



SECOND STORY

**FINANCIAL STATEMENTS, SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS, AND
INDEPENDENT AUDITORS' REPORTS**

For the Years Ended June 30, 2023 and 2022

SECOND STORY

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INDEPENDENT AUDITORS' REPORT

**Board of Directors
Second Story
Dunn Loring, Virginia**

Report on the Financial Statements

Opinion

We have audited the accompanying financial statements of **Second Story** (a nonprofit organization), which comprise the statements of financial position as of June 30, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Second Story** 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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of **Second Story** 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 Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about **Second Story's** ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of **Second Story's** internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about **Second Story'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 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 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

**Second Story
Independent Auditors' Report
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Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2024 on our consideration of **Second Story's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the **Second Story'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 **Second Story's** internal control over financial reporting and compliance.

DeLeon & Stang

DeLeon & Stang, CPAs and Advisors
Frederick, Maryland
January 17, 2024

SECOND STORY
STATEMENTS OF FINANCIAL POSITION
June 30, 2023 and 2022

	2023	2022
Assets		
Cash	\$ 663,365	\$ 1,383,894
Cash, restricted funds held for others	810,672	541,473
Investments	715,416	2,624
Grants receivable	218,640	363,261
Pledges receivable, net	463,925	445,675
Prepaid expenses	24,219	26,432
Property and equipment, net	1,240,770	599,706
Right-of-use asset - operating leases, net	127,386	-
Deposits	18,216	15,963
	<u>\$ 4,282,609</u>	<u>\$ 3,379,028</u>
Total Assets	<u>\$ 4,282,609</u>	<u>\$ 3,379,028</u>
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 225,136	\$ 264,611
Funds held for others	20,602	11,024
Supplemental funding liability	781,755	230,940
Deferred revenue	-	100,000
Operating lease liability	120,736	-
Notes payable	591,753	210,324
	<u>1,739,982</u>	<u>816,899</u>
Total Liabilities	1,739,982	816,899
Net Assets:		
Without donor restrictions	1,973,033	1,993,464
Without donor restrictions, board designated	75,000	75,000
	<u>2,048,033</u>	<u>2,068,464</u>
Total without donor restrictions	2,048,033	2,068,464
With donor restrictions	494,594	493,665
	<u>494,594</u>	<u>493,665</u>
Total Net Assets	<u>2,542,627</u>	<u>2,562,129</u>
Total Liabilities and Net Assets	<u>\$ 4,282,609</u>	<u>\$ 3,379,028</u>

SECOND STORY
STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2023 and 2022

	2023			2022		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues:						
Federal, state, and local grants	\$ 2,508,755	\$ -	\$ 2,508,755	\$ 2,254,051	\$ -	\$ 2,254,051
Contributions	1,120,971	258,940	1,379,911	1,337,474	277,203	1,614,677
In-kind contributions	366,622	-	366,622	489,959	-	489,959
Program service fees	47,830	-	47,830	3,456	-	3,456
Other income	1,350	-	1,350	397,603	-	397,603
Investment income	19,534	-	19,534	560	-	560
Net assets released from restrictions:						
Satisfaction of donor restrictions	258,011	(258,011)	-	168,771	(168,771)	-
Total revenue and support	4,323,073	929	4,324,002	4,651,874	108,432	4,760,306
Expenses:						
Program services:						
Community Based Services	1,521,776	-	1,521,776	1,486,446	-	1,486,446
Second Story for Teens in Crisis	772,003	-	772,003	679,301	-	679,301
Second Story for Homeless Youth	907,059	-	907,059	698,085	-	698,085
Second Story for Young Mothers	465,953	-	465,953	368,324	-	368,324
Total program services	3,666,791	-	3,666,791	3,232,156	-	3,232,156
Supporting services:						
Fundraising	362,267	-	362,267	318,753	-	318,753
Management and general	314,446	-	314,446	343,260	-	343,260
Total supporting services	676,713	-	676,713	662,013	-	662,013
Total expenses	4,343,504	-	4,343,504	3,894,169	-	3,894,169
Change in net assets	(20,431)	929	(19,502)	757,705	108,432	866,137
Net assets, beginning of year	2,068,464	493,665	2,562,129	1,310,759	385,233	1,695,992
Net assets, end of year	\$ 2,048,033	\$ 494,594	\$ 2,542,627	\$ 2,068,464	\$ 493,665	\$ 2,562,129

SECOND STORY
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2023

	Community Based Services	Second Story for Teens in Crisis	Second Story for Homeless Youth	Second Story for Young Mothers	Total Program	Fundraising	Management and general	Total Supporting Services	Total expenses
Salaries	\$ 841,543	\$ 540,861	\$ 390,491	\$ 223,755	\$ 1,996,650	\$ 229,740	\$ 107,249	\$ 336,989	\$ 2,333,639
Employee benefits	135,806	80,603	68,080	37,380	321,869	35,502	(786)	34,716	356,585
Space rental and other event expenses	23,504	4,968	267,392	57,255	353,119	2,046	(529)	1,517	354,636
Professional fees	96,239	49,812	38,708	25,815	210,574	40,381	56,312	96,693	307,267
Payroll taxes	63,264	40,027	28,420	16,657	148,368	17,380	45,195	62,575	210,943
Donated food, clothing and supplies	109,972	7,128	44,933	33,744	195,777			-	195,777
Donated rent	138,192	60	1,540	20	139,812	-	-	-	139,812
Communications	19,043	9,224	8,581	13,139	49,987	7,967	26,030	33,997	83,984
Depreciation and amortization	-	-	-	-	-	-	68,894	68,894	68,894
Supplies	24,108	1,918	26,259	1,343	53,628	2,048	11,330	13,378	67,006
Food	33,039	4,017	5,924	225	43,205	506	1,865	2,371	45,576
Donated professional services	11,067	6,954	4,889	3,364	26,274	3,006	1,752	4,758	31,032
Interest	-	2,426	-	25,363	27,789	-	-	-	27,789
Utilities	-	11,345	6,005	7,015	24,365	-	589	589	24,954
Occupancy	4,406	2,726	-	15,255	22,387	-	1,706	1,706	24,093
Travel	6,440	2,264	9,970	2,270	20,944	452	194	646	21,590
Bad debt expense	-	-	-	-	-	16,200	-	16,200	16,200
Insurance	9,655	6,172	4,102	2,221	22,150	2,230	(8,803)	(6,573)	15,577
Publications	4,287	1,390	1,367	952	7,996	4,587	2,560	7,147	15,143
Memberships, licenses and permits	1,211	108	398	180	1,897	222	888	1,110	3,007
Total expenses	\$ 1,521,776	\$ 772,003	\$ 907,059	\$ 465,953	\$ 3,666,791	\$ 362,267	\$ 314,446	\$ 676,713	\$ 4,343,504

SECOND STORY
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2022

	Community Based Services	Second Story for Teens in Crisis	Second Story for Homeless Youth	Second Story for Young Mothers	Total Program	Fundraising	Management and general	Total Supporting Services	Total expenses
Salaries	\$ 725,195	\$ 395,602	\$ 344,914	\$ 176,387	\$ 1,642,098	\$ 164,571	\$ 120,664	\$ 285,235	\$ 1,927,333
Employee benefits	164,484	94,208	81,532	34,657	374,881	31,062	24,926	55,988	430,869
Professional fees	102,617	56,392	44,049	24,436	227,494	58,006	46,605	104,611	332,105
Occupancy	19,161	6,727	157,723	62,088	245,699	-	43,902	43,902	289,601
Donated food, clothing and supplies	173,357	47,415	23,126	24,293	268,191	3,499	-	3,499	271,690
Payroll taxes	59,537	31,810	27,889	14,145	133,381	13,245	328	13,573	146,954
Donated rent	138,192	15	-	-	138,207	-	-	-	138,207
Donated professional services	32,805	21,560	-	5,187	59,552	105	20,405	20,510	80,062
Communications	24,343	3,619	9,850	7,907	45,719	4,449	11,676	16,125	61,844
Depreciation and amortization	-	-	-	-	-	-	44,874	44,874	44,874
Supplies	17,209	802	1,858	190	20,059	654	14,528	15,182	35,241
Bad debt expense	-	-	-	-	-	34,721	-	34,721	34,721
Insurance	6,763	3,697	3,221	1,645	15,326	1,532	5,176	6,708	22,034
Food	15,764	3,823	-	-	19,587	332	705	1,037	20,624
Travel	-	7,791	2,559	6,893	17,243	-	1,083	1,083	18,326
Interest	-	2,559	-	10,140	12,699	-	34	34	12,733
Space rental and other event expenses	-	-	-	-	-	-	-	-	-
Utilities	4,917	2,133	1,098	204	8,352	272	2,778	3,050	11,402
Publications	483	844	29	-	1,356	5,440	4,571	10,011	11,367
Memberships, licenses and permits	1,619	304	237	152	2,312	865	1,005	1,870	4,182
Total expenses	\$ 1,486,446	\$ 679,301	\$ 698,085	\$ 368,324	\$ 3,232,156	\$ 318,753	\$ 343,260	\$ 662,013	\$ 3,894,169

SECOND STORY
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2023 and 2022

	2023	2022
<u>Cash Flows From Operating Activities:</u>		
Change in net assets	\$ (19,502)	\$ 866,137
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	68,894	44,874
Bad debt expense	16,200	34,221
Forgiveness of PPP loan	-	(397,400)
Unrealized/realized gain on investments	(6,225)	-
Amortization of right-of-use assets	43,487	-
Changes in operating assets and liabilities		
Grants receivable	144,621	(56,596)
Pledges receivable	(34,450)	(111,403)
Prepaid expenses	2,213	3,555
Deposits	(2,253)	(4,374)
Accounts payable and accrued expenses	(39,475)	(58,824)
Funds held for others	9,578	(48)
Supplemental funding liability	550,815	(27,091)
Deferred revenue	(100,000)	100,000
Operating lease liability	(50,137)	-
Total adjustments	603,268	(473,086)
Net cash provided by operating activities	583,766	393,051
<u>Cash Flows From Investing Activities:</u>		
Purchases of fixed assets	(709,957)	-
Purchases of investments	(806,567)	-
Proceeds from sales of investments	100,000	5,235
Net cash provided by (used in) investing activities	(1,416,524)	5,235
<u>Cash Flows From Financing Activities:</u>		
Proceeds from borrowings	415,000	-
Principal payments of notes payable	(33,572)	(29,004)
Net cash provided by (used in) financing activities	381,428	(29,004)
Net increase (decrease) in cash and restricted cash	(451,330)	369,282
Cash and restricted cash, beginning of year	1,925,367	1,556,085
Cash and restricted cash, end of year	\$ 1,474,037	\$ 1,925,367
<u>Cash and restricted cash reconciliation:</u>		
Cash	\$ 663,365	\$ 1,383,894
Cash, restricted funds held for others	810,672	541,473
Total cash and restricted cash	\$ 1,474,037	\$ 1,925,367
<u>Supplemental disclosures of cash flow information:</u>		
Cash paid for interest expense	\$ 27,789	\$ 12,733

Second Story
Notes to the Financial Statements
June 30, 2023 and 2022

NOTE 1 ORGANIZATION

Abused & Homeless Children's Refuge (d/b/a Second Story) (the Organization) was organized in 1972 as a nonprofit organization in the Commonwealth of Virginia and provides residential housing and counseling services for runaway, homeless and abused youth and their families. Prior to February 17, 2017, the Organization was doing business as Alternative House. The Organization relies on significant financial support from federal, state and local entities, including the Fairfax County Consolidated Community Funding Pool and the U.S. Department of Health and Human Services. The Organization also receives considerable funding from private foundations, corporations and individuals.

Through the Community Based Services program the Organization provides one-on-one interactions with at-risk teenagers and disadvantaged pre-teens in local neighborhoods. The Organization provides counseling services, tutoring, sports, games and entertainment designed to focus on prevention of sexual abuse, violence, gang membership and drug abuse.

The Organization provides emergency shelter through the Second Story for Teens in Crisis program, on a voluntary basis for up to three weeks for young people between the ages of 13 to 17 years old and provides temporary housing and counseling services that motivate troubled teens to work on resolving their crises.

The Second Story for Homeless Youth program provides housing, counseling, case management and educational support to homeless unaccompanied Fairfax County high school students. The program helps students with the housing and other support they need to be able to complete high school and move on to higher education or employment.

The program was expanded in December 2016 with an award of funding from HUD to open a Rapid Rehousing program for homeless youth and young families where all members of the household are under 25. The program provides rental assistance and other support services with the goal of increasing employment and educational levels so that the individual or family can assume full responsibility for their apartment.

Second Story
Notes to the Financial Statements (Continued)
June 30, 2023 and 2022

NOTE 1 ORGANIZATION (Continued)

The Second Story for Young Mothers program works with young women up to age 21 and their children through an 18 month residential program. Residents receive assistance to improve parenting skills, continue their education, employment training, and learn to save for the day when they will leave the program and establish a home for themselves and their children. The program is designed to help homeless youth achieve their goals of becoming a better parent and attain the skills necessary to become a contributing member of society.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The Organization's financial statements are presented in accordance with generally accepted accounting principles in the United States of America (US GAAP) for nonprofit organizations. Under those principles, the Organization is required to report information regarding its financial position and activities according to two classes of net assets:

- Net Assets Without Donor Restrictions represent resources that are not subject to donor imposed restrictions and are available for operations at management's discretion. Included in net assets without donor restrictions are \$75,000 of board-designated funds. These funds are a working capital reserve used for cash flow management or other operational needs as determined by the board of directors.
- Net Assets With Donor Restrictions represent resources restricted by donors. Some donor restrictions are temporary in nature and those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Basis of accounting

The Organization's financial statements are prepared on the accrual basis of accounting in accordance with US GAAP.

Use of estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses and their functional allocation during the reporting period. Actual results could differ from those estimates.

Second Story
Notes to the Financial Statements (Continued)
June 30, 2023 and 2022

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income taxes

The Organization is exempt from federal and local income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of state law. The Organization is not classified as a private foundation.

The Organization complies with FASB ASC 740-10 and Accounting Standards Update (ASU) 2009-06. As part of that adoption, the Organization considered the possibility of uncertain tax positions and their impact on the financial position of the Organization. As of June 30, 2023 and 2022, management did not identify any uncertain tax positions. Tax years prior to 2020 are no longer subject to examination by the IRS.

Grants receivable

Grants receivable principally represent amounts due from government awards and are stated at their net realizable value. All grants receivable outstanding are considered collectible. Accordingly, no allowance for doubtful accounts has been recorded at June 30, 2023 and 2022.

Pledges receivable, net

Pledges receivable are unconditional promises to give that are recognized as pledges when the promise is received. Pledges receivable that are expected to be collected in less than one year are reported at their net realizable value. Amounts that are expected to be collected in more than one year are recorded at the present value of their estimated future cash flows. The cash flows are discounted at a discount rate commensurate with the risk involved. Amortization of the resulting discount is recognized as additional contribution revenue. Reserves are established for receivables that are delinquent and considered uncollectible based on periodic reviews by management.

Investments

Investments are recorded at fair market value based on quoted prices provided by the investment custodian. Investment income or loss is reflected in the accompanying statement of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by the donor or the law. Interest and dividends are recorded as revenue when earned.

Fair Value of Measurements

The Organization complies with Statement of Financial Accounting Standards Codification topic *Fair Value Measurements*. This defines fair value and establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurement).

Second Story
Notes to the Financial Statements (Continued)
June 30, 2023 and 2022

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Fair Value Measurement

The three levels of fair value hierarchy under this topic are described below:

- Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2 Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly.
- Level 3 Prices or valuations that require inputs that are both significant to the fair value measurements and unobservable.

Property and equipment, net

Property and equipment acquisitions are recorded in the financial statements at cost, net of accumulated depreciation and amortization. Donated property and equipment is stated at fair value at the date of donation. The Organization capitalizes additions of property and equipment in excess of \$5,000 cost or fair value, if donated. Depreciation and amortization expense is computed using the straight-line method over the estimated useful lives of the assets as follows:

Building	27.5 years
Furniture and equipment	5 years
Vehicles	5 years
Leasehold improvements	10 years
Website	12 years

Second Story
Notes to the Financial Statements (Continued)
June 30, 2023 and 2022

NOTE 2 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Leases

The Organization assesses whether an arrangement qualifies as a lease (i.e., conveys the right to control the use of an identified asset for a period of time in exchange for consideration) at inception and only reassesses its determination if the terms and conditions of the arrangement are changed. Leases are included in right-of-use (ROU) assets and lease liabilities in the statements of financial position. ROU assets and lease liabilities reflect the present value of the future minimum lease payments over the lease term, using the risk-free discount rate based on the number of years of the lease term, and ROU assets also include prepaid or accrued rent.

Operating lease expense is recognized on a straight-line basis over the lease term. The Organization does not report ROU assets and leases liabilities for its short-term leases (leases with a term of 12 months or less).

Revenue recognition

Federal, state and local grants: A portion of the Organization's revenue is derived from cost-reimbursable federal, state and local grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are recorded as refundable advances in the accompanying statements of financial position. For the years ended June 30, 2023 and 2022, the Organization received cost-reimbursable federal grants totaling \$0 and \$100,000, respectively, that have not been recognized because qualifying expenditures have not yet been incurred.

Contributions: The Organization recognizes contributions and foundation and corporate grants, when cash, securities or other assets; an unconditional promise to give; or a 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 met. The Organization reports gifts of cash and other assets as net assets with donor restrictions if they are received or promised with donor stipulations that limit the use of the donated assets to the Organization's programs or to a future year. When a donor restriction expires, that is, when a purpose restriction is accomplished or time restriction has elapsed, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the accompanying statements of activities as net assets released from restrictions. Contributions that are restricted by the donor are reported as net assets without donor restrictions if the restriction expires in the same reporting period in which the contribution is recognized.

Second Story
Notes to the Financial Statements (Continued)
June 30, 2023 and 2022

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In-kind contributions: Donated materials, services and use of facilities are recorded at fair value when an unconditional commitment is received and is recognized as an in-kind contribution as revenue and expense in the accompanying financial statements. In-kind services include donated IT, maintenance and volunteer services. Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Many individuals volunteer their time and perform a variety of tasks that assist the Organization. The recognition of these contributed services are not reflected in the accompanying financial statements as these services do not meet the criteria to record contributed services under US GAAP.

Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statements of activities. Accordingly, certain costs, such as salaries, employee benefits, payroll taxes, depreciation and amortization, insurance, supplies, and travel have been allocated among programs and supporting services based on level of effort.

Recent accounting pronouncements

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which changes the accounting for leases. While both lessees and lessors are affected by the new guidance, the effects on lessors is largely unchanged. Under the new guidance, there was a material impact on the statement of financial position, in the lessee will be required to recognize the following for all long- term leases: (1) a lease liability, which is the lessee's obligation to make lease payments measured on a discounted basis and (2) a right-of-use (ROU) asset, which represents the lessee's right to use (or control use of) a specified asset for the lease term. The Organization adopted this new standard using the effective method as of July 1, 2022 and elected to use all of the available practical expedients. The Organizations recorded right-of-use assets and corresponding operating lease liabilities in the total amounts of \$170,873 on July 1, 2022 in connection with the adoption of this standard.

Second Story
Notes to the Financial Statements (Continued)
June 30, 2023 and 2022

NOTE 3 LIQUIDITY AND AVAILABILITY OF RESOURCES

The following represents the Organization's financial assets at June 30:

	<u>2023</u>	<u>2022</u>
Financial assets at year end:		
Cash	\$ 663,365	\$ 1,383,894
Investments	715,416	2,624
Grants receivable	218,640	363,261
Pledges receivable, net	<u>463,925</u>	<u>445,675</u>
Total financial assets	2,061,346	2,195,454
Less amounts not available within one year:		
Net assets with donor restrictions	(494,594)	(493,665)
Add back: Net assets with restrictions to be met in less than a year	134,830	146,600
Board designated net assets	<u>(75,000)</u>	<u>(75,000)</u>
Total	<u>(434,764)</u>	<u>(422,065)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 1,626,582</u>	<u>\$ 1,773,389</u>

The Organization's goal is generally to maintain financial assets to meet 90 days of operating expenses. The Organization has a \$100,000 line of credit available to meet cash flow needs.

NOTE 4 RESTRICTED FUNDS HELD FOR OTHERS

The Organization provides a program to assist young mothers in learning to save and be more responsible about spending. The Organization maintains a money market account restricted for the Assisted Young Mothers program into which mothers may deposit part of their earnings. Such funds are reported as an asset and liability in the accompanying financial statements.

The Organization receives funding from Fairfax County to distribute, on behalf of the County, to community members who are pre-qualified by the County. This is in line with the services that the Organization provides. The supplemental funding liability on the accompanying statements of financial position represents the portion of County funds not yet passed out to community members.

NOTE 5 CONCENTRATION OF CREDIT RISK

The Organization maintains bank deposits that, at times, may exceed the Federal Deposit Insurance Corporation (FDIC) limits. At June 30, 2023 and 2022, the Organization had bank deposits in excess of FDIC limits of \$743,278 and \$365,956, respectively. The Organization has established a sweep account to minimize the balance exceeding the FDIC insured limit. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

Second Story
Notes to the Financial Statements (Continued)
June 30, 2023 and 2022

NOTE 6 PLEDGES RECEIVABLE, NET

Pledges receivable consist of unconditional promises to give and are summarized as follows at June 30:

	<u>2023</u>	<u>2022</u>
Unconditional promises to give expected to be collected in:		
Less than one year	\$ 134,830	\$ 146,600
One to five years	326,325	259,533
More than 5 years	<u>43,750</u>	<u>68,750</u>
Total	504,905	474,883
Less:		
Discount to present value (average of 2.88% and 1.37% respectively)	<u>(40,980)</u>	<u>(29,208)</u>
Pledges receivable, net	<u>\$ 463,925</u>	<u>\$ 445,675</u>

NOTE 7 INVESTMENTS

The fair value of common stocks, corporate bonds, exchange traded funds, and money market accounts are based on quoted market prices, when available, or market prices provided by broker dealers; thus they are considered Level 1 items.

At June 30, 2023 and 2022, investments consisted of the following:

	<u>2023</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and sweep balances	\$ 15,916	\$ -	\$ -	\$ 15,916
Fixed income securities	<u>699,500</u>	-	-	<u>699,500</u>
Total investments	<u>\$ 715,416</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 715,416</u>
	<u>2022</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and sweep balances	\$ 2,624	\$ -	\$ -	\$ 2,624
Total investments	<u>\$ 2,624</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,624</u>

Investment income for the years ended June 30, 2023 and 2022 was comprised of the following:

	<u>2023</u>	<u>2022</u>
Interest and dividends	\$ 13,279	\$ 560
Realized/Unrealized gains	<u>6,255</u>	-
Total investment income	<u>\$ 19,534</u>	<u>\$ 560</u>

Second Story
Notes to the Financial Statements (Continued)
June 30, 2023 and 2022

NOTE 8 PROPERTY AND EQUIPMENT, NET

The following is a summary of property and equipment held at June 30:

Land	\$ 154,947	\$ 154,947
Building	1,853,179	1,228,179
Furniture and equipment	59,868	59,868
Vehicles	162,889	77,931
Leasehold improvements	23,025	23,025
Website	20,000	20,000
Property and equipment	<u>2,273,908</u>	<u>1,563,950</u>
Accumulated depreciation and amortization	<u>(1,033,138)</u>	<u>(964,244)</u>
Total property and equipment, net	<u><u>\$ 1,240,770</u></u>	<u><u>\$ 599,706</u></u>

Depreciation and amortization expense for the years ended June 30, 2023 and 2022 was \$68,894 and \$44,874, respectively.

NOTE 9 PAYCHECK PROTECTION PROGRAM (PPP) LOAN

On April 7, 2020, the Organization was granted a loan through the Paycheck Protection Program (PPP) under the Coronavirus Aid, Relief and Economic Security Act (CARES Act) in the amount of \$397,400. The loan could be forgiven if used for certain qualifying expenses. Any portion not forgiven bears interest at 1% per annum and matured on April 7, 2022. The Organization elected to account for the loan as a debt obligation and the loan was forgiven in full on August 4, 2021 and is included in other income in the statement of activities for the year ended June 30, 2022.

NOTE 10 NOTES PAYABLE

On January 10, 2013, the Organization refinanced the note on its property located in Dunn Loring, Virginia, totaling \$112,394. The loan calls for monthly principal and interest payments of \$932. The interest rate is fixed at 5.5% over a term of four years terminating on October 1, 2017. On September 29, 2017, this note was extended through December 31, 2017 and refinanced on November 6, 2017 with a new principal of \$85,698. The refinanced loan calls for monthly principal and interest payments of \$911 with a fixed interest rate of 4.99% and matures on November 1, 2027.

Second Story
Notes to the Financial Statements (Continued)
June 30, 2023 and 2022

NOTE 10 NOTES PAYABLE (Continued)

On May 22, 2013, the Organization financed and entered into a promissory note on the acquisition of property located in Fairfax, Virginia, totaling \$328,000. The loan calls for monthly principal and interest payments of \$2,353 based on a 15 year amortization. The interest rate was 3.5% for the first five years and fixed at the LIBOR Swap rate plus 3% (or other agreed upon rate), thereafter, as prescribed in the promissory note agreement. At June 30, 2023 and 2022, the rate was 6.992% and 5.95%. The loan is due on June 17, 2028.

The loans are secured by a first deed of trust from each respective property. The note on the property located in Fairfax, Virginia also has a financial covenant that the Organization believes they were in compliance with for the years ended June 30, 2023 and 2022.

On October 12, 2022, the Organization financed and entered into a promissory note on the acquisition of property located in Fairfax, Virginia, totaling \$415,000. The loan calls for monthly principal and interest payments of \$2,673 for 119 consecutive months. The monthly payment may change on November 13, 2027 and every month thereafter. One final balloon payment shall be due on the maturity date. The loan matures on October 13, 2032. The initial variable interest rate is 5.91%. This interest rate may change on October 12, 2027 and every day thereafter. The interest rate will never be greater than 18% or less than 5.9% per the loan agreement.

Aggregate future maturities of notes payable are as follows for the years ending June 30:

2024	\$	37,542
2025		39,746
2026		42,080
2027		44,551
2028		41,770
2029 and thereafter		<u>386,064</u>
Total	\$	<u>591,753</u>

NOTE 11 LINE OF CREDIT

In May 2013, the Organization opened a \$100,000 revolving line of credit to support short-term cash needs. The credit line is secured with a second deed of trust on the Organization's property. Under the terms of the line of credit, the combined loan-to-value of the property located in Fairfax, Virginia shall not exceed 40%. The funds are available at the discretion of the Organization. Interest is payable monthly on the outstanding principal balance. The interest rate is subject to change based on the Wall Street Journal Prime Rate plus .50%. The credit line was renewed on December 7, 2022 for a one-year period to December 7, 2023. During the years ended June 30, 2023 and 2022, the Organization did not borrow against the credit line.

Second Story
Notes to the Financial Statements (Continued)
June 30, 2023 and 2022

NOTE 12 NET ASSETS WITH DONOR RESTRICTIONS

Net assets were released from donor restrictions during the years ended June 30, 2023 and 2022 for the following purposes:

	<u>2023</u>	<u>2022</u>
Time restriciton	\$ 240,690	\$ 168,771
Sustainability grant program	17,321	-
Total net assets released from restrictions	<u>\$ 258,011</u>	<u>\$ 168,771</u>

At June 30, 2023 and 2022, net assets with donor restrictions were available for the following purposes:

	<u>2023</u>	<u>2022</u>
Time restriction	\$ 463,925	\$ 445,675
Sustainability grant program	16,740	16,740
Pierce trust fund	13,929	31,250
Total net assets with donor restrictions	<u>\$ 494,594</u>	<u>\$ 493,665</u>

NOTE 13 IN-KIND CONTRIBUTIONS

During the years ended June 30, 2023 and 2022 the Organization received In-kind contributions of food, clothing and supplies, professional services and rent. All In-kind contributions were utilized by the Organization's programs and supporting services. Donated food, clothing and supplies is valued using the wholesale prices for similar items. In-kind professional services include donated IT, maintenance and volunteer services. The value of in-kind professional services is recorded based on the estimated fair value of the service provided. Donated rent is valued using the prevailing rental rates in the area.

The Organization receives donated space for its Culmore Teen Center in Falls Church, Virginia. In September 2000, the Organization entered into a non-cancelable lease agreement that stipulates that the Organization is only responsible for the telephone line, security and alarm services, and general liability insurance for the center. The lease includes automatic renewals at the end of each year unless either party notifies in writing its desire to terminate the lease. The Organization also receives donated space and utilities for its Culmore, Annandale and Springfield Safe Youth Project, all on a month-to-month basis.

Second Story
Notes to the Financial Statements (Continued)
June 30, 2023 and 2022

NOTE 13 IN-KIND CONTRIBUTIONS (Continued)

In-kind contributions received without donor restrictions for the years ended June 30, 2023 and 2022 were as follows:

	2023			
	Food Clothing and Supplies	Rent	Professional Services	Total
Program Services:				
Community based services	\$ 109,972	\$ 138,192	\$ 11,067	\$ 259,231
Second Story for Teens in Crisis	7,128	60	6,954	14,142
Second Story for Homeless Youth	44,933	1,540	4,889	51,362
Secod Story for Young Mothers	<u>33,744</u>	<u>20</u>	<u>3,364</u>	<u>37,128</u>
Total program services	195,777	139,812	26,274	361,863
Supporting Services:				
Fundraising	-	-	3,006	3,006
Management and general	<u>-</u>	<u>-</u>	<u>1,752</u>	<u>1,752</u>
Total supporting services	<u>-</u>	<u>-</u>	<u>4,758</u>	<u>4,758</u>
Total	<u>\$ 195,777</u>	<u>\$ 139,812</u>	<u>\$ 31,032</u>	<u>\$ 366,621</u>

	2022			
	Food Clothing and Supplies	Rent	Professional Services	Total
Program Services:				
Community based services	\$ 173,357	\$ 138,192	\$ 32,805	\$ 344,354
Second Story for Teens in Crisis	47,415	15	21,560	68,990
Second Story for Homeless Youth	23,126	-	-	23,126
Secod Story for Young Mothers	<u>24,293</u>	<u>-</u>	<u>5,187</u>	<u>29,480</u>
Total program services	268,191	138,207	59,552	465,950
Supporting Services:				
Fundraising	3,499	-	105	3,604
Management and general	<u>-</u>	<u>-</u>	<u>20,405</u>	<u>20,405</u>
Total supporting services	<u>3,499</u>	<u>-</u>	<u>20,510</u>	<u>24,009</u>
Total	<u>\$ 271,690</u>	<u>\$ 138,207</u>	<u>\$ 80,062</u>	<u>\$ 489,959</u>

NOTE 14 COMMITMENTS AND CONTINGENCY

On July 1, 2019, the Organization entered into a lease agreement for administrative offices in Vienna, Virginia. This agreement was to replace a previous lease agreement and move office location and space within the same building. The agreement calls for base monthly payments of \$1,569, with an annual increase of 4.5%, through June 30, 2024.

On November 1, 2022, the Organization entered into an operating lease agreement for space in Alexandria, Virginia with a term of 15 months. The agreement calls for monthly payments of \$1,617 with no escalations.

Second Story
Notes to the Financial Statements (Continued)
June 30, 2023 and 2022

NOTE 14 COMMITMENTS AND CONTINGENCY (Continued)

On May 1, 2023, the Organization entered into an operating lease agreement for space in Alexandria, Virginia with a term of 15 months. The agreement calls for monthly payments of \$1,627 with no escalations.

On May 1, 2023, the Organization entered into an operating lease agreement for space in Fairfax, Virginia with a term of 24 months. The agreement calls for monthly payments of \$3,126 with no escalations.

The Organization has also entered into various lease agreements to house homeless individuals in need of shelter. Rent expense, included in occupancy, for the years ended June 30, 2023 and 2022 totaled \$354,637 and \$275,224, respectively.

The weighted average remaining lease term is 1.4 years and the weighted average discount rate is 3.90%.

Future maturities of lease liabilities as of June 30, 2023 are as follows:

	<u>Total</u>
Total lease payments for the	
year ended June 30,	
2024	\$ 95,271
2025	<u>32,887</u>
	128,158
Less: present value discount	<u>7,422</u>
	<u><u>\$ 120,736</u></u>

NOTE 15 CONCENTRATIONS OF REVENUE AND SUPPORT RISK

The Organization receives a significant portion of its revenues from one federal agency in the form of grant awards. During the years ended June 30, 2023 and 2022, the Organization received \$606,134 and \$885,175, respectively, from this source, which was approximately 14% and 19%, respectively, of its total revenue and support. Any significant reduction in revenue and support may adversely impact the Organization's financial position and operations.

NOTE 16 RETIREMENT PLAN

The Organization maintains a qualified Simple Retirement Plan where qualified employees can make pre-tax contributions up to statutory limits. All regular employees who have earned at least \$5,000 during the previous calendar year are eligible for enrollment in the Organization's Plan. The Organization makes matching contributions up to three percent of the participating employee's salary. Retirement plan expense for the years ended June 30, 2023 and 2022 was \$37,077 and \$30,045, respectively.

Second Story
Notes to the Financial Statements (Continued)
June 30, 2023 and 2022

NOTE 17 SUBSEQUENT EVENTS

The Organization has evaluated events and transactions for potential recognition or disclosure through January 17, 2024, which is the date the financial statements were available to be issued and determined there are no events requiring disclosure or recognition in the financial statements.

Supplemental Information

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2023**

<u>Contract Title</u>	<u>SS's name for Program</u>	<u>SS's Class Number</u>	<u>Contract #</u>	<u>Assistance Listing #</u>	<u>Contract period</u>	<u>Expenditures</u>
DEPARTMENT OF HEATH AND HUMAN SERVICES						
Direct Awards:						
Basic Center Program	Teens in Crisis	101	90CY710803-02	93.623	9/30/2021 to 9/29/2022	\$ 50,000
Basic Center Program	Teens in Crisis	101	90CY7417-01-00	93.623	9/30/2022 to 9/29/2023	<u>150,000</u>
					Subtotal for 93.623	<u>200,000</u>
Maternity Group Homes	SSYM	120	90CX7089-05-01	93.550	9/30/2021 to 9/29/2022	48,682
Maternity Group Homes	SSYM	120	90YZ0033-01-00	93.550	9/30/2022 to 9/29/2023	187,500
Transitional Living Program	SSHY	112	90CX7092-05-0	93.550	9/30/2021 to 9/29/2022	<u>48,682</u>
					Subtotal for 93.550	<u>284,864</u>
Pass-through Award - Fairfax County						
Temporary assistance for needy families	CYOP	135	4400011310	93.558	7/01/2022 to 6/30/2023	63,596
Temporary assistance for needy families	SSYM	121	4400011312	93.558	7/01/2022 to 6/30/2023	<u>57,675</u>
					Subtotal for 93.558	<u>121,271</u>
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT						
Direct Awards:						
Homeless Prevention and Rapid Rehousing Program	HY-Rapid Rehousing	115	VA0277L3G012106	14.267	12/01/2022 to 11/30/2023	159,881
Homeless Prevention and Rapid Rehousing Program	HY-Rapid Rehousing	115	VA0277L3G012005	14.267	12/01/2021 to 11/30/2022	<u>149,643</u>
					Subtotal for 14.267	<u>309,524</u>
						Total Expenditures of Federal Awards
						\$ <u>915,659</u>

SECOND STORY
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2023

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Second Story (the Organization) for the year ended June 30, 2023. The information in this Schedule 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 the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

NOTE 2 SUMMARY OF 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. Negative amounts shown on the Schedule represent adjustment or credits made in the normal course of business to amounts reported as expenditures in prior years.

NOTE 3 INDIRECT COST RATE

The Organization has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 4 OTHER INFORMATION

The Organization did not receive any federal insurance or federal noncash assistance and had no outstanding loans or loan guarantees with continuing compliance requirements. The Organization did not provide any funds to subrecipients.

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
Second Story
Dunn Loring, Virginia

We have audited, in accordance with the 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 financial statements of Second Story (a nonprofit organization), which comprise the statement of financial position as of June 30, 2023, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 17, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Second Story's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Second Story's internal control. Accordingly, we do not express an opinion on the effectiveness of Second Story'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 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 may exist that have not been identified.

**Second Story
Independent Auditors' Report
Page 2**

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Second Story'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 determination of financial statement amounts. 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 the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

DeLeon & Stang

**DeLeon & Stang, CPAs and Advisors
Frederick, Maryland
January 17, 2024**

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
THE UNIFORM GUIDANCE**

Board of Directors
Second Story
Dunn Loring, Virginia

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Second Story's (the Organization) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Second Story's major federal programs for the year ended June 30, 2023. Second Story's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, Second Story complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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).¹ 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 Second Story 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of Second Story'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 Second Story's federal programs.

Auditors' 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 Second Story'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 generally accepted auditing standards, *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 Second Story's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *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 Second Story'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 Second Story'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 Second Story'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.

Second Story
Independent Auditors' Report
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Our consideration of internal control over compliance was for the limited purpose described in the Auditors' 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.

DeLeon & Stang

DeLeon & Stang, CPAs and Advisors
Frederick, Maryland
January 17, 2024

SECOND STORY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2023

Section I - Summary of Auditors' Results

Financial Statements

1) Type of auditors' report issued	UNMODIFIED
2) Internal control over financial reporting:	
Material weaknesses identified?	NO
Significant deficiencies identified that are not considered to be material weaknesses?	NONE REPORTED
3) Noncompliance material to the financial statements noted?	NO

Federal Awards

4) Internal control over major programs:	
Material weaknesses identified?	NO
Significant deficiencies identified that are not considered to be material weaknesses?	NONE REPORTED
5) Type of auditors' report issued on compliance for major programs	UNMODIFIED
6) Any findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	NO

<u>Federal Granting Agency and Program Title</u>	<u>Assistance Listing #</u>	<u>Expenditures</u>
7) Identification of major programs:		
Continuum of Care Program	14.267	\$ 309,524
Basic Center Grant Program - Teens in Crisis	93.263	\$ 200,000
8) Dollar threshold used to distinguish between Type A and B programs:		\$ 750,000
9) Auditee qualified to be low-risk auditee?		NO

SECOND STORY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2023

Section II – Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

SECTION IV – Prior Year Audit Findings – n/a
