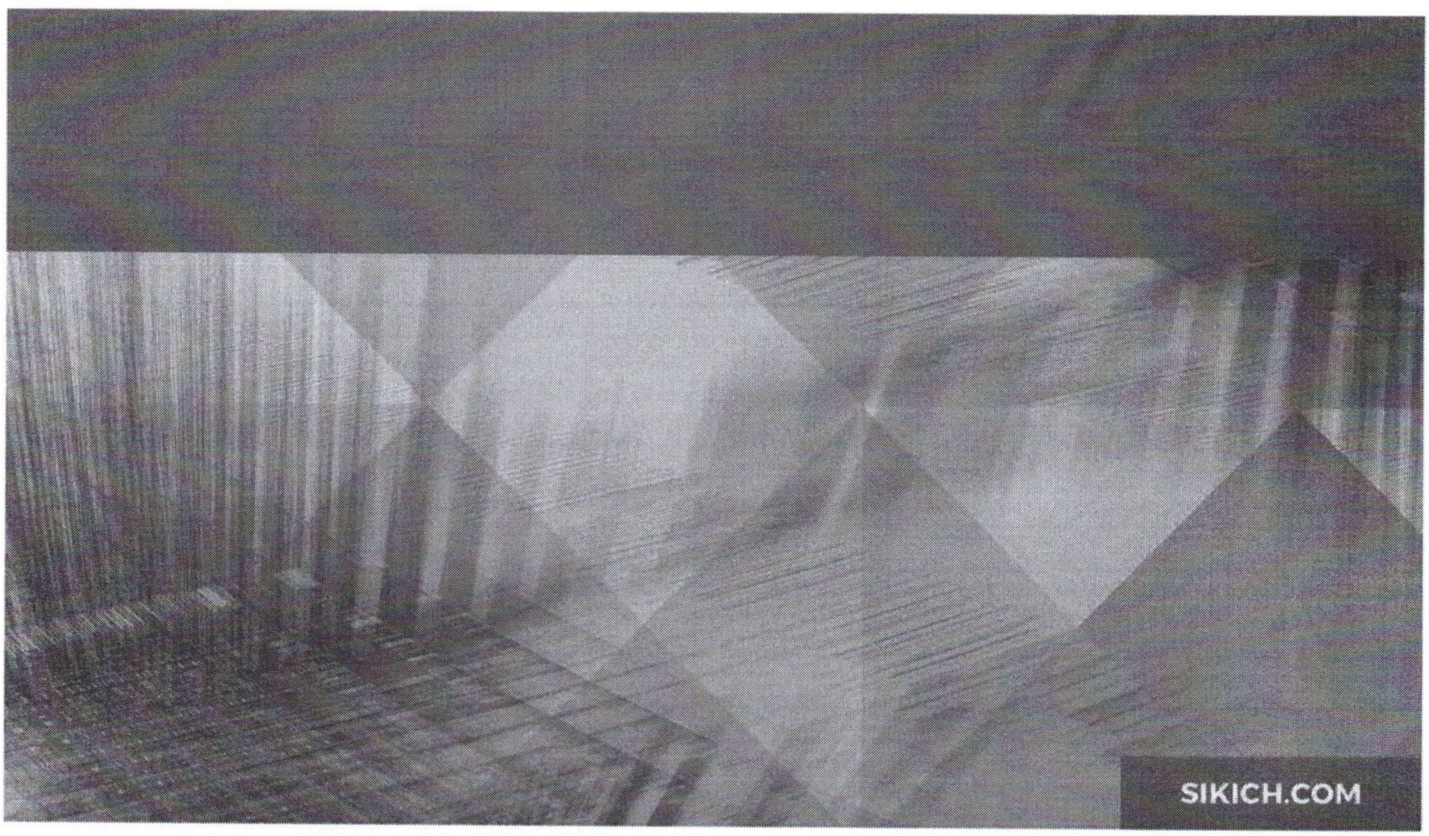
SIKICH®

Second Story

Financial Statements
and
OMB Uniform Guidance Reports

June 30, 2021 and 2020



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Independent Auditor's Report

To the Board of Directors
Second Story
Dunn Loring, Virginia

We have audited the accompanying financial statements of Second Story (the Organization), which comprise the statements of financial position as of June 30, 2021 and 2020, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2021 and 2020, 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.

Emphasis-of-Matter Regarding Revenue Recognition

As discussed in Note 2 to the financial statements, the Organization adopted the provisions of the Financial Accounting Services Board's Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, as amended by ASU 2015-14, which supersedes or replaces nearly all accounting principles generally accepted in the United States of America revenue recognition guidance. The adoption of this ASU did not result in a material change to the accounting for any of the Organization's revenue streams; as such, no cumulative effect adjustment was recorded. Our opinion is not modified with respect to these matters.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards (pages 23 - 25) as required by Title 2 U.S. *Code of Federal Regulations* (CFR) 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2022 on our consideration of the Organization'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 the Organization'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 the Organization's internal control over financial reporting and compliance.

Sikich LLP

Alexandria, Virginia
January 25, 2022

Second Story

Statements of Financial Position

June 30, 2021 and 2020

	2021	2020
Assets		
Cash	$ 1,545,013	$ 901,158
Grants receivable	306,665	325,305
Pledges receivable, net	368,493	559,506
Investments	7,859	2,057
Cash, restricted funds held for others	11,072	19,062
Prepaid expenses	29,987	7,455
Property and equipment, net	644,580	693,626
Deposits	11,589	11,489
Total assets	$ 2,925,258	$ 2,519,658
Liabilities and Net Assets		
Accounts payable and accrued expenses	$ 226,458	$ 67,968
Funds held for others	11,072	19,062
Accrued leave	96,977	93,206
Supplemental funding liability	258,031	83,895
Notes payable	636,728	665,351
Total liabilities	1,229,266	929,482
Net assets:		
Without donor restrictions	1,235,759	930,670
Without donor restrictions, board designated	75,000	75,000
Total without donor restrictions	1,310,759	1,005,670
With donor restrictions	385,233	584,506
Total net assets	1,695,992	1,590,176
Total liabilities and net assets	$ 2,925,258	$ 2,519,658

See accompanying notes to the financial statements.

Second Story

Statement of Activities

For the Year Ended June 30, 2021

	Without donor restrictions	With donor restrictions	Total
Revenues:			
Federal, state, and local grants	$ 2,207,371	$ -	$ 2,207,371
Contributions	1,144,036	87,100	1,231,136
In-kind contributions	507,354	-	507,354
Program service fees	20,764	-	20,764
Other income	11,331	-	11,331
Investment income	1,680	-	1,680
Interest income	299	-	299
Net assets released from restrictions:			
Satisfaction of donor restrictions	286,373	(286,373)	-
Total revenues	4,179,208	(199,273)	3,979,935
Expenses:			
Program services:			
Community Based Services	1,515,345	-	1,515,345
Second Story for Teens in Crisis	711,395	-	711,395
Second Story for Homeless Youth	706,492	-	706,492
Second Story for Young Mothers	378,930	-	378,930
Total program services	3,312,162	-	3,312,162
Support services:			
Fundraising	289,479	-	289,479
Management and general	272,478	-	272,478
Total support services	561,957	-	561,957
Total expenses	3,874,119	-	3,874,119
Change in net assets	305,089	(199,273)	105,816
Net assets, beginning of year	1,005,670	584,506	1,590,176
Net assets, end of year	$ 1,310,759	$ 385,233	$ 1,695,992

See accompanying notes to the financial statements.

Second Story

Statement of Activities

For the Year Ended June 30, 2020

	Without donor restrictions	With donor restrictions	Total
Revenues:			
Federal, state, and local grants	$ 1,985,243	$ -	$ 1,985,243
Contributions	1,172,651	218,729	1,391,380
In-kind contributions	576,575	-	576,575
Program service fees	6,090	-	6,090
Other income	5,372	-	5,372
Investment income	121	-	121
Interest income	2,293	-	2,293
Contract revenue	1,248	-	1,248
Net assets released from restrictions:			
Satisfaction of donor restrictions	263,155	(263,155)	-
Total revenues	4,012,748	(44,426)	3,968,322
Expenses:			
Program services:			
Community Based Services	1,282,763	-	1,282,763
Second Story for Teens in Crisis	584,423	-	584,423
Second Story for Homeless Youth	790,781	-	790,781
Second Story for Young Mothers	366,117	-	366,117
Total program services	3,024,084	-	3,024,084
Support services:			
Fundraising	412,621	-	412,621
Management and general	231,828	-	231,828
Total support services	644,449	-	644,449
Total expenses	3,668,533	-	3,668,533
Change in net assets	344,215	(44,426)	299,789
Net assets, beginning of year	661,455	628,932	1,290,387
Net assets, end of year	$ 1,005,670	$ 584,506	$ 1,590,176

See accompanying notes to the financial statements.

Second Story

Statement of Functional Expenses

For the Year Ended June 30, 2021

	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 support	Total expenses
Bad debt expense	$ -	$ 49,997	$ -	$ -	$ 49,997	$ 69,586	$ -	$ 69,586	$ 119,583
Communications	14,377	5,462	9,563	7,798	37,200	6,037	14,496	20,533	57,733
Depreciation and amortization	6,605	4,480	3,759	2,195	17,039	3,446	25,061	28,507	45,546
Donated food, clothing and supplies	256,926	5,531	19,826	15,357	297,640	-	250	250	297,890
Donated professional services	14,432	4,997	33,100	14,629	67,158	2,790	1,327	4,117	71,275
Donated rent	138,190	-	-	-	138,190	-	-	-	138,190
Employee benefits	185,904	66,471	41,169	38,658	332,202	2,527	3,003	5,530	337,732
Food	7,679	2,251	803	-	10,733	706	143	849	11,582
Insurance	6,913	4,460	3,687	2,393	17,453	3,318	2,383	5,701	23,154
Interest	-	2,733	-	551	3,284	2	10,034	10,036	13,320
Memberships, licenses and permits	1,104	517	163	149	1,933	1,044	637	1,681	3,614
Occupancy	14,370	9,010	221,032	57,838	302,250	5,895	2,947	8,842	311,092
Payroll taxes	62,245	38,558	23,049	14,203	138,055	6,756	8,028	14,784	152,839
Professional fees	56,809	24,326	25,094	9,124	115,353	52,690	43,379	96,069	211,422
Publications	573	1,402	45	38	2,058	4,417	4,533	8,950	11,008
Salaries	729,636	461,910	307,734	174,955	1,674,235	125,906	149,583	275,489	1,949,724
Space rental and other event expenses	-	-	-	-	-	1,569	-	1,569	1,569
Supplies	11,878	21,590	9,937	32,299	75,704	2,552	5,889	8,441	84,145
Travel	7,704	468	2,145	230	10,547	238	785	1,023	11,570
Utilities	-	7,232	5,386	8,513	21,131	-	-	-	21,131
Total expenses	$ 1,515,345	$ 711,395	$ 706,492	$ 378,930	$ 3,312,162	$ 289,479	$ 272,478	$ 561,957	$ 3,874,119

See accompanying notes to the financial statements.

Second Story

Statement of Functional Expenses

For the Year Ended June 30, 2020

	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 support	Total expenses
Bad debt expense	$ -	$ -	$ -	$ -	$ -	$ 53,650	$ -	$ 53,650	$ 53,650
Communications	15,573	7,618	9,556	9,711	42,458	8,068	1,181	9,249	51,707
Depreciation and amortization	3,053	27,551	1,699	16,083	48,386	1,558	664	2,222	50,608
Donated food, clothing and supplies	234,010	19,497	64,155	31,557	349,219	2,210	2,006	4,216	353,435
Donated professional services	51,158	4,263	14,026	6,899	76,346	483	439	922	77,268
Donated rent	96,582	8,047	26,479	13,024	144,132	912	828	1,740	145,872
Employee benefits	142,826	78,943	62,772	33,031	317,572	67,085	22,894	89,979	407,551
Food	8,031	2,530	27	24	10,612	125	117	242	10,854
Insurance	7,324	2,579	4,118	2,593	16,614	3,928	2,157	6,085	22,699
Interest	-	3,609	-	12,552	16,161	-	467	467	16,628
Memberships, licenses and permits	646	862	369	215	2,092	1,030	38	1,068	3,160
Occupancy	15,102	10,297	268,408	45,430	339,237	11,209	4,518	15,727	354,964
Payroll taxes	47,418	27,485	22,786	12,749	110,438	16,185	5,830	22,015	132,453
Professional fees	7,928	389	320	207	8,844	11,403	105,598	117,001	125,845
Publications	1,342	944	114	114	2,514	4,891	1,050	5,941	8,455
Salaries	633,787	376,095	300,436	170,137	1,480,455	217,739	78,502	296,241	1,776,696
Space rental and other event expenses	-	-	-	-	-	9,294	-	9,294	9,294
Supplies	8,432	3,671	2,256	966	15,325	1,158	4,172	5,330	20,655
Travel	9,108	2,106	10,175	2,531	23,920	1,693	1,367	3,060	26,980
Utilities	443	7,937	3,085	8,294	19,759	-	-	-	19,759
Total expenses	$ 1,282,763	$ 584,423	$ 790,781	$ 366,117	$ 3,024,084	$ 412,621	$ 231,828	$ 644,449	$ 3,668,533

See accompanying notes to the financial statements.

Second Story

Statements of Cash Flows

For the Years Ended June 30, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Change in net assets	$ 105,816	$ 299,789
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	45,546	50,608
Bad debt expense	119,583	53,650
Donated investments	-	(2,601)
Unrealized (gain) loss on investments	(441)	250
Realized gain on investment	(79)	(21)
Loss on disposal of assets	3,500	-
Decrease (increase) in assets:		
Grants receivable	(31,357)	(102,799)
Pledges receivable	121,427	(9,213)
Prepaid expenses	(22,532)	(104)
Deposits	(100)	1,811
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	158,490	22,051
Funds held for others	(7,990)	(3,169)
Accrued leave	3,771	19,676
Supplemental funding liability	174,136	83,895
Total adjustments	563,954	114,034
Net cash provided by operating activities	669,770	413,823
Cash flows from investing activities:		
Purchases of property and equipment	-	(4,000)
Purchases of investments	(264,115)	-
Proceeds from sales of investments	258,833	2,621
Net cash used in investing activities	(5,282)	(1,379)
Cash flows from financing activities:		
Principal payments of notes payable	(28,623)	(26,452)
Proceeds from issuance of debt	-	397,400
Net cash (used in) provided by financing activities	(28,623)	370,948
Net increase in cash and restricted cash	635,865	783,392
Cash and restricted cash, beginning of year	920,220	136,828
Cash and restricted cash, end of year	$ 1,556,085	$ 920,220
Cash and restricted cash reconciliation:		
Cash	$ 1,545,013	$ 901,158
Cash, restricted funds held for others	11,072	19,062
Total cash and restricted cash	$ 1,556,085	$ 920,220

– continued –

See accompanying notes to the financial statements.

Second Story

Statements of Cash Flows

For the Years Ended June 30, 2021 and 2020

	2021	2020
Supplemental disclosures of cash flow information:		
Cash paid for interest expense	$ 13,217	$ 16,161

See accompanying notes to the financial statements.

Second Story
Notes to the Financial Statements
June 30, 2021 and 2020

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.

In October 2012, the Organization was awarded federal funding to expand Second Story for Homeless Youth, to provide transitional living services for homeless young people 16 to 21 years old in Northern Virginia. The program provides housing, case management, counseling and other support for up to 18 months to help these young people transition to safe, stable housing and employment.

The program was further 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.

The Second Story for Young Mothers program works with young women up to age 21 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.

2. Summary of Significant Accounting Policies

a. 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. During the years ended June 30, 2021 and 2020, no designated funds were used nor added.

- *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.

b. Basis of accounting

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

c. 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.

d. 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.

e. 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, 2021 and 2020.

f. 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.

	2021	2020
Beginning allowance for doubtful accounts	$ 53,650	$ 26,100
Bad debt expense	(119,583)	(53,650)
Provision for loss	189,169	81,200
Ending allowance for doubtful accounts	$ 123,236	$ 53,650

g. 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. 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

The Organization's policy is to capitalize major additions and improvements over $10,000. Repairs and maintenance which do not significantly add to the value of assets are expensed as incurred. Leasehold improvements are amortized over the shorter of the asset's useful life or the life of the lease.

h. 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 statements of financial position.

i. 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, 2021 and 2020, the Organization received cost-reimbursable federal grants totaling $335,539 and $185,598, 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.

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. The value of such services is recorded based on the estimated fair value of services provided and is classified as in-kind contributions revenue and expense charged to programs and supporting services based on the program or support services directly benefited. For the years ended June 30, 2021 and 2020, the value of donated clothing, food and supplies was $297,889 and $353,435, respectively. For the years ended June 30, 2020 and 2019, the value of donated IT and tutoring services was $71,275 and $77,268, respectively.

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 Safe Youth Project and Annandale Safe Youth Project, both on a month-to-month basis.

The Organization also receives subsidized rent from the single-family home for their Homeless Youth Initiative program. This lease is on a month-to-month basis and the subsidized portion of the rent is included in donated rent. Based on prevailing rental rates in the area, management estimates the value of the donated rent and corresponding rent expense to be $138,190 and $145,872, respectively, for the years ended June 30, 2021 and 2020.

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.

j. 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.

k. Adoption of new accounting standard

The FASB issued new guidance that created Topic 606, *Revenue from Contracts with Customers,* in the Accounting Standards Codification (ASC). Topic 606 supersedes the revenue recognition requirements in FASB ASC 605, *Revenue Recognition*, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The new guidance also added Subtopic 340-40, *Other Assets and Deferred Costs - Contracts with Customers*, to the ASC to require the deferral of incremental costs of obtaining a contract with a customer. On June 3, 2020, the FASB issued ASU No. 2020-05, *Revenue from Contracts with Customers* (Topic 606) and *Leases* (Topic 842) Effective Dates for Certain Entities, which deferred the effective date of FASB ASC 606 to fiscal years beginning after December 15, 2019 for private not-for-profit entities that have not yet issued financial statements due to the COVID-19 pandemic. The change in accounting principle was adopted on a modified retrospective basis as of July 1, 2020. As a result, there was no cumulative-effect adjustments to opening net assets without donor restrictions or opening net assets with donor restrictions as of July 1, 2020.

I. New accounting pronouncements

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842), to increase transparency and comparability about leases among entities. The new guidance requires lessees to recognize a lease liability and a corresponding lease asset for virtually all lease contracts. It also requires additional disclosure about leasing arrangements. ASU No. 2016-02, as amended by 2020-05, is effective for not-for-profit entities for fiscal years beginning after December 15, 2021 and interim periods within fiscal years beginning after December 15, 2022. ASU No. 2016-02 originally specified a modified retrospective transition method which requires the entity to initially apply the new lease standard at the beginning of the earliest period presented in the financial statements.

In July 2018, FASB issued ASU NO. 2018-11, *Leases* (Topic 842): *Targeted Improvements*, providing a second, optional transition method which allows the entity to apply the new standard at the adoption date and recognize a cumulative effect adjustment to the opening balance of net assets in the period of adoption. The Organization is currently assessing the impacts of this new standard, including the two transition methods. The Organization plans to adopt the new ASUs at the respective required implementation dates.

In September 2020, the FASB issued ASU 2020-07 on Topic 958, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets.* This standard requires nonprofits to change their financial statement presentation and disclosure of contributed nonfinancial assets, or gifts-in-kind. The standard is effective for annual reporting periods beginning after June 15, 2021, and interim periods with annual reporting periods beginning after June 15, 2022. The Organization is currently assessing the impact of this new standard.

3. Liquidity and Availability

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

Financial assets at year end:	2021	2020
Cash	$ 1,545,013	$ 901,158
Grants receivable	306,665	325,305
Pledges receivable, net	368,493	559,506
Investments	7,859	2,057
Cash, restricted funds held for others	11,072	19,062
Total financial assets	2,239,102	1,807,088

Less amounts not available within one year:		
Cash, restricted funds held for others	(11,072)	(19,062)
Net assets with donor restrictions	(385,233)	(584,506)
Less net assets with restrictions to be met in less than a year	155,165	285,854
Board designated net assets	(75,000)	(75,000)
Total	(316,140)	(392,714)
Financial assets available to meet general expenditures within one year	$ 1,922,962	$ 1,414,374

The Organization's goal is generally to maintain financial assets to meet 90 days of operating expenses (approximately $765,000). The Organization has a $100,000 line of credit available to meet cash flow needs.

4. Concentrations of Credit Risk

The Organization maintains bank deposits that, at times, may exceed the Federal Deposit Insurance Corporation (FDIC) limits. At June 30, 2021 and 2020, the Organization had bank deposits in excess of FDIC limits of $1,051,492 and $532,531, respectively. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

5. Pledges Receivable, Net

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

	2021	2020
Unconditional promises to give expected to be collected in:		
Less than one year	$ 155,165	$ 285,854
One to five years	339,832	330,156
Total	494,997	616,010
Less:		
Allowance for uncollectible amounts	(123,236)	(53,650)
Discount to present value (Average of .87% and .3%, respectively)	(3,268)	(2,854)
Pledges receivable, net	$ 368,493	$ 559,506

6. Property and Equipment, Net

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

	2021	2020
Land	$ 154,947	$ 154,947
Building	1,228,179	1,228,179
Furniture and equipment	59,868	63,868
Vehicles	77,931	77,931
Leasehold improvements	23,025	24,575
Website	20,000	20,000
Property and equipment	1,563,950	1,569,500
Accumulated depreciation and amortization	(919,370)	(875,874)
Total property and equipment, net	$ 644,580	$ 693,626

7. Supplemental Funding Liability

In April 2020, the Organization became a Community-Based Organization (CBO) for Fairfax County (County) in order to provide CARES Act Coronavirus Relief Funds. The Organization received $1,179,891 of county funds to distribute to community members who are pre-qualified by the County. This is inline with the services that the Organization provides. The balance of the liability on the accompanying statements of financial position represents the portion of County funds not yet passed out to community members.

8. 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.

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, 2021 and 2020, the rate was 3.24% and 3.63%. 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, 2021 and 2020.

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. The amount will be recognized as forgiveness of debt in the statement of activities in the year forgiven.

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

	Properties	PPP loan	Total
2022	$ 29,703	$ 397,400	$ 427,103
2023	31,438	-	31,438
2024	33,275	-	33,275
2025	35,219	-	35,219
2026	37,278	-	37,278
2024 and after	72,415	-	72,415
Total	$ 239,328	$ 397,400	$ 636,728

9. 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 is for five years and expires in December 2022. During the years ended June 30, 2021 and 2020, the Organization did not borrow against the credit line.

10. Net Assets With Donor Restrictions

Net assets were released from donor restrictions during the years ended June 30, 2021 and 2020 for the following purposes:

	2021	2020
Time restriction	$ 278,113	$ 263,155
Sustainability grant program	8,260	-
Total net assets released from restrictions	$ 286,373	$ 263,155

At June 30, 2021 and 2020, net assets with donor restrictions were available for the following purposes:

	2021	2020
Time restriction	$ 368,493	$ 559,506
Sustainability grant program	16,740	25,000
Total net assets with donor restrictions	$ 385,233	$ 584,506

11. Commitments and contingency

Operating leases

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. As part of this lease agreement, the Organization agreed to pay an additional amount of $801 per month during the term of the agreement to cover the rent differential between the remaining base rent on the old agreement and the base rent on new agreement.

The Organization has also entered into various lease agreements to house homeless individuals in need of shelter. Rent expense for the years ended June 30, 2021 and 2020 totaled $281,902 and $336,197, respectively.

Aggregate future minimum lease payments are as follows for the years ending June 30:

2022	$ 30,166
2023	31,091
2024	32,058
Total	$ 93,315

Contingency

Beginning around March 2020, the COVID-19 virus was declared a global pandemic as it continues to spread rapidly. Business continuity, Organization activities and funding sources could continue to be impacted for months or beyond as governments and their citizens take significant and unprecedented measures to mitigate the consequences of the pandemic. Management is carefully monitoring the situation and evaluating its options during this time. No adjustments have been made to these financial statements as a result of this uncertainty.

12. 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, 2021 and 2020, the Organization received $1,372,852 and $939,699, respectively, from this source, which was approximately 40% and 28%, respectively, of its total revenue and support. Any significant reduction in revenue and support may adversely impact the Organization's financial position and operations.

13. 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 year ended June 30, 2020 was $43,666 and $34,242, respectively.

14. Subsequent Events

In preparing the financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through January 25, 2022, which is the date the financial statements were available to be issued. Except as disclosed in Note 8, there were no subsequent events that require recognition of, or disclosure in, these financial statements.

Supplemental Information

Second Story

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2021

Federal Grantor/Pass-Through Grantor/Program Title	Assistance Listing #	Additional Award Identification	Grant number	Total Federal Expenditures	Provided to Subrecipients
Department of Health and Human Services					
Direct awards:					
Basic Center Grant					
Basic Center Program	93.623		90CY7108-01-01	$ 50,000	$ -
Basic Center Program	93.623		90CY7108-02-01	150,000	-
COVID-19 Basic Center Program	93.623	COVID-19	90CY7108-01-C3	14,521	-
Subtotal Basic Center Grant				214,521	-
Transitional Living Program*					
Transitional Living Program and Maternity Group Homes*	93.550		90CX7089	194,726	-
Transitional Living for Homeless Youth*	93.550		90CX7092	194,726	-
COVID-19 Transitional Living Program and Maternity Group Homes*	93.550	COVID-19	90CX708903C3	34,147	-
COVID-19 Transitional Living for Homeless Youth*	93.550	COVID-19	90CX709203C3	36,000	-
Subtotal Transitional Living Program				459,599	-
Subtotal direct awards				674,120	-
Pass-through award:					
Fairfax County					
Temporary Assistance for Needy Families	93.558		4400009929	68,711	-
Temporary Assistance for Needy Families	93.558		4400009930	64,414	-
Temporary Assistance for Needy Families	93.558		4400009931	106,008	-
Total pass-through awards				239,133	-
Total Department of Health and Human Services				913,253	-

Second Story

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2021

Department of Housing and Urban Development					
Direct awards:					
Homeless Prevention and Rapid Re-Housing Program Technical Assistance	14.262		VA0277L3G011803	165,945	-
Department of the Treasury					
Direct awards:					
COVID-19 Emergency Rental Assistance Program	21.023	COVID-19	N/A	37,440	-
Total expenditures of federal awards				$ 1,116,638	$ -

*Denotes major program

Second Story

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2021

Notes to Schedule of Expenditures of Federal Awards

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, 2021. 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.

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.

Indirect Cost Rate

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

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.