, for which amounts have been received in advance (Note 15), have not been recognized in the accompanying consolidated financial statements because certain performance requirements and barriers have not yet been met.

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, 2023 and 2022, total program service revenues recognized over time was \$15,665,362 and \$12,685,209, 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, if any, 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) and 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 and amortization, utilities, rent, facilities maintenance, contract services, travel, office supplies, 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, 2023, the Company had approximately \$7,468,000 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.

#### **Adoption of Accounting Standards Codification Topic 842**

Effective July 1, 2022, the Organization adopted the new lease accounting guidance in Accounting Standards Update No. 2016-02, *Leases* (Topic 842). The Organization elected to apply the guidance as of July 1, 2022, the beginning of the adoption period. The comparative consolidated financial information and disclosures presented are in accordance with the legacy standard, ASC 840. The standard requires the recognition of right-of-use assets and lease liabilities for lease contracts with terms greater than 12 months. Operating lease costs are recognized in the consolidated statement of activities as a single lease cost and finance lease costs are recognized in two components, interest expense and amortization expense. The Organization has elected the package of practical expedients permitted in ASC Topic 842. Accordingly, the Organization accounted for its existing leases as either finance or operating leases under the new guidance, without reassessing (a) whether the contract contains a lease under ASC Topic 842, (b) whether classification of the operating leases would be different in accordance with ASC Topic 842, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in ASC Topic 842 at lease commencement.

As a result of the adoption of the new lease accounting guidance, the Organization recognized on July 1, 2022, the beginning of the adoption period, no cumulative effect adjustment to net assets, an operating lease liability and operating right-of-use asset of \$126,210. The finance lease right-of-use assets and liabilities were recorded as of July 1, 2022, at the carrying value under prior guidance. The adoption of the new standard did not materially impact the Organization's consolidated statement of activities or statement of cash flows. See Note 10 for further disclosure of the Organization's lease contracts.

#### **Reclassifications**

Certain reclassifications of amounts previously reported have been made to the accompanying consolidated financial statements to maintain consistency between periods presented. The reclassification had no impact on previously reported net assets.

#### **Subsequent Events**

The Organization has made an evaluation of subsequent events through March 22, 2024, 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:

	2023	2022
Cash and cash equivalents	\$ 8,183,691	\$ 6,238,887
Operating investments	1,192,211	1,061,069
Grants and contracts receivable	1,987,168	2,101,685
Accounts receivable, net	13,204	16,321
Due from related parties	490,308	92,208
Developer fee receivable - related parties	79,990	79,990
	11,946,572	9,590,160
Less amounts restricted for specific purposes or programs	(462,837)	(371,584)
	\$ 11,483,735	\$ 9,218,576

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.

**Note 3 - Grants and Contracts Receivable**

Grants and contracts receivable consist of the following at June 30, 2023 and 2022:

	2023	2022
Utah State Department of Health	\$ 943,399	\$ 557,954
Veterans Administration	224,373	335,220
Utah Transit Authority	155,796	-
Salt Lake County	121,226	175,499
Optum	76,713	631,849
Affordable Care Organizations	65,286	103,653
TriWest	63,810	95,922
Salt Lake City	57,040	114,832
Other	279,525	86,756
	\$ 1,987,168	\$ 2,101,685

At July 1, 2021, grants and contracts receivable totaled \$1,859,800.

**Note 4 - Property and Equipment**

Property and equipment consists of the following at June 30, 2023 and 2022:

	2023	2022
Land	\$ 1,099,213	\$ 1,099,213
Buildings and improvements	8,241,377	8,177,867
Furniture and equipment	958,400	866,209
Vehicles	441,308	441,308
Construction in progress	2,582,914	571
	13,323,212	10,585,168
Less accumulated depreciation	(3,293,585)	(2,904,249)
	\$ 10,029,627	\$ 7,680,919

The Organization's property and equipment serves as collateral for long-term debt as further described in Note 9.

**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, 2023 and 2022, the Organization has certain investment assets classified as Level 1 because they are comprised of mutual funds (or similar funds) with readily determinable fair values quoted in active financial markets. The Organization also invests in index-based annuity contracts that are valued by the custodian based on the underlying index allocations of the contracts. Because these contracts are not directly observable in the public market, but the value is based substantially on observable market prices of the underlying indices and funds, it is classified within Level 2.

The following table presents assets measured at fair value on a recurring basis as of June 30, 2023:

Description	Total	Fair Value Measurements at Report Date Using		
		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 (at cost)	\$ 26,891	\$ -	\$ -	\$ -
Mutual funds	296,210	296,210	-	-
Index-based variable annuities	869,110	-	869,110	-
	<u>\$ 1,192,211</u>	<u>\$ 296,210</u>	<u>\$ 869,110</u>	<u>\$ -</u>

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

Description	Total	Fair Value Measurements at Report Date Using		
		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 (at cost)	\$ 18,696	\$ -	\$ -	\$ -
Mutual funds	276,790	276,790	-	-
Index-based variable annuities	765,583	-	765,583	-
	<u>\$ 1,061,069</u>	<u>\$ 276,790</u>	<u>\$ 765,583</u>	<u>\$ -</u>

## **Note 6 - Investments in Tax Credit Partnerships**

Effective during the year ended June 30, 2019, First Step House became the .01% managing member of 5<sup>th</sup> 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 was \$428,236 and \$412,381 as of June 30, 2023 and 2022, 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, 2023 and 2022, First Step House recognized \$0 and \$76,606, 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, 2023 and 2022, amounts receivable from The Projects for developer fees totaled \$79,990. 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 four years after stabilized occupancy is achieved. First Step House has not recorded any amounts related to these guaranties as First Step House has not been required to provide 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, 2023 and 2022, is as follows:

	<u>5th East Apartments, LLC</u>		<u>426 Apartments, LP</u>	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Current assets	\$ 697,539	\$ 629,303	\$ 383,403	\$ 544,052
Land, buildings and equipment	17,486,325	18,537,412	9,356,424	9,974,221
Other noncurrent assets	<u>238,378</u>	<u>94,093</u>	<u>152,361</u>	<u>152,361</u>
Total assets	<u>\$ 18,422,242</u>	<u>\$ 19,260,808</u>	<u>\$ 9,892,188</u>	<u>\$ 10,670,634</u>
Current liabilities	\$ 247,397	\$ 431,778	\$ 201,213	\$ 115,384
Noncurrent liabilities	6,276,934	6,303,721	1,833,217	2,028,947
Equity	<u>11,897,911</u>	<u>12,525,309</u>	<u>7,857,758</u>	<u>8,526,303</u>
Total liabilities and equity	<u>\$ 18,422,242</u>	<u>\$ 19,260,808</u>	<u>\$ 9,892,188</u>	<u>\$ 10,670,634</u>
Total revenue	\$ 1,104,197	\$ 471,842	\$ 592,752	\$ 255,324
Total expenses	<u>(1,816,689)</u>	<u>(766,791)</u>	<u>(987,551)</u>	<u>(414,884)</u>
Net income (loss)	<u>\$ (712,492)</u>	<u>\$ (294,949)</u>	<u>\$ (394,799)</u>	<u>\$ (159,560)</u>

**Note 7 - Line of Credit**

At June 30, 2022, the Organization had a \$300,000 line of credit with a bank, secured by property and equipment. The line of credit was active until October 2022, at which time the line expired and was closed. The outstanding balance on the line of credit was \$0 at June 30, 2023 and 2022.

**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 were expected to be unallowed and would require repayment to HHS based on HHS’s reporting requirements for the PRF. As of and for the years ended June 30, 2023 and 2022, the Organization has recorded a liability (included in “other liabilities” on the consolidated statements of financial position) of \$402,342. During the year ended June 30, 2022, the Organization recorded a loss of \$402,342 related to the PRF payments previously received. Subsequent to June 30, 2023, the \$402,342 was repaid to HHS.

**Note 9 - Long-Term Debt**

Long-term debt consists of the following at June 30, 2023 and 2022:

	2023	2022
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.	\$ 2,302,191	\$ 2,371,302
Note payable to Zions Bank, due in monthly installments of \$11,760 April 2017 through May 2041, interest at 3.85%, secured by property.	1,775,179	1,848,415
Note payable to Western Region Nonprofit Housing Corporation, no monthly payments required through December 2024, imputed interest at 4.46%, net of unamortized debt discount of \$11,764, secured by property.	1,084,446	-

First Step House  
Notes to Consolidated Financial Statements  
June 30, 2023 and 2022

	2023	2022
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.	568,328	592,109
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.	410,167	423,998
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).	134,515	206,856
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.	108,617	111,017
	6,509,443	5,679,697
Less current maturities	(1,319,763)	(242,433)
	\$ 5,189,680	\$ 5,437,264

Future maturities of long-term debt are as follows:

Year Ending June 30,	Amount
2024	\$ 1,319,763
2025	236,818
2026	180,277
2027	2,224,581
2028	216,645
Thereafter	2,331,359
	\$ 6,509,443

### 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 was 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 \$134,515 and \$206,856 at June 30, 2023 and 2022, respectively.

### Note 10 - Leases

The Organization leases certain office facilities, program-use space, and equipment for various terms under long-term non-cancelable operating lease and finance lease agreements. The leases expire at various dates through January 2028. The Organization includes in the determination of the right-of-use assets and lease liabilities any renewal options when the options are reasonably certain to be exercised. The Organization's operating lease provides for increases in future minimum annual rental payments.

The Organization elected the option to use the risk-free rate determined using a period comparable to the lease terms as the discount rate for leases where the interest rate is not readily available. The Organization has elected the short-term lease exemption for all leases with a term of 12 months or less for both existing and ongoing operating leases to not recognize the asset and liability for these leases. Lease payments for short-term leases are recognized on a straight-line basis. The Organization elected the practical expedient to not separate lease and non-lease components, if applicable.

Lease costs for the year ended June 30, 2023, were as follows:

Operating lease cost	\$ 74,030
Short-term lease cost	152,498
Finance lease cost	
Interest expense	1,795
Amortization of right-of-use assets	33,155

The following table summarizes the supplemental cash flow information for the year ended June 30, 2023:

Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from operating leases	\$ 73,483
Operating cash flows from finance leases	1,795
Financing cash flows from finance leases	31,360

The following summarizes the weighted-average remaining lease term and weighted-average discount rate at June 30, 2023:

Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from operating leases	\$ 73,483
Operating cash flows from finance leases	1,795
Financing cash flows from finance leases	31,360

The future minimum lease payments under noncancelable operating and finance leases with terms greater than 12 months are listed below as of June 30, 2023:

<u>Years Ending June 30,</u>	<u>Operating</u>	<u>Finance</u>
2024	\$ 56,343	\$ 29,349
2025	-	15,092
2026	-	10,188
2027	-	10,188
2028	-	5,094
Total lease payments	56,343	69,911
Less interest	(661)	(3,334)
Present value of lease payments	<u>\$ 55,682</u>	<u>\$ 66,577</u>

Future minimum payments determined under the guidance in Topic 840 are listed below as of June 30, 2022:

<u>Years Ending June 30,</u>	<u>Operating</u>
2023	\$ 106,520
2024	72,009
2025	4,097
	<u>\$ 182,626</u>

**Note 11 - In-Kind Contributions**

The Organization received donated materials and items in-kind as follows during the years ended June 30, 2023 and 2022:

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
<u>June 30, 2023</u>				
Food	\$ 180,000	\$ -	\$ -	\$ 180,000
Donated facility use	99,838	5,255	-	105,093
Interest on loan discount	35,293	-	-	35,293
	<u>\$ 315,131</u>	<u>\$ 5,255</u>	<u>\$ -</u>	320,386
Less revenue amount previously recognized for in-kind lease				<u>(105,093)</u>
In-kind donation revenue as reported on the consolidated statement of activities				<u>\$ 215,293</u>
<u>June 30, 2022</u>				
Food	\$ 180,000	\$ -	\$ -	\$ 180,000
Donated facility use	99,838	5,255	-	105,093
	<u>\$ 279,838</u>	<u>\$ 5,255</u>	<u>\$ -</u>	285,093
Less revenue amount previously recognized for in-kind lease				<u>(105,093)</u>
In-kind donation revenue as reported on the consolidated statement of activities				<u>\$ 180,000</u>

**In-Kind Lease and Donated Facility Use**

During the year ended June 30, 2021, the Organization entered into a 30-year lease agreement for a portion of the 5<sup>th</sup> 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. At lease commencement (during year ended June 30, 2021), the Organization recognized the estimated fair value of the 30-year lease as in-kind contribution revenue (totaling \$3,152,801). Occupancy expense is being recognized on a straight-line basis annually for the use of this donated space. For the years ended June 30, 2023 and 2022, occupancy expense related to this lease totaled \$105,093. At June 30, 2023 and 2022, the Organization has recorded an in-kind rent receivable of \$2,846,27 and \$2,951,372, respectively, which represents the estimated remaining value of the lease that will be recognized as expense in future years.

**Note 12 - Net Assets with Donor Restrictions**

Net assets with donor restrictions are restricted for the following purposes as of June 30, 2023 and 2022:

	2023	2022
Subject to expenditure for specified purpose		
Programs	\$ 315,128	\$ 255,866
Restricted for use in future endowment	147,709	115,718
	462,837	371,584
Subject to the passage of time		
In-kind rent receivable - related party	2,846,279	2,951,372
	\$ 3,309,116	\$ 3,322,956

For the years ended June 30, 2023 and 2022, \$522,004 and \$406,333, respectively, were released from donor restrictions by incurring expenses satisfying the restricted purpose related to the Organization's programs. For the years ended June 30, 2023 and 2022, \$105,093 was released due to the passage of time.

**Note 13 - Concentrations**

The majority of the Organization's grant and contract revenues are provided through Medicaid, Veterans Administration, and other government support. 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, 2023 and 2022, significant concentrations of revenue as a percent of total revenue are as follows:

	2023	2022
Medicaid, Utah State Department of Health	42%	40%
Veterans Administration	14%	12%
Medicaid, administered through Optum	11%	12%

**Note 14 - 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, 2023 and 2022, the Organization matched employee voluntary contributions up to 4% of employee compensation, resulting in contributions to the Plan of \$135,042 and \$133,410, respectively.

**Note 15 - Related Party Transactions**

At June 30, 2023 and 2022, the Organization has receivable amounts due from entities related to its investments in tax credit partnerships (5<sup>th</sup> East Apartments, LLC and 426 Apartments, LP) as follows:

	2023	2022
Advances for development costs	\$ 360,258	\$ 13,325
Accrued interest receivable	110,883	68,700
Developer fee receivable (Note 6)	79,990	79,990
Supportive housing services	19,167	10,183
	\$ 570,298	\$ 172,198

For the years ended June 30, 2023 and 2022, the Organization recorded development fee revenue totaling \$0 and \$76,606, 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 5<sup>th</sup> 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 5<sup>th</sup> 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, 2023 and 2022, respectively.

During the year ended June 30, 2020, First Step House (acting as the project sponsor), loaned the \$630,000 subsidy funds to 5<sup>th</sup> 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, 2023 and 2022, 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, 2023 and 2022. For the years ended June 30, 2023 and 2022, First Step House has recorded \$42,183 and \$38,700, respectively, of interest income relating to this note.



Additional Information  
June 30, 2023





**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, 2023, 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 March 22, 2024.

**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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

## **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether First Step House's consolidated 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **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 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.

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP".

Salt Lake City, Utah  
March 22, 2024



## **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**

#### ***Opinion on Each Major Federal Program***

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, 2023. 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.

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 for the year ended June 30, 2023.

#### ***Basis for Opinion on Each Major Federal Program***

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.

#### ***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.

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**

*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.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

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.

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.

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP". The signature is written in black ink and is positioned above the typed name and date.

Salt Lake City, Utah  
March 22, 2024

First Step House  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2023

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing (FFAL)	Pass-through Entity or Grantor Identifying Number	Expenditures
<u>U.S. Department of Veteran Affairs</u>			
VA Homeless Providers Grant and Per Diem Program	64.024	FSHI963-1489-660-PD-21	\$ 1,773,415
VA Homeless Providers Grant and Per Diem Program	64.024	FSH1963-2491-660-SN-22	321,569
VA Homeless Providers Grant and Per Diem Program	64.024	HAOS171-2259-660-CM-22	62,120
Total U.S. Department of Veterans Affairs and FFAL 64.024			<u>2,157,104</u>
<u>U.S. Department of Health and Human Services</u>			
Passed through Salt Lake County			
Social Services Block Grant	93.667	N/A	60,440
Block Grants for Community Mental Health Services	93.958	N/A	278,048
Total U.S. Department of Health and Human Services			<u>338,488</u>
<u>U.S. Department of Housing and Urban Development</u>			
Passed through State of Utah			
Community Development Block Grant	14.228	N/A	1,340,934
CDBG - Entitlement Grants Cluster			
Passed through Salt Lake City Corporation			
Community Development Block Grant	14.218	N/A	66,299
Passed through Salt Lake County			
Community Development Block Grant	14.218	N/A	19,938
Total for Cluster - CDBG - Entitlement Grants and FFAL 14.218			<u>86,237</u>

First Step House  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2023

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing (FFAL)	Pass-through Entity or Grantor Identifying Number	Expenditures
Passed through State of Utah Emergency Solutions Grant	14.231	N/A	133,889
Passed through Salt Lake City Corporation Emergency Solutions Grant	14.231	N/A	36,248
Passed through Salt Lake County Emergency Solutions Grant	14.231	N/A	105,111
Total for Emergency Solutions Grants FFAL 14.231			<u>275,248</u>
Total U.S. Department of Housing and Urban Development			<u>1,702,419</u>
<u>U.S. Department of Transportation</u>			
Passed through Utah Transit Authority Transit Services Programs Cluster FTA Grant Program 5310	20.513	N/A	250,554
Total U.S. Department of Transportation			<u>250,554</u>
Total Federal Financial Assistance			<u><u>\$ 4,448,565</u></u>

**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, 2023. 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 during the year ended June 30, 2023.

**Note 3 - Indirect Cost Rate**

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

**Section I – Summary of Auditor’s Results**

**FINANCIAL STATEMENTS**

Type of auditor's report issued	Unmodified
Internal control over financial reporting	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None reported
Noncompliance material to financial statements noted?	No

**FEDERAL AWARDS**

Internal control over major programs	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None Reported
Type of auditor's report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516	No

**Identification of major programs:**

<u>Name of Federal Program or Cluster</u>	<u>Federal Financial Assistance Listing</u>
U.S. Department of Housing and Urban Development Community Development Block Grant	14.228
U.S. Department of Veteran Affairs VA Homeless Providers Grant and Per Diem Program	64.024
Dollar threshold used to distinguish between type A and type B programs	\$750,000
Auditee qualified as low-risk auditee?	No

---

**Section II – Consolidated Financial Statement Findings**

---

None

---

---

**Section III – Federal Award Findings and Questioned Costs**

---

None