

Audit Partner in Charge – Mia Harenski
Audit Firm’s Identification Number – 95-2694444

THE STEPPING STONE OF SAN DIEGO
FINANCIAL STATEMENTS
JUNE 30, 2024

THE STEPPING STONE OF SAN DIEGO

	<u>Pages</u>	
I	Index	1
II	Independent auditor's report	2 – 4
III	Statement of financial position	5
IV	Statement of activities and changes in net assets	6
V	Statement of functional expenses	7
VI	Statement of cash flows	8
VII	Notes to the financial statements	9 – 20
VIII	Schedule of expenditures of federal awards	21
IX	Notes to schedule of expenditures of federal awards	22
X	Schedule of findings and questioned costs	23
XI	Independent auditor's report on internal controls over financial reporting and on compliance and other matters based on an audit of financial statement performed in accordance with <i>Government Auditing Standards</i>	24 – 25
XII	Independent auditor's report on compliance for each major program and on internal control over compliance required by the Uniform Guidance	26 – 28

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The Stepping Stone of San Diego

Report on the Financial Statements

Qualified Opinion

We have audited the accompanying financial statements of The Stepping Stone of San Diego, a nonprofit organization, which comprise the statement of financial position as of June 30, 2024, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the financial statements referred to above present fairly, in all material respects, the financial position of The Stepping Stone of San Diego as of June 30, 2024, and the changes in its net assets and its cash flows for the year ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion

As described in note 16 to the financial statements, the Organization is the sole member of Group Conscience dba Pamarro Recovery, a nonprofit organization. In our opinion, accounting principles generally accepted in the United States of America require that all majority-owned subsidiaries be accounted for as consolidated subsidiaries. The Organization has not included the assets, liabilities, net assets, revenues and expenses of Group Conscience, dba Pamarro Recovery in its financial statements nor did it account for any eliminations for interagency transactions. If the financial statements of the Organization had been consolidated with those of Group Conscience, dba Pamarro Recovery, the amounts reported for total assets, total liabilities, net assets, and change in net assets would have been materially affected.

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of The Stepping Stone of San Diego and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Adjustments to Prior Period Financial Statements

The financial statements of The Stepping Stone of San Diego as of June 30, 2023 were audited by other auditors whose report dated February 1, 2024, expressed a qualified opinion on those financial statements. As more fully described in note 17 to the financial statements, the Organization has adjusted

its June 30, 2023 financial statements to retrospectively correct the errors described in note 17. The other auditors reported on the financial statements before the retrospective adjustment.

As part of our audit of the June 30, 2024 financial statements, we also audited adjustments described in note 17 that were applied to restate the June 30, 2023 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the June 30, 2023 financial statements of the Organization other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the June 30, 2023 financial statements as a whole.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of The Stepping Stone of San Diego's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The Stepping Stone of San Diego's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards 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 21, 2025 on our consideration of The Stepping Stone of San Diego'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 Stepping Stone of San Diego'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 Stepping Stone of San Diego's internal control over financial reporting and compliance.



CONSIDINE & CONSIDINE
An accountancy corporation

January 21, 2025

THE STEPPING STONE OF SAN DIEGO
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2024

Page 5

ASSETS

CURRENT ASSETS

Cash and cash equivalents (note 3)	\$ 228,503
Accounts receivable (note 4)	639,426
Investments (note 5 and 6)	856,628
Prepaid expenses	64,848
	1,789,405

PROPERTY AND EQUIPMENT (note 7)

1,765,915

OTHER ASSETS

Deposits	12,723
Right-of-use asset (note 10)	101,502
	114,225

TOTAL ASSETS

3,669,545

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	170,461
Accrued expenses (note 8)	175,488
Deferred revenue (note 9)	542,575
Operating lease liability - current (note 10)	95,295
	983,819

LONG-TERM LIABILITIES

Loans payable (note 11)	1,781,800
Operating lease liability - long term (note 10)	6,623
	1,788,423

TOTAL LIABILITIES

2,772,242

NET ASSETS (note 12)

897,303

TOTAL LIABILITIES AND NET ASSETS

\$ 3,669,545

See accompanying notes

THE STEPPING STONE OF SAN DIEGO
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2024

Page 6

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE			
Government grants and contracts	\$ 3,466,557	\$ -	\$ 3,466,557
Contributions and other grants	256,633	-	256,633
Investment income, net (note 5)	130,665	-	130,665
Rental income	126,802	-	126,802
In-kind contributions	19,197	-	19,197
Other income	6,142	-	6,142
Program service fees	4,925	-	4,925
	<u>4,010,921</u>	<u>-</u>	<u>4,010,921</u>
Special events, net			
Special event revenue	121,667	-	121,667
Direct benefits to donor	(34,104)	-	(34,104)
	<u>87,563</u>	<u>-</u>	<u>87,563</u>
Net assets released from restrictions	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL REVENUES	4,098,484	-	4,098,484
EXPENSES			
Program services			
Recovery home	2,278,890	-	2,278,890
Outpatient treatment	615,644	-	615,644
Sober living	289,087	-	289,087
Supporting services			
Management and general	748,173	-	748,173
Development	146,499	-	146,499
	<u>4,078,293</u>	<u>-</u>	<u>4,078,293</u>
CHANGE IN NET ASSETS	20,191	-	20,191
NET ASSETS, BEGINNING	<u>877,112</u>	<u>-</u>	<u>877,112</u>
NET ASSETS, ENDING	<u><u>\$ 897,303</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 897,303</u></u>

See accompanying notes

**THE STEPPING STONE OF SAN DIEGO
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2024**

	PROGRAM SERVICES			TOTAL	SUPPORTING SERVICES		TOTAL
	RECOVERY HOME	OUTPATIENT TREATMENT	SOBER LIVING	PROGRAM SERVICES	MANAGEMENT AND GENERAL	DEVELOPMENT	
EXPENSES							
Personnel expenses							
Salaries and wages	\$ 1,251,972	\$ 332,494	\$ 39,074	\$ 1,623,540	\$ 478,011	\$ 10,385	\$ 2,111,936
Payroll taxes	101,053	26,843	3,150	131,046	41,191	1,095	173,332
Employee benefits	190,164	61,446	19,719	271,329	69,244	-	340,573
Other personnel expenses	66,932	20,595	2,657	90,184	23,601	344	114,129
Total personnel expenses	1,610,121	441,378	64,600	2,116,099	612,047	11,824	2,739,970
Non-personnel expenses							
Accounting and auditing	3,063	1,672	3,276	8,011	18,659	-	26,670
Advertising and marketing	5,318	2,859	5,316	13,493	-	24,063	37,556
Client treatment	20,014	4,332	-	24,346	-	139	24,485
Depreciation	78,610	-	7,765	86,375	-	-	86,375
Equipment and furniture	23,732	7,334	9,803	40,869	377	4,570	45,816
Event expenses	-	-	-	-	-	3,180	3,180
Food	94,983	2,832	54	97,869	704	49,502	148,075
Insurance	29,102	6,661	17,832	53,595	13,032	-	66,627
Interest	-	-	-	-	8,020	-	8,020
Lease costs and facilities	119,620	97,869	147,812	365,301	15,412	10,123	390,836
Licenses and fees	3,948	1,104	178	5,230	10,082	1,024	16,336
Office expenses	19,069	3,471	407	22,947	6,398	15,151	44,496
Professional and consulting services	76,852	38,590	1,918	117,360	60,155	53,621	231,136
Recruitment	7,084	-	-	7,084	-	300	7,384
Repair and maintenance	42,890	2,880	25,483	71,253	1,009	134	72,396
Room and board	31,998	1,379	4,267	37,644	-	-	37,644
Security	90,765	-	-	90,765	-	-	90,765
Staff development and training	12,411	2,548	354	15,313	2,181	134	17,628
Travel and auto expense	9,310	735	22	10,067	97	6,838	17,002
Total non-personnel expenses	668,769	174,266	224,487	1,067,522	136,126	168,779	1,372,427
	2,278,890	615,644	289,087	3,183,621	748,173	180,603	4,112,397
Less: direct benefit to donors at special events included in revenue	-	-	-	-	-	(34,104)	(34,104)
Total expenses included in the expense section of the statement of activities	\$ 2,278,890	\$ 615,644	\$ 289,087	\$ 3,183,621	\$ 748,173	\$ 146,499	\$ 4,078,293

See accompanying notes

**THE STEPPING STONE OF SAN DIEGO
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2024**

Page 8

CASH FLOWS USED BY OPERATING ACTIVITIES

Change in net assets	\$ 20,191
----------------------	-----------

ADJUSTMENTS TO RECONCILE CHANGE IN NET ASSETS TO
NET CASH PROVIDED/(USED) BY OPERATING ACTIVITIES

Depreciation	86,375
Non cash stock donation	(9,697)
Unrealized gain on investments	(101,095)
Lease expense - amortization of right-of-use asset	(2,568)
Change in operating assets and liabilities:	
Accounts receivable	12,737
Prepaid expenses	(26,498)
Accounts payable	56,943
Accrued expenses	83,305
Deferred revenue	<u>(121,627)</u>
	<u>(22,125)</u>

NET CASH USED BY OPERATING ACTIVITIES	(1,934)
---------------------------------------	---------

NET CASH USED BY INVESTING ACTIVITIES

Investment income retained in investment accounts	-
Purchase of stock	(27,231)
Purchase of property and equipment	<u>(123,346)</u>
	(150,577)

CASH FLOWS USED BY FINANCING ACTIVITIES

Principal payments on loans payable	<u>(8,144)</u>
-------------------------------------	----------------

NET CHANGE IN CASH	(160,655)
--------------------	-----------

CASH, BEGINNING OF YEAR	<u>389,158</u>
-------------------------	----------------

CASH, END OF YEAR	<u><u>\$ 228,503</u></u>
-------------------	--------------------------

SUPPLEMENTAL DISCLOSURES:

Interest paid	\$ 8,020
---------------	----------

See accompanying notes

THE STEPPING STONE OF SAN DIEGO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

Page 9

NOTE 1 THE ORGANIZATION

The Stepping Stone of San Diego (the “Organization”) was formed as a nonprofit public benefit corporation on January 19, 1977 for the purpose of providing drug rehabilitation services with special emphasis on the needs of the San Diego gay, lesbian, bisexual, and transgender (“LGBTQ”) community. The Organization offers residential, sober living transitional housing and outpatient services at its main facility at 3767 Central Avenue and provides outpatient treatment services in San Diego’s North Park neighborhood. The Organization also owns and operates a transitional living home at 106 Robinson Avenue and operates additional transitional living residences in the City Heights neighborhood.

The Organization provides a variety of recovery programs specializing in the LGBTQ community, but open to all. These programs include residential treatment services, mental health services, HIV support services, outpatient treatment services, after-care services and transitional living homes.

The following are brief descriptions of the Organization’s major programs:

Recovery Home – The Recovery Home Program centers around moving clients through a progressive recovery journey, tailored to their treatment needs. The process starts with acclimation to the program, and then provides a solid foundation for a successful long-term recovery.

Sober Living – Following their three-month residential stay, clients participate in a 12-week After-Care Program which helps to facilitate a smoother transition from the structure of residential treatment. Clients in After-Care Program have the opportunity to process transitional issues and concerns, share resources, network, and engage in mutual recovery support.

Outpatient Treatment – The Stepping Out alcohol and drug outpatient treatment program serves the LGBTQ and HIV/AIDS-affected communities.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting – The accompanying financial statements are prepared using the accrual method of accounting in conformity with generally accepted accounting principles (GAAP) in the United States of America.

Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures. Actual results could differ from these estimates.

Basis of presentation – Under accounting standards on Financial Statements of Not-for-Profit Organizations, the Organization is required to report information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions.

Net assets without donor restrictions – Consists of assets which are fully available, at the discretion of management and the Board of Directors, for the Organization to utilize in any of its programs or supporting services. Net assets without donor restrictions also include amounts designated for certain purposes by the Board of Directors.

THE STEPPING STONE OF SAN DIEGO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

Page 10

Net assets with donor restrictions – Net assets with donor restrictions consist of contributed funds subject to donor-imposed restrictions contingent upon specific performance of a future event or a specific passage of time before the Organization may spend the funds. When a restriction expires, restricted net assets are reclassified to net assets without donor restrictions.

Cash – The Organization considers financial instruments with a fixed maturity date of less than three months to be cash equivalents. The Organization maintains accounts with financial institutions with funds insured by the Federal Deposit Insurance Corporation (FDIC). The Organization maintains cash balances in bank accounts that, at times, may exceed the federally insured deposit limits. The Organization has not experienced any losses in such accounts and management believes it is not exposed to any significant risk on cash. At June 30, 2024, the Organization did not have balances that exceeded the federally insured deposit limits.

Investments – The Organization’s method of accounting for most investments is the fair value method. Fair value is determined by published quotes when they are readily available. Realized and unrealized gains and losses are reported in the statement of activities and changes in net assets. Investment income is recognized as revenue in the period it is earned and gains and losses are recognized as changes in net assets in the accounting period in which they occur. Investment return is presented net of any investment fees.

Receivables – Accounts receivable are stated at the amount management expects to collect from outstanding balances. An allowance for credit losses is established, as necessary, based on past experience and other factors which, in management’s judgment, deserve current recognition in estimating bad debts. Such factors include the relationship of the allowance for credit losses to accounts receivable and current economic conditions. Based on review of these factors, the Organization establishes or adjusts the allowance for specific revenue sources as a whole. At June 30, 2024, an allowance for credit losses was not considered necessary as all accounts receivable were deemed collectible.

Fair value measurement – The Organization follows accounting standards consistent with the Financial Accounting Standards Board (FASB) codification which defines fair value, establishes a framework for measuring fair value and enhances disclosures about fair value measurements for all financial assets and liabilities.

Property and equipment – Purchased property and equipment are recorded at cost. Donations of property and equipment are recorded as support at their estimated fair value as of the date of donation. The Organization’s capitalization limit is \$5,000. Donations of property and equipment are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions at that time. Maintenance and repairs are charged to the expense as incurred; major renewals and betterments are capitalized. When items of property and equipment are sold or retired, the related costs and accumulated depreciation are removed from the accounts, and any gain or loss is included in income.

THE STEPPING STONE OF SAN DIEGO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

Depreciation expense is computed using the straight-line method over the estimated useful lives of the assets. Estimated useful lives are listed below:

Vehicles	5 years
Furniture and equipment	5 years
Improvements	7-30 years
Buildings	55 years

Impairment of long-lived assets – The Organization reviews its long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the future net undiscounted cash flows expected to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets held for sale are reported at the lower of the carrying amount or the fair value less costs to sell. Based on an evaluation of existing long-lived and intangible assets, the Organization determined that no impairments occurred for the year ended June 30, 2024.

Leases – The Organization follows ASU 2016-02, *Leases (Topic 842)* and all related amendments. The standard established a right-of-use model (ROU) that requires a lessee to recognize a ROU asset and lease liability on the statement of financial position for all leases with a term longer than 12 months, and disclose key information about the leasing arrangements. Options to renew a lease are only included in the lease term to the extent those options are reasonably certain to be exercised. Leases will be classified as either finance or operating. Operating lease liabilities and their corresponding ROU assets are initially recorded based on the present value of lease payments over the term of the lease. The rate implicit in lease contracts is typically not readily determinable and, as a result, the Organization utilizes the treasury yield rate to discount lease payments. Finance leases are generally those leases that allow the Association to substantially utilize or pay for the entire asset over its estimated life.

Revenue recognition – The Organization follows Accounting Standards Update (“ASU”) No. 2014-09, 2016-08, 2016-10, 2016-12 and 2016-20, collectively implemented as FASB Accounting Standards Codification (“ASC”) Topic 606 *Revenue from Contracts with Customers*, which provides guidance for revenue recognition. This ASC’s core principle requires a company to recognize revenue when it transfers promised goods or services to customers in an amount that reflects consideration to which the organization expects to be entitled in exchange for those goods or services. The Organization recognizes program income as services are provided.

The Organization follows ASU 2018-08, *Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU includes clarification regarding the accounting for contracts and agreements as exchange transactions or contributions and provides improved guidance to better distinguish between conditional and unconditional contributions.

Contributions – Contributions are recognized when the donor makes a pledge to give that is, in substance, an unconditional promise. Contributions are recorded as without donor restrictions, or with donor restrictions, depending on the existence and/or nature of any donor restrictions. Contributions received with donor restrictions whose restrictions are met in the same reporting period are reported as net assets without donor restrictions.

THE STEPPING STONE OF SAN DIEGO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

Page 12

Contributions in-kind – In-kind contributions are reflected as contributions at their fair value at date of donation and are reported as unrestricted support unless explicit donor stipulations specify how donated assets must be used. The Organization recognizes the fair value of contributed services received if such services a) create or enhance nonfinancial assets or b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not contributed.

Government grants and contracts – The Organization receives a significant amount of governmental cash assistance. The governmental cash assistance is received through reimbursement-based local, state, and federally funded programs. The revenue generated from these programs is recorded as government contracts in the statement of activities and changes in net assets. This governmental support meets the criteria to be classified as conditional contributions under GAAP revenue recognition for nonprofit organizations as it contains barriers related to the incurrence of qualifying expenditures and a right of return or release. The Organization has elected a simultaneous release option to account for these grants. Therefore, they are recorded as government support without donor restrictions upon satisfaction of the barriers. In the event amounts are received and have not been earned, the Organization records such amounts as deferred revenue until earned.

Deferred revenue - Deferred revenue arises when potential revenue does not meet the criteria for recognition in the current period and when resources are received by the Organization prior to the incurrence of expenses. In subsequent years, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the statement of financial position and revenue is recognized.

Concentrations – The Organization receives a significant amount of its funding from government grants and contracts. The continued efficient operation of the Organization largely depends on the current level of support from these agencies. A significant change in funding could impair the Organization’s ability to operate the full scope of current programs.

Functional expenses – The costs of providing services have been summarized on a functional basis in the statement of activities and changes in net assets and detailed in the statement of functional expenses. Certain costs and expenses have been allocated between program and supporting services based on management’s estimates.

Income taxes – The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and did not conduct unrelated business activities. Therefore, no provision has been made for federal income taxes in the accompanying financial statements.

The Organization follows accounting standards which clarify the accounting for uncertainty in income taxes recognized in the financial statements and recognition threshold and measurement attribute for the financial statements and recognition and measurement of a tax position taken or expected to be taken in a tax return. As of June 30, 2024, the Organization has not accrued interest or penalties related to uncertain tax positions. The Organization files tax returns in the U.S. Federal jurisdiction and the State of California.

Recently issued accounting standards

In July 2016, FASB issued ASU 2016-13 Financial Instruments – Credit Losses (Topic 326). The new standard is effective for fiscal years beginning after December 15, 2022. The Organization adopted the standard on

THE STEPPING STONE OF SAN DIEGO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

July 1, 2023. The standard replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected loss (CECL) methodology is applicable to tracing receivables, financing receivables, held-to-maturity debt securities, and receivables relating to repurchase agreements and securities lending agreements. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor in accordance with Topic 842 on leases. Financial assets held by the Organization that are subject to this guidance were accounts receivable.

The Organization adopted ASC 326 using a modified retrospective transition approach. Under this approach, an entity records an adjustment to net assets for the cumulative effect of adopting the standard. The adjustment is made to opening net assets as of the start of the reporting period in which the ASU becomes effective. The Organization has performed a review of the new guidance as compared to its current accounting policies to determine the impact of this standard on their financial assets presentation. Upon completion of its review, the Organization has made a determination that there is no material impact to their financial assets presentation upon adoption of the new standard.

NOTE 3 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consists of the following at June 30, 2024:

Cash in banks, interest bearing	\$ 169,480
Cash in banks, non-interest bearing	57,423
Cash on hand or awaiting deposit	1,600
	<u>\$ 228,503</u>

NOTE 4 ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2024, consists of the following:

Government grants and contracts	\$ 620,201
Other receivables	17,950
Program service fees	1,275
	<u>\$ 639,426</u>

NOTE 5 INVESTMENTS

The Organization's investment funds are exposed to various risks, such as fluctuations in market value, interest rate, or credit risk. Therefore, the Organization's investments may be subject to significant fluctuations in fair value. As a result, the investment balances reported in the accompanying financial statements may not be reflective of the portfolio's value during subsequent periods.

THE STEPPING STONE OF SAN DIEGO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

Page 14

Fair value of available-for-sale securities are as follows:

Mutual funds	\$ 769,521
Stocks	87,107
	<u>\$ 856,628</u>

Investment income on the statement of activities and changes in net assets consists of the following:

Investment gain	\$ 101,109
Dividends and interest	29,556
	<u>\$ 130,665</u>

NOTE 6 FAIR VALUE MEASUREMENTS

The Organization follows the method of fair value to value its financial assets and liabilities. Fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels has been established, which are described below.

Level 1: Quoted prices (unadjusted in active markets that are accessible at the measurement date for identical assets or liabilities). The fair value hierarchy gives the highest priority to level 1 inputs.

Level 2: Observable inputs other than level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to level 3 inputs.

The Organization uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Organization measures fair value using level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are used only when level 1 or level 2 inputs are not available.

The Organization's policy is to recognize transfers of investments into and out of level 3 as of the date of the event or change in circumstances that caused the transfer. For the year ended June 30, 2024, there were no significant transfers of investments into or out of level 3.

Investments in mutual funds and corporate stocks are valued at market prices in active markets and are classified as level 1.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different

THE STEPPING STONE OF SAN DIEGO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. There are no assets requiring the use of level 3 inputs for the year presented and there were no changes in the methods used to measure fair value at June 30, 2024.

Financial assets and liabilities carried at fair value at June 30, 2024 are classified below in one of three categories described above. The table below presents the balances of assets measured at fair value on a recurring basis.

	Level 1	Level 2	Level 3	Total
Assets				
Mutual funds	\$ 769,521	\$ -	\$ -	\$ 769,521
Stocks	87,107	-	-	87,107
	\$ 856,628	\$ -	\$ -	\$ 856,628

NOTE 7 PROPERTY AND EQUIPMENT

Property and equipment are summarized as follows at June 30, 2024.

Buildings	\$ 2,806,613
Vehicles	113,760
	2,920,373
Less accumulated depreciation	(1,463,702)
	1,456,671
Land	309,244
	\$ 1,765,915

Depreciation expense was \$86,375 for the year ended June 30, 2024.

The properties on Central Avenue and Robinson Avenue have title restrictions for specific use for fifty-five year periods (see notes 9 and 11).

NOTE 8 ACCRUED EXPENSES

Accrued liabilities consist of the following at June 30, 2024.

Accrued payroll	\$ 90,454
Accrued vacation	84,644
Security deposits	390
	\$ 175,488

**THE STEPPING STONE OF SAN DIEGO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024**

NOTE 9 DEFERRED REVENUE

Deferred revenue, as of June 30, 2024, consists of \$29,508 for a potential disallowance of governmental funding for the Drug Medi-Cal (DMC) program.

In addition, included in deferred revenue is a revocable grant in the amount of \$513,067. In August 1999, the Organization encumbered its residential recovery facility on Central Avenue by accepting a revocable grant, secured by a deed of trust, from San Diego Housing Commission in the amount of \$513,067. The funds were used in conjunction with the redevelopment of the residential recovery facility on the same property. The grant allows for zero repayment and zero interest provided that the Organization operates a residential recovery facility on the premises for fifty-five (55) years from the date the agreement was signed.

NOTE 10 OPERATING LEASES

In February 2019, the Organization entered a residential lease extension for two units located on 35th Street in San Diego, California. The lease called for a security deposit of \$3,600 per unit, which has been recorded as a noncurrent asset on the statement of financial position. The lease term was extended until May 31, 2025. The Organization has accounted for this lease using an implied discount rate of 3.5%. Operating lease costs, included in lease costs and facility on the statement of functional expenses, for the year ended June 30, 2024 totaled \$99,243.

In December 2023, the Organization entered a lease for office equipment under an operating lease that expires in December 2026. The Organization has accounted for this lease using an implied discount rate of 3.5%. Operating lease costs, included in equipment and furniture on the statement of functional expenses, for the year ended June 30, 2024 totaled \$1,628.

The following summarizes the weighted average remaining lease term and discount rate as of June 30, 2024:

Weighted average remaining lease term	13 months
Weighted average discount rate	3.50%

Future minimum undiscounted lease payments related to the operating lease liability for the years ended June 30 is as follows:

	2025	\$	96,925
	2026		4,525
	2027		2,263
			103,713
			(1,795)
Less: present value discount			(1,795)
Total lease liability		\$	101,918

THE STEPPING STONE OF SAN DIEGO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

Supplemental cash flow information related to operating leases for the year ended June 30, 2024 is as follows:

Cash paid for amounts included in the measurements of lease liabilities:	
Operating cash flows for operating leases	\$ 103,440
Right of use asset acquired under operating lease	\$ 13,246

NOTE 11 LOANS PAYABLE

The Organization's loans payable consists of the following at June 30, 2024.

County of San Diego HOPWA "Senior Loan"	\$ 1,062,977
County of San Diego HOPWA "Junior Loan"	431,615
U.S. Small Business Administration	287,208
	<u>\$ 1,781,800</u>

In August 1999, the Organization encumbered its residential recovery facility on Central Avenue by obtaining a loan, secured by a deed of trust, from the County of San Diego Department of Housing and Community Development under the Federal "Housing Opportunities for Persons with AIDS" (HOPWA) program. The loan proceeds, in the amount of \$1,062,977, were used in conjunction with the redevelopment of the residential recovery facility on the same property. The principal covenant under this note is the requirement that the property be used as a residential recovery home for fifty-five (55) years from the date of the certificate of occupancy. The Organization's obligation to repay the loan will be waived at the end of the loan term providing that the loan is not in default. Default would be caused if a change in purpose, transfer of title or delinquent in reporting. Principal and interest is only due upon default.

In July 1999, the Organization encumbered its Robinson Avenue transitional living home by obtaining a loan, secured by a deed of trust, from the County of San Diego Department of Housing and Community Development under the Federal "Housing Opportunities for Persons with AIDS" (HOPWA) program in the amount of \$431,615. The principal covenant under this note is the requirement that the property continue to be used as a transitional living home for fifty-five (55) years from the date the funds are disbursed. The Organization's obligation to repay the loan will be waived at the end of the loan term providing that the loan is not in default. Default would be caused if a change in purpose, transfer of title or delinquent in reporting. Principal and interest is only due upon default.

On May 28, 2020, the Organization entered into a loan authorization and agreement for an Economic Injury Disaster Loan (EIDL) from the U.S. Small Business Administration (SBA) totaling \$150,000. In May 2022, the loan agreement was amended to include an additional \$150,000 borrowing. The EIDL bears interest at 2.75% with the balance of principal and interest payable in thirty (30) years from the original note of May 28, 2020.

**THE STEPPING STONE OF SAN DIEGO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024**

The principal maturities required under the loans payable for the years ended June 30 are as follows:

	2025	\$	8,371
	2026		8,604
	2027		8,844
	2028		9,090
	2029		9,343
	Thereafter		1,737,548
			\$ 1,781,800

NOTE 12 NET ASSETS

Net assets consisted of the following as of June 30, 2024:

Without donor restrictions	
Undesignated	\$ 897,303

NOTE 13 LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following reflects the Organization’s financial assets as of the statement of financial position date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the statement of financial position date.

Financial assets at year-end:	
Cash and cash equivalents	\$ 228,503
Accounts receivable	639,426
Investments	856,628
Prepaid expenses	64,848
	\$ 1,789,405
Less those unavailable for general expenditures within one year due to donor-imposed restrictions	
	-
Financial assets available to meet general expenditure within one year	\$ 1,789,405

As part of the Organization’s liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

NOTE 14 RETIREMENT PLAN

The Organization maintains a defined contribution retirement plan, qualified under IRC section 403(b) Plan for the benefit of its employees. Employee contributions are matched by the Organization up to 5% of gross pay each pay period and employer contribution is fully vested at the time of contribution. Contributions to the 403(b) Plan for the year ended June 30, 2024 was \$53,640.

THE STEPPING STONE OF SAN DIEGO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

Page 19

NOTE 15 CONTINGENCIES

The Organization has received governmental funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursements would not be material. Refer to note 9 for amounts recorded as a potential disallowance based on internal review of past government funding.

The Organization is subject to claims that arise out of the normal course of business. The Organization maintains insurance coverage and uses various risk management activities which, combined, management believes are sufficient to ensure that the final outcome of any claims or proceedings will not have an adverse material effect on the financial position, operations, or liquidity of the Organization. Thus, no adjustments were deemed necessary.

NOTE 16 RELATED PARTY AND DEPARTURE FROM GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

In accordance with the Membership Interest Transfer Agreement dated April 17, 2020, the Organization received a donation and became the sole member and assumed control of Pemarro Recovery, a nonprofit charity. At the time of the transfer, Pemarro had total assets of \$534,489, total liabilities of \$327,962 and net assets of \$206,527 based on unaudited amounts. The Organization continued to operate Pemarro as a recovery detox center through May 2021, when due to a poor operating environment, the Board of Directors sold Pemarro Recovery's real property and the dissolution process is in process for Pemarro.

Accounting principles generally accepted in the United States of America require that all majority owned subsidiaries be accounted for as consolidated subsidiaries. The Board could not satisfy itself as to the opening balances at the date of the transfer and therefore could not properly determine ending net assets for each year ending June 30, 2020 through 2024. Therefore, the Board has elected not to consolidate Pemarro. These financial statements do not include the assets, liabilities, and net assets of Pemarro at June 30, 2024, nor its revenues and expenses for the year ending June 30, 2024. There were no transactions between the two parties during the fiscal year.

NOTE 17 PRIOR PERIOD ADJUSTMENT

During the current fiscal year, the Organization discovered a material error in the recording of loans payable and revocable grant for the prior year, resulting in an understatement of liabilities and an overstatement of net assets without donor restrictions. The correction to this error has been reflected in the accompanying financial statements by restating the prior year's loans payable by \$1,494,592 and deferred revenue by \$513,067. The opening balance of net assets without donor restrictions have been adjusted from \$2,884,771 to \$877,112.

THE STEPPING STONE OF SAN DIEGO
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

Page 20

NOTE 18 SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 21, 2025, the date the financial statements were available to be issued. There were no material subsequent events which affected the amounts or disclosures in the financial statements, except for below.

Subsequent to the year end, the Organization borrowed approximately \$250,000 on a line of credit available within one of their investment accounts. The loan accrues interest monthly at 9.25% and does not require regular payments unless the value of the investments declines and payment is required to meet the margin call.

**THE STEPPING STONE OF SAN DIEGO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2024**

Federal Agency Name	Pass Through Agency	Federal Program Title	Assistance Listing Number	Other Identification Number	Federal Expenditures	Passed Through to Subrecipients
U.S. Department of Health and Human Services	County of San Diego Health and Human Services	SABG Discretionary	93.959	553454	\$ 437,676	\$ -
U.S. Department of Health and Human Services	County of San Diego Health and Human Services	HIV Emergency Relief Project Grants	93.914	557756	280,976	-
Total U.S. Department of Health and Human Services					718,652	-
U.S. Department of Housing and Urban Development	County of San Diego Health and Human Services	Housing Opportunities for Persons with AIDS	14.241	558953	55,765	-
U.S. Department of Housing and Urban Development	County of San Diego Health and Human Services	Housing Opportunities for Persons with AIDS	14.241	570090-HO	208,746	-
U.S. Department of Housing and Urban Development	County of San Diego Health and Human Services	Housing Opportunities for Persons with AIDS	14.241	558931	54,963	-
U.S. Department of Housing and Urban Development	County of San Diego Health and Human Services	Housing Opportunities for Persons with AIDS	14.241	570090-SS	169,836	-
U.S. Department of Housing and Urban Development	County of San Diego Health and Human Services	Housing Opportunities for Persons with AIDS - Loans	14.241	Not available	1,494,592	-
Total U.S. Department of Housing and Urban Development					1,983,902	-
TOTAL FEDERAL AWARDS EXPENDED					\$ 2,702,554	\$ -

The accompanying notes to the schedule of expenditures of federal awards are an integral part of this schedule

**THE STEPPING STONE OF SAN DIEGO
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2024**

NOTE 1 BASIS OF ACCOUNTING

The schedule of expenditures of federal awards is prepared on the same basis of accounting as the Organization’s financial statements. The Organization uses the accrual basis of accounting. Expenditures represent only the federally funded portions of the program. Organization records should be consulted to determine amounts expended or matched from non-federal sources. The information in the schedule is presented in accordance with the requirements of 2 CFR Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

NOTE 2 PROGRAM COSTS/MATCHING CONTRIBUTIONS

The amounts shown as current year expenses represent only the federal, state, and local grant portion of the program costs. Entire program costs, including the Organization’s portion, may be more than shown.

NOTE 3 FEDERAL INDIRECT RATE

The amount expended includes expenses claimed as an indirect cost recovery using agreed upon methods. The Organization has not elected to use the 10 percent de minimis indirect cost rate.

NOTE 4 FEDERAL LOAN PROGRAMS

Included in Housing Opportunities for Persons with AIDS is the cumulative amount of capital advances received from the County of San Diego Department of Housing and Community Development, which requires the Organization to comply with requirements identified in the regulatory agreements with the Organization for fifty-five years.

The balances of loans outstanding with continuing compliance requirements under federal loan programs at June 30, 2024, are as follows:

Assistance Listing Number	Program Name	Loan Outstanding June 30, 2023	Loans Awarded During the Year	Loan Principal Repaid During the Year	Loan Outstanding June 30, 2024
14.241	Housing Opportunities for Persons with AIDS Senior Loan	\$ 1,062,977	\$ -	\$ -	\$ 1,062,977
14.241	Housing Opportunities for Persons with AIDS Junior Loan	431,615	-	-	431,615
		<u>\$ 1,494,592</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,494,592</u>

**THE STEPPING STONE OF SAN DIEGO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2024**

A. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:

Qualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiencies identified that are not considered material weaknesses? Yes None reported
- Non-compliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiencies identified that are not Considered to be material weaknesses? Yes None reported

Type of auditor's report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)?

Yes No

Identification of Major Programs

Assistance Listing Numbers	Name of Federal Program or Cluster
14.241	Housing Opportunities for Persons with AIDS

Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee?

Yes No

B. Financial Statement Findings

None noted.

C. Federal Awards Findings

None noted.

INDEPENDENT AUDITOR'S 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

To the Board of Directors
The Stepping Stone of San Diego

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 The Stepping Stone of San Diego (a nonprofit organization), which comprise the statement of financial position as of June 30, 2024, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 21, 2025. Our opinion on the financial statements was qualified because the financial information of Group Conscience dba Pamarro, whose sole-member is the Organization, were not consolidated in the financial statements of the Organization.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered The Stepping Stone of San Diego'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 Stepping Stone of San Diego's internal control. Accordingly, we do not express an opinion on the effectiveness of the The Stepping Stone of San Diego's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Stepping Stone of San Diego'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.

A handwritten signature in black ink that reads "Considine & Considine". The script is cursive and fluid, with the ampersand being a simple, stylized symbol.

Considine & Considine
An accountancy corporation

January 21, 2025

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

To the Board of Directors
The Stepping Stone of San Diego

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited The Stepping Stone of San Diego's compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of The Stepping Stone of San Diego's major federal programs for the year ended June 30, 2024. The Stepping Stone of San Diego's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, The Stepping Stone of San Diego 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, 2024.

Basis for Opinion on Each Major Federal Program

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

We are required to be independent of The Stepping Stone of San Diego and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of The Stepping Stone of San Diego's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding The Stepping Stone of San Diego's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of The Stepping Stone of San Diego's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of The Stepping Stone of San Diego's internal control over compliance. Accordingly, no such opinion is expressed.

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

Report on Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

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

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

A handwritten signature in cursive script that reads "Considine & Considine".

Considine & Considine
An accountancy corporation

January 21, 2025