

STEP 2, INC.
(A NONPROFIT ORGANIZATION)

REPORTING PACKAGE

JUNE 30, 2022

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1-2
FINANCIAL STATEMENTS	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7-14
SUPPLEMENTARY INFORMATION	15
Schedule of Expenditures of Federal Awards	16-17
REPORTS ON INTERNAL CONTROL AND COMPLIANCE	18
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	19-20
Independent Auditors' Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance In Accordance with the Uniform Guidance	21-23
REPORTING REQUIREMENTS	24
Schedule of Findings and Questioned Costs	25



BARNARD VOGLER & CO.

Certified Public Accountants

100 West Liberty St.
Suite 1100
Reno, NV 89501

775.786.6141
775.323.6211
bvcocpas.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Step 2, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Step 2, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2022, 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, the accompanying financial statements present fairly, in all material respects, the financial position of Step 2, Inc. as of June 30, 2022, 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 Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) 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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Step 2, Inc. 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.

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, 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 Step 2, Inc.'s ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditors' Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is high level of assurance, but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than 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 GAAS, 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 Step 2, Inc.'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 Step 2, Inc.'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.

Other Matters

Other 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 is presented for purposes of additional analysis as required by the audit requirements of *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the basic 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 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic 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 5, 2023 on our consideration of Step 2, Inc.'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 Step 2, Inc.'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 Step 2, Inc.'s internal control over financial reporting and compliance.

Bernard Vogler & Co

Reno, Nevada
January 5, 2023



STEP 2, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2022

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 1,939,077
Grants receivable	344,263
Accounts receivable - other	58,538
Prepaid expenses	7,047
Total current assets	<u>2,348,925</u>

NONCURRENT ASSETS

Land, buildings, and equipment, net	8,202,774
Total noncurrent assets	<u>8,202,774</u>

Total assets	<u><u>\$ 10,551,699</u></u>
--------------	-----------------------------

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 13,757
Accrued personal time off and payroll	43,318
Other accrued liabilities	1,558
Deferred revenue	53,667
Tenant deposits	500
Total current liabilities	<u>112,800</u>

NONCURRENT LIABILITIES

Notes payable	763,550
Total noncurrent liabilities	<u>763,550</u>

Total liabilities	876,350
-------------------	---------

NET ASSETS

Without donor restrictions	9,633,909
With donor restrictions	41,440
Total net assets	<u>9,675,349</u>

Total liabilities and net assets	<u><u>\$ 10,551,699</u></u>
----------------------------------	-----------------------------

See accompanying notes

STEP 2, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
OPERATING ACTIVITIES			
REVENUE AND OTHER SUPPORT			
Grants from governmental agencies	\$ 1,466,651	\$ -	\$ 1,466,651
Fundraising events	281,296	-	281,296
Contributions and donations	446,595	-	446,595
In-kind contributions and donations	122,226	-	122,226
Program fees	181,926	-	181,926
Interest income	217	-	217
Net assets released from donor restrictions	58,560	(58,560)	-
Total revenue and other support	<u>2,557,471</u>	<u>(58,560)</u>	<u>2,498,911</u>
EXPENSES			
Program services	1,217,762	-	1,217,762
Supporting services			
Management and general	817,945	-	817,945
Fundraising	271,112	-	271,112
Total supporting services	<u>1,089,057</u>	<u>-</u>	<u>1,089,057</u>
Total expenses	<u>2,306,819</u>	<u>-</u>	<u>2,306,819</u>
CHANGE IN NET ASSETS	250,652	(58,560)	192,092
NET ASSETS, beginning of year	<u>9,383,257</u>	<u>100,000</u>	<u>9,483,257</u>
NET ASSETS, end of year	<u>\$ 9,633,909</u>	<u>\$ 41,440</u>	<u>\$ 9,675,349</u>

See accompanying notes

STEP 2, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2022

	Program Services	Supporting Services			Total Expenses
		Management and General	Fund Raising	Total Supporting Services	
Salaries and wages	\$ 832,272	\$ 221,392	\$ 123,013	\$ 344,405	\$ 1,176,677
Payroll taxes	60,892	15,518	9,298	24,816	85,708
Employee benefits	83,754	16,078	5,875	21,953	105,707
Total salaries and related expenses	976,918	252,988	138,186	391,174	1,368,092
Background check	-	1,400	-	1,400	1,400
Bank and finance charges	2,059	1,024	-	1,024	3,083
Client support services	18,631	35,178	-	35,178	53,809
Computer expense	1,355	9,891	1	9,892	11,247
Dues and subscriptions	-	370	15	385	385
Education and training	311	1,082	57	1,139	1,450
Equipment rental	1,113	12,501	554	13,055	14,168
Fundraising - Other	-	-	11,735	11,735	11,735
Fundraising - Golf	-	-	33,197	33,197	33,197
Fundraising - Jingle & Mingle	-	-	58,464	58,464	58,464
Insurance	1,843	35,863	1,534	37,397	39,240
Internet	350	8,249	350	8,599	8,949
Marketing	623	11,184	85	11,269	11,892
Meetings	598	5,747	1,524	7,271	7,869
Office supplies	-	9,741	223	9,964	9,964
Other expenses	160	2,707	299	3,006	3,166
Outside services	5,341	111,453	4,752	116,205	121,546
Printing and postage	-	5,050	206	5,256	5,256
Rent	-	3,646	-	3,646	3,646
Repairs and maintenance	9,010	19,519	-	19,519	28,529
Taxes and licenses	1,502	2,592	167	2,759	4,261
Utilities and telephone	61,186	53,564	4,669	58,233	119,419
Total other expenses	104,082	330,761	117,832	448,593	552,675
Total expenses before depreciation and amortization	1,081,000	583,749	256,018	839,767	1,920,767
Depreciation and amortization	136,762	234,196	15,094	249,290	386,052
Total expenses	<u>\$ 1,217,762</u>	<u>\$ 817,945</u>	<u>\$ 271,112</u>	<u>\$ 1,089,057</u>	<u>\$ 2,306,819</u>

See accompanying notes

STEP 2, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2022

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 192,092
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation and amortization	386,052
Loss on sale of investments	2,789
Donated assets	(120,000)
(Increase) decrease in:	
Accounts receivable	224,028
Grants receivable	(162,693)
Prepaid expenses	1,183
Increase (decrease) in:	
Accounts payable	(19,720)
Accrued expenses	3,652
Deferred revenue	38,484
Net cash provided by operating activities	<u>545,867</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Cash paid for purchase of fixed assets	(111,606)
Proceeds from sales of investments	<u>23,036</u>
Net cash used by investing activities	<u>(88,570)</u>

NET CHANGE IN CASH AND CASH EQUIVALENTS 457,297

CASH AND CASH EQUIVALENTS, beginning of year 1,481,780

CASH AND CASH EQUIVALENTS, end of year \$ 1,939,077

SUMMARY OF NONCASH INVESTING AND FINANCING ACTIVITIES

Noncash donation of building improvements	\$ 120,000
---	------------

See accompanying notes

NOTES TO FINANCIAL STATEMENTS

STEP 2, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities: Step 2, Inc. (Organization) is a nonprofit organization, which provides comprehensive, integrated services related to the treatment and recovery of chemically dependent women and their families. The services provided include residential and outpatient treatment programs in addition to operating a 27 unit low-income residential rental exclusively serving low-income resident clients of the Organization.

The residential treatment program of the Organization includes individual and group counseling sessions, classes on women's issues, parenting classes, medical and dental services, health education, employment and job placement assistance, and educational guidance and counseling.

All goals are aimed towards helping the women develop a healthy lifestyle and a strong support network for use once they leave the Organization.

Resources for the Organization's activities are primarily provided by grants from governments and private foundations, government contracts, fundraising and public support.

Basis of Accounting: The financial statements are prepared on the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recognized when incurred.

Financial Statement Presentation: Financial statement presentation follows the recommendations of the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 958-210-45. Under FASB ASC 958-210-45, the Organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

- *Net assets without donor restrictions* – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Organization's management and board of directors.
- *Net assets with donor restrictions* – Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Measure of Operations: The statement of activities reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to the Organization's ongoing operations. Nonoperating activities are limited to resources that generate return from investments and other activities considered to be of a more unusual or nonrecurring nature.

Cash and Cash Equivalents: For purposes of the Statement of Cash Flows, the Organization considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

STEP 2, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments: Investments in marketable securities with readily determinable fair values are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by donors are reported as increases in unrestricted net assets if the restrictions are met (either a stipulated time period ends or a purpose restriction is accomplished) in the reporting period in which the income and gains are recognized.

Accounts Receivable: Accounts receivable are presented net of an allowance for uncollectible accounts which has been established based upon historical data and management's estimates of uncollectible accounts. It is the Organization's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected.

Land, Buildings and Equipment: The Organization capitalizes all land, buildings, and equipment in excess of \$1,000. Land, buildings, and equipment are stated at cost or fair market value at the date of the donation. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets as follows: buildings and building improvements – 7 to 39 years; furniture, fixtures and equipment – 5 to 7 years.

Accrued Personal Time Off: Personal time off is available for all full time employees based on their length of employment. The Organization's policy is to pay fifty percent of any unused balance when an employee terminates. Accrued personal time off includes time earned in lieu of vacation, sick leave or compensatory time.

Revenue Recognition: The Organization reports gifts of cash, land, buildings and equipment and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends, imputed interest is amortized, or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in 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 unrestricted support.

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Grant revenue may be considered a contribution, entirely an exchange transaction, or a combination of the two. If a grant is considered a contribution, it is recognized as prescribed in the immediately preceding paragraph above. If a grant is considered an exchange transaction, it falls under the guidance of Topic 606 and additional steps are taken to ensure correct recording of revenue. The performance obligation is satisfied when the services outlined in the grant contract are rendered. For the year ended June 30, 2022, all exchange grant revenue was recognized at a point in time when services were performed.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

STEP 2, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentrations of Risk: During the year ended June 30, 2022, the Organization received approximately 70% of its total support from two sources, as follows:

- Substance Abuse Prevention and Treatment grant passed through the State of Nevada. Funding for these grants represented approximately 58% of the Organization's revenue and support during the year ended June 30, 2022.
- Special events income represented approximately 12% of the organization's revenue and support during the year ended June 30, 2022.

Change in Accounting Policy: As of July 1, 2021, Step 2, Inc. adopted the provisions of Accounting Standards Update (ASU) 2020-07 *Presentation and Disclosure by Not for Profit Entities for Contributed Nonfinancial Assets*. The ASU seeks to improve the transparency in the reporting of contributed nonfinancial assets, also known as gifts-in-kind, for not-for-profit organizations. The amendments to the ASU require contributed nonfinancial assets to be presented as a separate line item in the statement of activities, separate from other forms of contributions. The standard also enhances disclosure requirements in each of the following:

- Disaggregation of the types of nonfinancial assets by category and amount,
- Description of any donor-imposed restrictions,
- Qualitative information about whether the contributions were monetized or utilized,
- If monetized, a policy about monetizing rather than utilizing the asset,
- Disclosure of the valuation techniques and inputs used to arrive at fair value measurement at initial recognition,
- Principal market (or most advantageous market) used to arrive at fair value measurement.

The ASU is effective for annual financial statements issued for fiscal years beginning after June 15, 2021 and was applied on a retrospective basis.

NOTE 2 - LIQUIDITY AND AVAILABILITY

The following represents the Organization's financial assets at June 30, 2022:

Financial assets at year-end:

Cash and cash equivalents	\$ 1,939,077
Grants receivable	344,263
Accounts receivable	<u>58,538</u>
	2,341,878

Less:

Amounts unavailable for general expenditures within one year due to:	
Restricted by donors with purpose restrictions	(<u>41,440</u>)

Total financial assets available to meet general expenditures over the next twelve months	\$ <u>2,300,438</u>
---	---------------------

STEP 2, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

NOTE 2 - LIQUIDITY AND AVAILABILITY (Continued)

The Organization maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due. To help manage unanticipated liquidity needs, the organization also has a credit line of \$100,000 available.

NOTE 3 - CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Organization to significant concentrations of credit risk consist of cash. The Organization deposits its cash in three banking institutions. The accounts with each of these institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to an aggregate of \$250,000. Additionally, the Organization has money in a PayPal account that is not FDIC insured. Following is a summary of the total insured and uninsured amounts held at June 30, 2022:

Total cash on hand and in bank	\$ 1,959,813
Less: portion insured by FDIC	(<u>531,052</u>)
Uninsured cash balance	\$ <u>1,428,761</u>

NOTE 4 - GRANTS RECEIVABLE

Grants receivable are deemed to be fully collectible by management and are composed of the following amounts at June 30, 2022:

State of Nevada - Department of Health and Human Services	\$ <u>344,263</u>
---	-------------------

NOTE 5 - ACCOUNTS RECEIVABLE - OTHER

At June 30, 2022, accounts receivable – other consisted of the following:

Client service fees Step 2, Inc.	\$ 18,801
Less: allowance for doubtful accounts	(<u>4,489</u>)
	14,312
Fundraising receivable	38,276
Medicaid receivable	<u>5,950</u>
	\$ <u>58,538</u>

NOTE 6 - LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment consisted of the following at June 30, 2022:

Land	\$ 1,392,264
Buildings and building improvements	9,669,051
Furniture, fixtures and equipment	155,510
Transportation equipment	<u>212,562</u>
Total land, buildings and equipment	11,429,387
Less: accumulated depreciation	(<u>3,226,613</u>)
	\$ <u>8,202,774</u>

STEP 2, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

NOTE 7 - LONG-TERM DEBT

The following is a summary of long-term debt at June 30, 2022:

	<u>Principal</u>
Noninterest bearing note payable to Washoe County Home Consortium	\$ 588,550
Noninterest bearing note payable to the FHLB Affordable Housing Program	<u>175,000</u>
Total long-term debt	\$ <u>763,550</u>

Aggregate annual maturities required on long-term debt for years subsequent to June 30, 2022, are as follows:

2022	\$ --
2023	--
2024	--
2025	--
2026	--
Thereafter	<u>763,550</u>
Total long-term debt	\$ <u>763,550</u>

In October 2000, Step 2, Inc. obtained a loan from the Washoe County HOME Consortium (WCHC) in the amount of \$388,550 to participate in the Affordable Housing Municipal Loan Program under the guidelines of the HOME Investment Partnership Program. Under the terms of the loan agreement, the loan proceeds were required to be used for land acquisition, site preparation, and construction of 25 residential units. In May 2001, the agreement was amended to increase the loan amount to \$588,550. The note bears no stated interest rate. The Organization is not obligated to repay any amount under the terms of this loan until the property is sold or the program terminates.

In January 2001, an award for \$175,000 was obtained from the Federal Home Loan Bank of San Francisco (the "FHLB") to subsidize the Lighthouse of the Sierras Project under FHLB's Affordable Housing Program (the "AHP Subsidy"). The AHP Subsidy was passed through to the Organization through an unrelated financial institution ("the Bank") in the form of a loan. The loan note bears no stated interest rate and is secured by a deed of trust on the Project's land and buildings. The Organization is not obligated to repay any amount advanced under the AHP Subsidy until the Bank becomes obligated to repay any amount advanced by the FHLB, or the FHLB charges the Bank any amount, with respect to the AHP Subsidy. The Organization must reimburse the Bank for all amounts the Bank is required to pay, with interest from the date of its payment at a per annum rate of interest that is equal to three percent above the floating rate of interest charged by the FHLB with respect to the AHP subsidy.

NOTE 8 - LINE OF CREDIT

At June 30, 2022, the Organization had a \$100,000 line of credit with Wells Fargo. It has an interest rate of 8.5%, with minimum payments due monthly. There is no balance owed on this line of credit as of June 30, 2022.

STEP 2, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

NOTE 9 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at June 30, 2022 are available for the following purposes:

Transportation	\$ <u>41,440</u>
----------------	------------------

NOTE 10 - DONATED SERVICES AND FACILITIES

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. Volunteers provided administrative and fund-raising services throughout the year that are not recognized as contributions in the financial statements since the recognition criteria were not met. Local companies contributed to the remodeling of three Lighthouse cottages during the fiscal year ended June 30, 2022.

For the year ended June 30, 2022, donated contributions recognized within the statement of activities included the following:

Lighthouse remodeling	\$ 120,000
Repair and maintenance services	2,226
	\$ 122,226

The Lighthouse remodeling value of \$120,000 is based on the estimated costs of the materials and services provided by the donors. Repair and maintenance services are provided by specially trained professionals who assist on various needs, are used in program services and are recognized at fair value based on current rates and similar professionals services.

All donated contributions received during the year ended June 30, 2022 were unrestricted.

NOTE 11 - FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the program and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated between the program and supporting services benefited. Allocation bases included the number of rooms in various locations and hours worked by project.

NOTE 12 - EMPLOYEE BENEFIT PLAN

Effective April 1, 2022, the Organization adopted a 403(b) retirement plan for the benefit of substantially all employees. Employees aged 21 or older are eligible to participate in the plan after completing six months of service. Eligible employees may elect to have their compensation reduced by their contributions, subject to federally imposed limitations. The plan provides for employer contributions of 3% of the employee's eligible compensation and matches up to 4% of employees elective deferral contributions. The Organization made contributions in the amount of \$14,669 for the year ended June 30, 2022, which is included in employee benefits expense.

STEP 2, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

NOTE 13 - INCOME TAXES

The Organization is a nonprofit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. It has been classified as an organization that is not a private foundation under Section 509(a)(2) of the Internal Revenue Code and qualifies for the charitable contributions deduction for individual donors.

Although Step 2, Inc. has not been notified of any pending Internal Revenue Service (IRS) examination, its returns are subject to examination within a three year statute of limitations. At June 30, 2022 the returns for the fiscal years ended 2019, 2020, and 2021 are subject to examination by the IRS.

NOTE 14 - ALLOCATION OF JOINT COSTS

In 2022, Step 2, Inc. conducted activities that included fundraising, as well as management and general components. Those fundraising activities included Jingle & Mingle, a golf tournament and other fundraising events. Costs for office supplies, utilities and overhead were allocated to fundraising from management and general based on a percentage of salaries. The total expenses allocated to fundraising for the year ending June 30, 2022 were \$27,398, and are included in fundraising expenses on the Statement of Activities.

NOTE 15 - EVALUATION OF SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through January 5, 2023, the date which the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

STEP 2, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2022

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Project/ Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Pass-Through Programs from State of Nevada Department of Health and Human Services: Division of Child and Family Services			
Promoting Safe and Stable Families	93.556	2001NVFPSS	\$ 7,848
Pass-Through Programs from State of Nevada Department of Health and Human Services: Division of Public and Behavioral Health			
Block Grants for Prevention and Treatment of Substance Abuse	93.959	B08TI083925-01	337,757
Block Grants for Prevention and Treatment of Substance Abuse	93.959	B08TI083493-01	658,337
Block Grants for Prevention and Treatment of Substance Abuse	93.959	B08TI083130-01	<u>364,741</u>
Total Block Grants for the Prevention and Treatment of Substance Abuse			<u>1,360,835</u>
Total Department of Health and Human Services			1,368,683
U.S. DEPARTMENT OF JUSTICE			
Pass-Through Programs from State of Nevada Office of Attorney General:			
Violence Against Women Formula Grants	16.588	2021-WF-AX	<u>20,000</u>
Total Office of Attorney General			20,000
Pass-Through Programs from State of Nevada Department of Health and Human Services: Division of Child and Family Services			
Crime Victim Assistance	16.575	2019-V2-GX-0021	<u>48,458</u>
Total Department of Health and Human Services			<u>48,458</u>
Total Department of Justice			<u>68,458</u>
Total Federal Financial Assistance			\$ <u>1,437,141</u>

See accompanying notes

STEP 2, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2022

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Step 2, Inc. under programs of the federal government for the year ended June 30, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Step 2, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of Step 2, Inc.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available. The Organization has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

See accompanying notes

REPORTS ON INTERNAL CONTROL AND COMPLIANCE



BARNARD VOGLER & CO.

Certified Public Accountants

100 West Liberty St.
Suite 1100
Reno, NV 89501

19

775.786.6141
775.323.6211
bvcocpas.com

INDEPENDENT AUDITORS' 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
Step 2, Inc.

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 Step 2, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 5, 2023.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Step 2, Inc.'s internal control over financial reporting (internal control) as a basis for designing 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 Step 2 Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Step 2 Inc.'s internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Step 2, Inc.'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bernard Vogler & Co

Reno, Nevada
January 5, 2023





BARNARD VOGLER & CO.
Certified Public Accountants

100 West Liberty St.
Suite 1100
Reno, NV 89501

21

775.786.6141
775.323.6211
bvcocpas.com

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH THE UNIFORM GUIDANCE

To the Board of Directors
Step 2, Inc.

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Step 2, Inc.'s (a nonprofit organization) 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 Step 2, Inc.'s major federal programs for the year ended June 30, 2022. Step 2, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, Step 2, Inc. compiled, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal program for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

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

We are required to be independent of Step 2, Inc. 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 Step 2, Inc.'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 provision of contracts or grant agreements applicable to Step 2, Inc.'s federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Step 2, Inc.'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 GAAS, *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 Step 2, Inc.'s compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *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 Step 2, Inc.'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 Step 2, Inc.'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 Step 2, Inc.'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

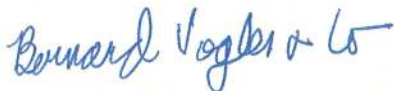
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or 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 Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that have not been identified.

Report on Internal Control Over Compliance (Continued)

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.



Reno, Nevada
January 5, 2023



REPORTING REQUIREMENTS

STEP 2, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2022

SECTION I: SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified	None reported
Significant deficiency(ies) identified not considered to be material weaknesses	None reported
Noncompliance material to financial statements noted	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified	No
Significant deficiency(ies) identified not considered to be material weaknesses	No
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516	No

Identification of Major Programs

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
Block Grants for Prevention and Treatment of Substance Abuse	93.959
Dollar threshold for distinguishing Type A and B programs	\$ 750,000
Auditee qualified as low-risk auditee	Yes

SECTION II: FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

SECTION III: SUMMARY OF PRIOR AUDIT FINDINGS

None