

The background of the page is white with two large, solid blue geometric shapes. One shape is a triangle in the top right corner, and the other is a larger shape in the bottom left corner, meeting at a diagonal line that runs from the top left towards the bottom right.

THE STEPPING STONE OF SAN DIEGO

AUDIT REPORT

**FOR THE YEAR ENDED
JUNE 30, 2023**

A NONPROFIT PUBLIC BENEFIT CORPORATION

THE STEPPING STONE OF SAN DIEGO
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JUNE 30, 2023

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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
The Stepping Stone of San Diego
San Diego, California

Report on the Financial Statements**Qualified Opinion**

We have audited the accompanying financial statements of The Stepping Stone of San Diego which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, 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, 2023, 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.

Basis for Qualified Opinion

As described in Note 14 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.

Change in Accounting Principle

As discussed in Note 1N to the financial statements, in 2022-23 The Stepping Stone of San Diego adopted new accounting guidance, ASU No. 2016-02, *Leases (Topic 842)*. Our opinion is not modified with respect to this matter.

Responsibilities of Management 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.

Responsibilities of Management for the Financial Statements (continued)

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 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 supplementary information listed in the table of contents, including the schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 1, 2024, 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 t 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.

Christy White, Inc.

San Diego, California
February 1, 2024

THE STEPPING STONE OF SAN DIEGO
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2023

ASSETS

Current assets

Cash and cash equivalents	\$	389,158
Investments		718,605
Accounts receivable		652,163
Prepaid expenses		38,350
Total current assets		<u>1,798,276</u>

Noncurrent assets

Deposits		12,723
Right-of-use asset		184,160
Capital assets, net		<u>1,728,944</u>
Total noncurrent assets		<u>1,925,827</u>

Total Assets	\$	<u>3,724,103</u>
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LIABILITIES AND NET ASSETS

Liabilities

Accrued expenses	\$	205,701
Operating lease liability		187,144
Deferred revenue		151,135
Loans payable		<u>295,352</u>
Total liabilities		<u>839,332</u>

Net assets

Without donor restrictions		<u>2,884,771</u>
Total net assets		<u>2,884,771</u>

Total Liabilities and Net Assets	\$	<u>3,724,103</u>
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THE STEPPING STONE OF SAN DIEGO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2023

	<u>Without Donor Restrictions</u>
SUPPORT AND REVENUES	
Government grants and contracts	\$ 2,238,680
Program service fees	674,498
Contributions and other grants	220,430
Noncash stock donation	11,824
Special events, net	98,321
Rental income	99,292
Other income	106,191
Investment income, net	94,429
Total Support and Revenues	<u>3,543,665</u>
EXPENSES	
Program services	
Recovery home	2,409,613
Outpatient treatment	767,772
Sober living	372,556
Supporting services	
Management and general	249,333
Fundraising	55,630
Total Expenses	<u>3,854,904</u>
CHANGE IN NET ASSETS	(311,239)
Net Assets - Beginning	<u>3,196,010</u>
Net Assets - Ending	<u>\$ 2,884,771</u>

THE STEPPING STONE OF SAN DIEGO
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2023

	Program Services				Supporting Services		Total
	Recovery Home	Outpatient Treatment	Sober Living	Total Program Services	Management and General	Fundraising	
EXPENSES							
Personnel expenses							
Salaries and wages	\$ 1,258,306	\$ 360,542	\$ 63,900	\$ 1,682,748	\$ 47,472	\$ -	\$ 1,730,220
Employee benefits	96,183	37,545	16,706	150,434	45,191	-	195,625
Payroll taxes	155,295	48,587	8,466	212,348	4,698	-	217,046
Total personnel expenses	1,509,784	446,674	89,072	2,045,530	97,361	-	2,142,891
Non-personnel expenses							
Accounting and bookkeeping	106,234	65,307	96,467	268,008	-	-	268,008
Legal services	37,773	8,882	1,296	47,951	7,212	-	55,163
Medical and lab services	15,467	19,564	106	35,137	11	-	35,148
Other service fees	203,981	42,280	10,275	256,536	35,813	11,588	303,937
Advertising and marketing	5,539	43,109	4,800	53,448	531	13,267	67,246
Recruitment	10,710	3,476	6,478	20,664	399	-	21,063
Office expenses	43,143	12,446	1,403	56,992	42,780	2,012	101,784
Information technology	15,877	14,560	19,322	49,759	2,285	-	52,044
Facilities	107,601	81,599	127,143	316,343	(5,944)	27,159	337,558
Equipment	21,064	8,463	10,300	39,827	9,197	610	49,634
Travel and auto expense	12,622	2,129	321	15,072	4,810	960	20,842
Training and education	11,560	4,001	3,449	19,010	136	-	19,146
Interest expense	-	-	-	-	9,309	-	9,309
Depreciation	94,000	-	-	94,000	-	-	94,000
Insurance	122,761	11,562	1,654	135,977	41,339	-	177,316
Food and personal supplies	89,421	1,630	470	91,521	2,595	34	94,150
Donor development	-	-	-	-	921	-	921
Other operating expenses	2,076	2,090	-	4,166	578	-	4,744
Total non-personnel expenses	899,829	321,098	283,484	1,504,411	151,972	55,630	1,712,013
Total Expenses	\$ 2,409,613	\$ 767,772	\$ 372,556	\$ 3,549,941	\$ 249,333	\$ 55,630	\$ 3,854,904

THE STEPPING STONE OF SAN DIEGO
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2023

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ (311,239)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities	
Depreciation	94,000
Noncash stock donation	(11,824)
Unrealized (gain)/loss on investments	(75,719)
Lease expense - amortization of right-of-use asset	2,984
(Increase) decrease in operating assets	
Accounts receivable	(103,636)
Prepaid expenses	61,345
Increase (decrease) in operating liabilities	
Accrued expenses	28,633
Deferred revenue	66,787
Net cash provided by (used in) operating activities	<u>(248,669)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Investment income retained in investment accounts	(17,317)
Transfer of cash to investment accounts	(150,000)
Purchase of stock	(198,608)
Purchase of capital assets	(65,422)
Net cash provided by (used in) investing activities	<u>(431,347)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Principal payments on loans payable	(3,310)
Net cash provided by (used in) financing activities	<u>(3,310)</u>

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (683,326)

Cash and cash equivalents - Beginning 1,072,484

Cash and cash equivalents - Ending \$ 389,158

SUPPLEMENTAL DISCLOSURE

Cash paid for interest	<u>\$ 9,309</u>
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THE STEPPING STONE OF SAN DIEGO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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 (“LGBT”) 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.

B. Basis of Accounting

The Organization’s policy is to prepare its financial statements on the accrual basis of accounting; consequently, revenues are recognized when earned rather than when cash is received and certain expenses and purchases of assets are recognized when the obligation is incurred rather than when cash is disbursed.

C. Financial Statement Presentation

The financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 dated August 2016. The Stepping Stone of San Diego reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net assets without donor restrictions – These net assets generally result from revenues generated by receiving contributions that have no donor restrictions, providing services, and receiving interest from operating investments, less expenses incurred in providing program-related services, raising contributions, and performing administrative functions.

Net assets with donor restrictions – These assets result from gifts of cash and other assets that are received with donor stipulations that limit the use of the donated assets, either temporarily or permanently, until the donor restriction expires (that is until the stipulated time restriction ends or the purpose of the restriction is accomplished) the net assets are restricted. When a restriction expires, restricted net assets are reclassified to net assets without donor restrictions.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures, such as depreciation expense and the net book value of capital assets. Accordingly, actual results could differ from those estimates.

E. Functional Expenses

The costs of providing services have been summarized on a functional basis in the statement of activities 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.

F. Contributions

Unconditional contributions are recognized when pledged and recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Gifts of cash and other assets are reported with donor restricted support if they are received with donor stipulations that limit the use of the donated assets.

When a restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported on the statement of activities as "net assets released from restrictions." Donor-restricted contributions whose restrictions are met in the same reporting period are reported as net assets without donor restriction support. Contributions restricted for the acquisition of land, buildings, and equipment are reported as net assets without restriction upon acquisition of the assets and the assets are placed in service.

Non-cash contributions of goods, materials, and facilities are recorded at fair value at the date of contribution. Contributed services are recorded at fair value at the date of contribution if they are used to create or enhance a non-financial asset or require specialized skills, are provided by someone possessing those skills, and would have to be purchased by the organization if not donated.

G. Cash and Cash Equivalents

The Stepping Stone of San Diego considers all highly liquid deposits and investments with an original maturity of less than ninety days to be cash equivalents.

H. 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. Gains and losses resulting from adjustments to fair values are included in the accompanying statement of activities. Investment return is presented net of any investment fees.

I. Receivables and Allowances

Accounts receivable are stated at the amount management expects to collect from outstanding balances. An allowance for doubtful accounts 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 doubtful accounts to accounts receivable and current economic conditions.

THE STEPPING STONE OF SAN DIEGO
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2023

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Receivables and Allowances (continued)

Based on review of these factors, the Organization establishes or adjusts the allowance for specific revenue sources as a whole. At June 30, 2023, an allowance for doubtful accounts was not considered necessary as all accounts receivable were deemed collectible.

J. Capital Assets

The Stepping Stone of San Diego has adopted a policy to capitalize asset purchases over \$5,000. Lesser amounts are expensed. Donations of capital assets are recorded as contributions at their estimated fair value. Such donations are reported as net assets without donor restrictions. Capital assets are depreciated using the straight-line method over the estimated useful lives of the property and equipment or the related lease terms.

K. 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 periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the statement of financial position and revenue is recognized.

L. Income Taxes

The Stepping Stone of San Diego is a 509(a)(1) publicly supported nonprofit organization that is exempt from income taxes under Section 501(a) and 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation. The Organization is exempt from state franchise or income tax under Section 23701(d) of the California Revenue and Taxation Code. As a public benefit organization, the Organization is required to register with the California Attorney General as a charity.

The Organization's management believes all of its significant tax positions would be upheld under examination; therefore, no provision for income tax has been recorded. The Organization's information and/or tax returns are subject to examination by the regulatory authorities for up to four years from the date of filing.

M. Fair Value Measurements

The Fair Value Measurements Topic of the FASB *Accounting Standards Codification* establishes a fair value hierarchy that prioritizes inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The three levels of the fair value hierarchy are described below:

- | | |
|---------|--|
| Level 1 | Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets. |
| Level 2 | Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. |
| Level 3 | Inputs to the valuation methodology are unobservable and significant to the fair value measurement. |

THE STEPPING STONE OF SAN DIEGO
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2023

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

N. Change in Accounting Principle

ASC 842 Leases

In February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The objective of the ASU is to increase transparency and comparability in financial reporting by requiring balance sheet recognition of leases and note disclosure of certain information about lease arrangements. The new FASB ASU topic on leases consists of five subtopics: overall, lessee, lessor, sale and leaseback transactions, and leveraged lease arrangements. ASU No. 2016-02 is applicable to any entity that enters into a lease. The new lease standard is effective for private nonprofits with fiscal years beginning after December 15, 2021.

Under FASB ASC 842, a right-of-use asset and a related lease liability must be recorded on the statement of financial position (balance sheet) for proper recognition of any operating lease. A right-of-use asset is an intangible asset that pertains to the lessee's right to occupy, operate, and hold a leased asset during the agreed rental period. A lease liability is the financial obligation for the payments required by the lease, discounted to present value.

The Organization has determined the impact and has reflected the significant change from this accounting principle within its financial statements for the 2022-23 fiscal year. Refer to Note 7 for additional information regarding the operating lease and the related right-of-use asset and operating lease liability held by the Organization.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents, as of June 30, 2023, consists the following:

Cash in banks, interest bearing	\$	231,726
Cash in banks, non-interest bearing		119,031
Cash on hand or awaiting deposit		38,401
Total Cash and Cash Equivalents	\$	389,158

Custodial credit risk is the risk that in the event of a bank failure, an organization's deposits may not be returned to it. The Stepping Stone of San Diego does not have a policy for custodial credit risk for deposits. The FDIC insures up to \$250,000 per depositor per insured bank. As of June 30, 2023, \$131,335 of The Stepping Stone of San Diego's bank balance was exposed to custodial credit risk as there were deposits over \$250,000 in accounts held at one or more banks.

NOTE 3 – INVESTMENTS

The following table provides a description and sets forth, by level within the fair value hierarchy explained in Note 1M, the Organization's investments as of June 30, 2023. Investments as of June 30, 2023 are presented on the statement of financial position at the market value noted below.

	Fair Value Classification			
	Level 1	Level 2	Level 3	
Mutual Funds	\$ 585,415	-	-	
Stocks	133,190	-	-	
Total Investments	\$ 718,605	\$ -	\$ -	

THE STEPPING STONE OF SAN DIEGO
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2023

NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2023, consists of the following:

Government grants and contracts	\$	650,888
Program service fees		1,275
Total Accounts Receivable	\$	652,163

NOTE 5 – CAPITAL ASSETS

A summary of activity related to capital assets during the year ended June 30, 2023 consists of the following:

	July 1, 2022	Additions	Reclassification	June 30, 2023
Property and equipment				
Land	\$ 309,244	\$ -	\$ -	\$ 309,244
Buildings	2,731,605	-	(32,715)	2,698,890
Furniture and equipment	-	-	32,715	32,715
Vehicles	-	65,422	-	65,422
Total property and equipment	3,040,849	65,422	-	3,106,271
Less accumulated depreciation	(1,283,327)	(94,000)	-	(1,377,327)
Capital Assets, net	\$ 1,757,522	\$ (28,578)	\$ -	\$ 1,728,944

NOTE 6 – ACCRUED EXPENSES

Accrued expenses as of June 30, 2023, consists of the following:

Vendor payables	\$	113,718
Salaries and benefits		91,983
Total Accrued Expenses	\$	205,701

NOTE 7 – OPERATING LEASE

In February 2019, the Organization entered into 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 ended April 30, 2023 and, in March 2023, the term was extended further to May 31, 2025. During the fiscal year ended June 30, 2023, the Organization paid \$96,800 in lease payments under this operating lease. At June 30, 2023, the right-of-use asset was \$184,160 and the operating lease liability was \$187,144. The Organization has accounted for this lease using an implied discount rate of 3.5%. The associated asset and liability are amortized over the term of the lease as follows:

Fiscal Year Ending June 30,	Operating Lease Liability	Right-of-Use Asset
2024	\$ 100,800	\$ 99,243
2025	92,400	90,973
Subtotal	193,200	190,216
NPV adjustment	(6,056)	(6,056)
Total	\$ 187,144	\$ 184,160

THE STEPPING STONE OF SAN DIEGO
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2023

NOTE 8 – DEFERRED REVENUE

Deferred revenue as of June 30, 2023, consists of \$151,135 for a potential disallowance of governmental funding for the Drug Medi-Cal (DMC) program.

NOTE 9 – LOANS PAYABLE

A summary of activity related to loans payable during the year ended June 30, 2023 consists of the following:

	July 1, 2022	Draws	Payments	June 30, 2023
U.S. Small Business Administration	\$ 298,662	\$ -	\$ 3,310	\$ 295,352
Total Loans Payable	\$ 298,662	\$ -	\$ 3,310	\$ 295,352

U.S. Small Business Administration

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. During the year, \$3,310 in payments of principal were made. Repayment obligations on the EIDL borrowings are as follows:

Fiscal Year Ending June 30,	
2024	\$ 16,164
2025	16,164
2026	16,164
2027	16,164
2028	16,164
Thereafter	387,936
Total payments	468,756
Less: Interest	(173,404)
Total Loans Payable	\$ 295,352

NOTE 10 – NET ASSETS

At June 30, 2023, the Organization did not hold any net assets with donor restrictions. Certain designations or reserves have been made for the use of net assets without donor restrictions either by the board, management or by nature of the financial assets held by the Organization. At June 30, 2023, the Organization's net assets without donor restrictions consists of the following:

Net investment in capital assets	\$ 1,728,944
Undesignated	1,155,827
Total Net Assets without Donor Restrictions	\$ 2,884,771

NOTE 11 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The table on the following page reflects the Organization's financial assets as of June 30, 2023, reduced by amounts not available for general expenditure within one year. Financial assets are considered not available for general use when illiquid or not convertible to cash within one year, consist of assets held for others or are held aside by the governing board for specific contingency reserves. Any board designations could be drawn upon if the board approves that action.

THE STEPPING STONE OF SAN DIEGO
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2023

NOTE 11 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS (continued)

Financial Assets	
Cash and cash equivalents	\$ 389,158
Investments	718,605
Accounts receivable	652,163
Prepaid expenses	38,350
Cash restricted by others for specific uses	
Cash held for conditional contributions	(151,135)
Financial Assets available to meet cash needs	
for expenditures within one year	\$ 1,647,141

NOTE 12 – COMMITMENTS AND CONTINGENCIES

Pending or Threatened Litigation

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.

County of San Diego/HOPWA “Junior Loan”

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 will continue to be used as a transitional living home for fifty-five (55) years from the date the funds are disbursed. If the Organization is able to comply with this covenant, the principal balance and all accrued and unpaid interest will be forgiven, and the property will be reconveyed to the Organization. Management believes the likelihood that the loan will have to be repaid is remote. Therefore, no liability is recorded in the financial statements.

County of San Diego/HOPWA “Senior Loan”

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 will be used as a residential recovery home for fifty-five (55) years from the date of the certificate of occupancy. If the Organization is able to comply with this covenant, the principal balance and all accrued and unpaid interest will be forgiven and the property will be reconveyed to the Organization. Management believes the likelihood that the loan will have to be repaid is remote. Therefore, no liability is recorded in the financial statements.

San Diego Housing Commission – “Revocable Grant”

In August 1999, the Organization further 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. Management believes the likelihood that the grant will have to be repaid is remote. Therefore, no liability is recorded in the financial statements.

NOTE 12 – COMMITMENTS AND CONTINGENCIES (continued)

Governmental Funds

The Stepping Stone of San Diego 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 8 for amounts recorded as a potential disallowance based on internal review of past governmental funding.

NOTE 13 – DONATED GOODS AND SERVICES

During the year, many administrators and other individuals donated significant amounts of time and services to The Stepping Stone of San Diego in an effort to advance the Organization's programs and objectives. These services have not been recorded in the Organization's financial statements because they do not meet the criteria required by generally accepted accounting principles.

The Organization received \$11,824 in donated stock during the year ended June 30, 2023, which was valued at fair market value as of the date of donation. The donated items do not hold any donor-imposed restrictions and is currently held in stock for future program services.

NOTE 14 – 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 Pamarro Recovery, a nonprofit charity. At the time of the transfer, Pamarro 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 Pamarro as a recovery detox center through May 2021, when due to a poor operating environment, the Board of Directors decided to sell Pamarro Recovery's real property and begin the dissolution process for Pamarro.

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 the change in net assets for the period from April 17, 2020 to June 30, 2020 or for the years ending June 30, 2021 through 2023. Therefore, the Board has elected not to consolidate Pamarro. These financial statements do not include the assets, liabilities, and net assets of Pamarro at June 30, 2023, nor its revenues and expenses for the year ending June 30, 2023. There were no transactions between the two parties during the fiscal year.

NOTE 15 – SUBSEQUENT EVENTS

The Stepping Stone of San Diego has evaluated subsequent events for the period from June 30, 2023 through February 1, 2024, the date the financial statements were available to be issued. Management did not identify any transactions or events that require disclosure or that would have an impact on the financial statements.

SUPPLEMENTARY INFORMATION

THE STEPPING STONE OF SAN DIEGO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2023

Federal Grantor/Pass-Through Grantor/Program or Cluster	AL Number	Pass-Through Entity Identifying Number	Federal Expenditures
U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
<i>Passed through County of San Diego Health and Human Services Agency:</i>			
Housing Opportunities for Persons with AIDS	14.241	558953	\$ 220,289
Housing Opportunities for Persons with AIDS	14.241	558931	255,532
Total U. S. Department of Housing and Urban Development			<u>475,821</u>
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
<i>Passed through County of San Diego Health and Human Services Agency:</i>			
HIV Emergency Relief Project Grants	93.914	557756	255,157
SABG Discretionary	93.959	553454	437,676
Total U. S. Department of Health and Human Services			<u>692,833</u>
Total Federal Expenditures			<u>\$ 1,168,654</u>

See accompanying notes to supplementary information.

THE STEPPING STONE OF SAN DIEGO
NOTES TO THE SUPPLEMENTARY INFORMATION
JUNE 30, 2023

NOTE 1 – BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Organization and is presented on the accrual basis of accounting. 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). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The Organization has not elected to use the 10 percent de minimis indirect cost rate.

NOTE 2 – FEDERAL LOAN PROGRAMS

The following is the activity of the federal loan programs for the year ended June 30, 2023:

Assistance Listing Number	Program Name	Loan Outstanding June 30, 2022	Loans Awarded for the Year Ended June 30, 2023	Loan Principal Repaid for the Year Ended June 30, 2022	Loan Outstanding June 30, 2023
59.008	Disaster Assistance Loans	\$ 298,662	\$ -	\$ 3,310	\$ 295,352

The following are the activities of the capital advances for the year ended June 30, 2023:

Assistance Listing Number	Program Name	Outstanding June 30, 2022	Advanced for the Year Ended June 30, 2022	Repaid for the Year Ended June 30, 2022	Outstanding June 30, 2023
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
	Total	\$ 1,494,592	\$ -	\$ -	\$ 1,494,592

NOTE 3 – MULTIPLE FUNDING SOURCES

The accompanying schedule of expenditures of federal awards may include some awards that were funded by more than one source. When the division or percentage of funds received from each source is not known, the awards have been designated as belonging to the highest potential level of origin. Therefore, the total expenditures of federal awards may include some amount of state funds and/or some amount of private or municipal funds.

OTHER INDEPENDENT AUDITORS' REPORTS

**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 Auditors' Report

To the Board of Directors of
The Stepping Stone of San Diego
San Diego, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of The Stepping Stone of San Diego (the "Organization") as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements and have issued our report thereon dated February 1, 2024. 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 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 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.

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.

Christy White, Inc.

San Diego, California
February 1, 2024

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; AND REPORT ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**Independent Auditors' Report

To the Board of Directors of
The Stepping Stone of San Diego
San Diego, California

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 described 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, 2023. 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, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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 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 audit 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.

Auditor's Responsibilities for the Audit of Compliance

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 a material noncompliance when it exists. The risk of not detecting a material noncompliance 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. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, they 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 and *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 procedures as we consider 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 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, significant audit findings, and certain 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 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 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. 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.

Christy White, Inc.

San Diego, California
February 1, 2024

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**THE STEPPING STONE OF SAN DIEGO
SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2023**

PART I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued	<u>Qualified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified not considered to be material weaknesses?	<u>None Reported</u>
Noncompliance material to financial statements noted?	<u>None</u>

Federal Awards

Internal control over major program:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>None Reported</u>
Type of auditors' report issued:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516(a)?	<u>No</u>
Identification of major programs:	
<u>AL Number(s)</u> <u>Name of Federal Program or Cluster</u>	
14.241 Housing Opportunities for Persons with AIDS	
Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 750,000</u>
Auditee qualified as low-risk auditee?	<u>No</u>

PART II – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no audit findings and questioned costs related to federal awards for the year ended June 30, 2023.

PART III – SCHEDULE OF PRIOR AUDIT FINDINGS

There were no audit findings and questioned costs related to federal awards for the year ended June 30, 2022.