SIKICH

Second Story

Financial Statements
and
OMB Uniform Guidance Reports

June 30, 2020 and 2019

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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 statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses and cash flows for the year 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 audit. We conducted our audit 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of 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, 2020, and the changes in its net assets and its cash flows for the year 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 adopted the provisions of Accounting Standards Update (ASU) 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.* The adoption of this ASU did not result in a 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 this matter.

Prior Period Financial Statements

The audited financial statements of the Organization as of June 30, 2019, were audited by Halt, Buzas & Powell, Ltd., who merged with Sikich LLP as of January 1, 2020, and whose report dated December 20, 2019, expressed an unmodified opinion on those statements. In addition, the auditor's report indicated that the supplemental information was fairly stated, in all material respects, in relation to the financial statements as a whole.

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 - 24) 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 February 19, 2020 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 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 Standard*s in considering the Organization's internal control over financial reporting and compliance.

Sikich LLP

Alexandria, Virginia
February 19, 2020

Second Story

Statements of Financial Position

June 30, 2020 and 2019

	2020	2019
Assets		
Cash	$ 901,158	$ 114,597
Cash, restricted funds held for others	19,062	22,231
Grants receivable	325,305	222,506
Pledges receivable, net	559,506	604,033
Investments	2,057	2,217
Prepaid expenses	7,455	14,291
Property and equipment, net	693,626	740,234
Deposits	11,489	13,300
Total assets	$ 2,519,658	$ 1,733,409
Liabilities and Net Assets		
Accounts payable and accrued expenses	$ 67,968	$ 52,857
Funds held for others	19,062	22,231
Accrued leave	93,206	73,530
Supplemental funding liability	83,895	-
Notes payable	665,351	294,404
Total liabilities	929,482	443,022
Net assets:		
Without donor restrictions	930,670	586,455
Without donor restrictions, board designated	75,000	75,000
Total without donor restrictions	1,005,670	661,455
With donor restrictions	584,506	628,932
Total net assets	1,590,176	1,290,387
Total liabilities and net assets	$ 2,519,658	$ 1,733,409

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
Interest income	2,293	-	2,293
Contract revenue	1,248	-	1,248
Investment income	121	-	121
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 Homeless Youth	790,781	-	790,781
Second Story for Teens in Crisis	584,423	-	584,423
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 Activities

For the Year Ended June 30, 2019

	Without donor restrictions	With donor restrictions	Total
Revenues:			
Federal, state, and local grants	$ 1,725,687	$ -	$ 1,725,687
Contributions	777,117	483,952	1,261,069
In-kind contributions	499,983	-	499,983
Program service fees	11,448	-	11,448
Contract revenue	3,152	-	3,152
Investment income	284	-	284
Net assets released from restrictions:			
Satisfaction of donor restrictions	297,156	(297,156)	-
Total revenues	3,314,827	186,796	3,501,623
Expenses:			
Program services:			
Community Based Services	1,092,995	-	1,092,995
Second Story for Homeless Youth	825,601	-	825,601
Second Story for Teens in Crisis	634,703	-	634,703
Second Story for Young Mothers	387,774	-	387,774
Total program services	2,941,073	-	2,941,073
Support services:			
Fundraising	414,768	-	414,768
Management and general	206,960	-	206,960
Total support services	621,728	-	621,728
Total expenses	3,562,801	-	3,562,801
Change in net assets	(247,974)	186,796	(61,178)
Net assets, beginning of year	909,429	442,136	1,351,565
Net assets, end of year	$ 661,455	$ 628,932	$ 1,290,387

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

Second Story

Statement of Functional Expenses

For the Year Ended June 30, 2019

	Community Based Services	Second Story for Homeless Youth	Second Story for Teens in Crisis	Second Story for Young Mothers	Total program	Fundraising	Management and general	Total support	Total expenses
Bad debt expense	$ -	$ -	$ -	$ -	$ -	$ 21,800	$ -	$ 21,800	$ 21,800
Communications	15,537	10,033	8,108	9,894	43,572	10,774	824	11,598	55,170
Depreciation and amortization	3,645	1,991	36,404	16,254	58,294	1,825	884	2,709	61,003
Donated food, clothing and supplies	166,236	54,228	46,432	24,702	291,598	2,270	640	2,910	294,508
Donated professional services	37,463	12,221	10,463	5,567	65,714	512	144	656	66,370
Donated rent	78,517	25,613	21,931	11,668	137,729	1,072	304	1,376	139,105
Employee benefits	111,591	63,087	76,584	24,966	276,228	60,578	5,601	66,179	342,407
Food	7,482	191	2,610	145	10,428	232	58	290	10,718
Insurance	7,332	4,045	2,394	2,211	15,982	3,955	5,110	9,065	25,047
Interest	-	-	4,001	13,840	17,841	-	-	-	17,841
Memberships, licenses and permits	857	488	581	284	2,210	1,265	28	1,293	3,503
Occupancy	20,442	283,958	13,722	66,917	385,039	26,646	10,964	37,610	422,649
Payroll taxes	43,880	23,950	26,963	12,355	107,148	16,936	5,107	22,043	129,191
Professional fees	6,664	3,797	5,034	2,227	17,722	14,035	100,825	114,860	132,582
Publications	2,879	276	2,595	157	5,907	7,217	815	8,032	13,939
Salaries	574,745	320,326	364,298	166,083	1,425,452	230,815	72,105	302,920	1,728,372
Space rental and other event expenses	-	-	-	-	-	8,339	-	8,339	8,339
Supplies	5,599	2,274	3,792	1,318	12,983	2,835	2,969	5,804	18,787
Travel	9,348	15,086	1,755	21,513	47,702	3,662	582	4,244	51,946
Utilities	778	4,037	7,036	7,673	19,524	-	-	-	19,524
Total expenses	$ 1,092,995	$ 825,601	$ 634,703	$ 387,774	$ 2,941,073	$ 414,768	$ 206,960	$ 621,728	$ 3,562,801

See accompanying notes to the financial statements.

Second Story

Statements of Cash Flows

For the Years Ended June 30, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Change in net assets	$ 299,789	$ (61,178)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	50,608	61,003
Bad debt expense	53,650	21,800
Donated investments	(2,601)	(7,221)
Unrealized loss (gain) on investments	250	(108)
Realized (gain) loss on investment	(21)	104
Decrease (increase) in assets:		
Grants receivable	(102,799)	(103,223)
Pledges receivable	(9,213)	(213,920)
Prepaid expenses	(104)	30,076
Deposits	1,811	-
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	22,051	12,106
Funds held for others	(3,169)	7,666
Accrued leave	19,676	3,425
Supplemental funding liability	83,895	-
Total adjustments	114,034	(188,292)
Net cash provided by (used in) operating activities	413,823	(249,470)
Cash flows from investing activities:		
Purchases of property and equipment	(4,000)	(31,521)
Purchases of investments	-	(280)
Proceeds from sales of investments	2,621	71,833
Net cash (used in) provided by investing activities	(1,379)	40,032
Cash flows from financing activities:		
Principal payments of notes payable	(26,452)	(24,772)
Proceeds from issuance of debt	397,400	-
Net cash provided by (used in) financing activities	370,948	(24,772)
Net increase (decrease) in cash and restricted cash	783,392	(234,210)
Cash and restricted cash, beginning of year	136,828	371,038
Cash and restricted cash, end of year	$ 920,220	$ 136,828
Cash and restricted cash reconciliation:		
Cash	$ 901,158	$ 114,597
Cash, restricted funds held for others	19,062	22,231
Total cash and restricted cash	$ 920,220	$ 136,828
Supplemental disclosures of cash flow information:		
Cash paid for interest expense	$ 16,161	$ 17,841

See accompanying notes to the financial statements.

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.

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 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.

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 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.

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, 2020 and 2019, 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. When a donor restriction expires, that is, when a purpose restriction is accomplished or time restriction has elapsed, donor restricted net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the accompanying statements of activities.

b. Basis of accounting

The Organization's financial statements are prepared on the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses when obligations are incurred.

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, 2020 and 2019.

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.

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, 2020 and 2019, the Organization received cost-reimbursable federal grants totaling $185,598 and $443,493, respectively, that have not been recognized because qualifying expenditures have not yet been incurred.

Contributions: The Organization recognizes contributions, including 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.

Program service fees: Second Story Bednight fees are recognized as revenue in the period in which services are provided. Fees received relating to future periods are recorded as deferred revenue in the accompanying statements of financial position.

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, 2020 and 2019, the value of donated clothing, food and supplies was $353,435 and $294,508, respectively. For the years ended June 30, 2020 and 2019, the value of donated IT and tutoring services was $77,268 and $66,370, 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 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 $145,872 and $139,105, respectively, for the years ended June 30, 2020 and 2019.

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 accounting principles generally accepted in the United States of America.

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, travel and utilities have been allocated among programs and supporting services based on level of effort.

k. Adoption of new accounting standard

In June 2018, The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU clarifies and improves guidance for contributions received and contributions made, and provides guidance to organizations on how to account for certain exchange transactions. This change is preferable in that it clarifies whether to account for transactions as contributions or as exchange transactions. In addition, it clarifies whether a contribution is conditional.

As a result, it enhances comparability of financial information among not-for-profit entities. The change in accounting principle was adopted on a modified prospective basis as of July 1, 2019. As a result, there was no cumulative-effect adjustment to opening net assets without donor restrictions or opening net assets with donor restrictions as of July 1, 2019.

I. New accounting pronouncements

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 Organization has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on its financial statements.

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.

3. Liquidity and Availability

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

Financial assets at year end:	2020	2019
Cash	$ 901,158	$ 114,597
Cash, restricted funds held for others	19,062	22,231
Grants receivable	325,305	222,506
Pledges receivable, net	559,506	604,033
Investments	2,057	2,217
Total financial assets	1,807,088	965,584
Less amounts not available within one year:		
Cash, restricted funds held for others	(19,062)	(22,231)
Net assets with donor restrictions	(584,506)	(628,932)
Less net assets with restrictions to be met in less than a year	285,854	201,920
Board designated net assets	(75,000)	(75,000)
Total	(392,714)	(524,243)
Financial assets available to meet general expenditures within one year	$ 1,414,374	$ 441,341

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, 2020, the Organization had bank deposits in excess of FDIC limits of $532,531. There were no deposits in excess of FDIC limits at June 30, 2019.

5. Pledges Receivable, Net

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

	2020	2019
Unconditional promises to give expected to be collected in:		
Less than one year	$ 285,854	$ 201,920
One to five years	330,156	450,365
Total	616,010	652,285
Less:		
Allowance for uncollectible amounts	(53,650)	(26,100)
Discount to present value (Average of .3% and 1.8%, respectively)	(2,854)	(22,152)
Pledges receivable, net	$ 559,506	$ 604,033

6. Property and Equipment, Net

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

	2020	2019
Land	$ 154,947	$ 154,947
Building	1,228,179	1,228,179
Furniture and equipment	63,868	62,368
Vehicles	77,931	77,931
Leasehold improvements	24,575	24,575
Website	20,000	20,000
Property and equipment	1,569,500	1,568,000
Accumulated depreciation and amortization	(875,874)	(827,766)
Total property and equipment, net	$ 693,626	$ 740,234

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. They received $260,000 of County funds to pass along to community members who are pre-qualified by the County. 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% thereafter, as prescribed in the promissory note agreement. 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 was in compliance with for the years ended June 30, 2020 and 2019.

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 may be forgiven if used for certain qualifying expenses. Any portion not forgiven bears interest at 1% per annum and matures on April 7, 2022. The Organization has elected to account for the loan as a debt obligation and should all or part of the loan be forgiven, will record the amount forgiven as forgiveness of debt in the statement of activities in the year the Organization receives a legal release of the debt. The Organization has not yet submitted the application for forgiveness as of the date of these financial statements but the Organization expects to be released for the full amount of the note.

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

	Properties	PPP loan	Total
2021	$ 28,065	$ 200,277	$ 228,342
2022	29,703	197,123	226,826
2023	31,438	-	31,438
2024	33,275	-	33,275
2025	35,219	-	35,219
2024 and after	110,251	-	110,251
Total	$ 267,951	$ 397,400	$ 665,351

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 2021. During the years ended June 30, 2020 and 2019, 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, 2020 and 2019 for the following purposes:

	2020	2019
Time restriction	$ 263,155	$ 274,156
Purpose restriction	-	23,000
Total net assets released from restrictions	$ 263,155	$ 297,156

At June 30, 2020 and 2019, net assets with donor restrictions were available for the following purposes:

	2020	2019
Time restriction	$ 559,506	$ 628,932
Purpose restrictions	25,000	-
Total net assets with donor restrictions	$ 584,506	$ 628,932

11. Commitments

Operating leases

On July 1, 2019, the Organization entered into a lease agreement for administrative offices in Vienna, Virginia. The agreement calls for base monthly payments of $1,569, with an annual increase of 4.5%, through June 30, 2024. In addition to the base rent, the Organization is required to pay deferred rent in an amount of $801 per month during the term through 2024 to cover the rent differential between the remaining base rent.

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, 2020 and 2019 totaled $336,197 and $330,587, respectively.

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

2021	$ 29,281
2022	30,166
2023	31,091
2024	32,058
Total	$ 122,596

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, 2020 and 2019, the Organization received $939,699 and $726,627, respectively, from this source, which was approximately 28% and 24%, respectively, of its total revenue and support. Any significant reduction in revenue and support may adversely impact the Organization 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 years ended June 30, 2020 and 2019 was $34,242 and $32,515, respectively.

14. Subsequent Events

In preparing the financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through February 19, 2020, which is the date the financial statements were available to be issued. Except as noted below, there were no subsequent events that require recognition of, or disclosure in, these financial statements.

Beginning around March 2020, the COVID-19 virus has been declared a global pandemic as it continues to spread rapidly. Business continuity, Organization activities and funding sources could be severely 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. The Organization expects that it is reasonably possible that this matter will negatively impact its operating results. However, the related financial impact and duration cannot be reasonably estimated at this time. No adjustments have been made to these financial statements as a result of this uncertainty.

Supplemental Information

Second Story

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2020

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant number	Provided to Subrecipients	Total Federal Expenditures
Department of Health and Human Services				
Direct awards:				
Basic Center Grant				
Basic Center Program (Major program)	93.623	90CY7108-01-01	$ -	$ 200,000
Transitional Living for Homeless Youth				
Transitional Living Program and Maternity Group Homes	93.550	90CX7089-01-00	-	194,726
Transitional Living Program and Maternity Group Homes	93.550	90CX7092-03-01	-	194,726
Subtotal Transitional Living for Homeless Youth			-	389,452
Subtotal direct awards			-	589,452
Pass-through award:				
Fairfax County				
Temporary Assistance for Needy Families	93.558	4040008565	-	88,355
Temporary Assistance for Needy Families	93.558	4400005652	-	53,678
Temporary Assistance for Needy Families	93.558	4400008564	-	73,278
Total Temporary Assistance for Needy Families			-	215,311
Community Service Block Grant	93.569	4400008563	-	134,936
Total pass-through awards			-	350,247
Total Department of Health and Human Services			-	939,699
Department of Housing and Urban Development				
Direct awards:				
Homeless Prevention and Rapid Re-Housing Program Technical Assistance (Major program)	14.262	VA0277L3G011500	-	101,401
Homeless Prevention and Rapid Re-Housing Program Technical Assistance (Major program)	14.262	VA0277L3G011803	-	126,648
Total Department of Housing and Urban Development			-	228,049
Department of the Treasury				
Direct awards:				
Nonprofit Sustainability Grant	21.Unknown	N/A	-	25,000
Total expenditures of federal awards			$ -	$ 1,192,748

Second Story

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2020

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, 2020. 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.

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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*

Independent Auditor's Report

To the 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 (the Organization), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 19, 2020.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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.

Sikich LLP

Alexandria, Virginia
February 19, 2020

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Report on Compliance For Each Major Federal Program; Report on Internal Control Over Compliance Required by the Uniform Guidance

Independent Auditor's Report

To the Board of Directors
Second Story
Dunn Loring, Virginia

Report on Compliance for 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 the Organization's major federal programs for the year ended June 30, 2020. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. 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). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization 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, 2020.

Report on Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's 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 combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

Sikich LLP
Alexandria, Virginia
February 19, 2020

Second Story

Sschedule of Findings and Questioned Costs

For the Year Ended June 30, 2020

Section I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	Unmodified opinion	
Internal control over financial reporting:		
• Material weakness(es) identified?	___ yes	X no
• Significant deficiency(ies) identified?	___ yes	X none reported
Noncompliance material to financial statements noted?	___ yes	X no

Federal Awards

Internal control over major programs:		
• Material weakness(es) identified?	___ yes	X no
• Significant deficiency(ies) identified?	___ yes	X
Type of auditor's report issued on compliance for major programs	Unmodified opinion	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	___ yes	X no

Identification of major program:

CFDA Number	Name of Federal Program
14.262	Homeless Prevention and Rapid Re-Housing Program Technical Assistance
93.623	Basic Center Grant

Dollar threshold used to distinguish between type A and type B programs:		$750,000
Auditee qualified as a low-risk auditee?	X yes	___ no

Second Story

Sschedule of Findings and Questioned Costs

For the Year Ended June 30, 2020

Section II. Financial Statement Findings

None.

Section III. Federal Award Findings and Questioned Costs

None.

Second Story

Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2020

Section I. Prior Audit Findings

None.