

SASHA BRUCE YOUTHWORK, INC.

AUDIT REPORT

**FINANCIAL AND FEDERAL AWARD
COMPLIANCE EXAMINATION**

FOR THE YEAR ENDED JUNE 30, 2021

SASHA BRUCE YOUTHWORK, INC.

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FINANCIAL STATEMENTS

SASHA BRUCE YOUTHWORX, INC.

**FOR THE YEARS ENDED
JUNE 30, 2021 AND 2020**

SASHA BRUCE YOUTHWORK, INC.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Sasha Bruce Youthwork, Inc.
Washington, D.C.

Report on the Financial Statements

We have audited the accompanying financial statements of Sasha Bruce Youthwork, Inc. (SBY), which comprise the statements of financial position as of June 30, 2021 and 2020, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SBY as of June 30, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Expenditures of Federal Awards on pages I-(21 - 22), as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*, 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 on our consideration of SBY's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 SBY's internal control over financial reporting and compliance.

SASHA BRUCE YOUTHWORK, INC.

STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2021 AND 2020

ASSETS		<u>2021</u>	<u>2020</u>
CURRENT ASSETS			
Cash and cash equivalents		\$ 3,380,131	\$ 2,798,784
Accounts, grants and contributions receivable		1,589,523	1,493,734
Prepaid expenses		23,773	24,371
Other current assets		<u>50,721</u>	<u>29,205</u>
Total current assets		<u>5,044,148</u>	<u>4,346,094</u>
PROPERTY AND EQUIPMENT			
Land		477,170	477,170
Buildings		1,247,683	1,247,683
Building improvements		3,634,104	3,634,104
Equipment		183,102	183,102
Vehicles		<u>43,646</u>	<u>11,824</u>
		5,585,705	5,553,883
Less: Accumulated depreciation and amortization		<u>(4,034,942)</u>	<u>(3,901,086)</u>
Net property and equipment		<u>1,550,763</u>	<u>1,652,797</u>
OTHER ASSETS			
Investments		2,695,708	2,187,114
Deferred compensation		<u>108,760</u>	<u>74,178</u>
Total other assets		<u>2,804,468</u>	<u>2,261,292</u>
TOTAL ASSETS		<u>\$ 9,399,379</u>	<u>\$ 8,260,183</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Current portion of mortgages payable		\$ 24,593	\$ 26,990
Accounts payable		122,125	108,480
Accrued expenses		606,382	481,230
Deferred revenue		3,087	3,220
Refundable advance		<u>847,573</u>	<u>1,227,677</u>
Total current liabilities		<u>1,603,760</u>	<u>1,847,597</u>
OTHER LIABILITIES			
Mortgages payable, net of current portion		102,445	125,748
Deferred compensation		<u>108,760</u>	<u>74,178</u>
Total other liabilities		<u>211,205</u>	<u>199,926</u>
Total liabilities		<u>1,814,965</u>	<u>2,047,523</u>
NET ASSETS			
Net assets without donor restrictions		7,178,535	5,829,124
Net assets with donor restrictions		<u>405,879</u>	<u>383,536</u>
Total net assets		<u>7,584,414</u>	<u>6,212,660</u>
TOTAL LIABILITIES AND NET ASSETS		<u>\$ 9,399,379</u>	<u>\$ 8,260,183</u>

SASHA BRUCE YOUTHWORX, INC.

STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
OPERATING SUPPORT AND REVENUE		
REVENUE WITHOUT DONOR RESTRICTIONS		
Grants and contracts	\$ 12,174,388	\$ 9,638,165
Contributions	514,784	867,324
United Way	16,954	9,233
Interest and dividends	357	2,092
Contributed services	201,332	156,625
Annual gala	216,528	187,891
Other revenue	5,891	2,714
Net assets released from donor restrictions	<u>242,457</u>	<u>91,808</u>
Total operating support and revenue	<u>13,372,691</u>	<u>10,955,852</u>
OPERATING EXPENSES		
Program Services:		
Safe Homes	6,545,270	5,312,913
Life Skills Development	3,188,731	2,898,670
Workforce Development and Educational Opportunities	<u>186,487</u>	<u>-</u>
Total program services	<u>9,920,488</u>	<u>8,211,583</u>
Supporting Services:		
Management and General	1,991,245	1,662,784
Fundraising	<u>620,146</u>	<u>457,189</u>
Total supporting services	<u>2,611,391</u>	<u>2,119,973</u>
Total expenses	<u>12,531,879</u>	<u>10,331,556</u>
Changes in net assets from operating activities	840,812	624,296
NON OPERATING ACTIVITY		
Investment income, net	<u>508,599</u>	<u>184,688</u>
Changes in net assets without donor restrictions	<u>1,349,411</u>	<u>808,984</u>
REVENUE WITH DONOR RESTRICTIONS		
Contributions	264,800	110,500
Net assets released from donor restrictions	<u>(242,457)</u>	<u>(91,808)</u>
Changes in net assets with donor restrictions	<u>22,343</u>	<u>18,692</u>
TOTAL CHANGES IN NET ASSETS	<u>\$ 1,371,754</u>	<u>\$ 827,676</u>

SASHA BRUCE YOUTHWORK, INC.

STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Net assets at beginning of year	\$ 5,829,124	\$ 5,020,140
Changes in net assets without donor restrictions	<u>1,349,411</u>	<u>808,984</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS AT END OF YEAR	<u>\$ 7,178,535</u>	<u>\$ 5,829,124</u>
NET ASSETS WITH DONOR RESTRICTIONS		
Net assets at beginning of year	\$ 383,536	\$ 364,844
Changes in net assets with donor restrictions	<u>22,343</u>	<u>18,692</u>
NET ASSETS WITH DONOR RESTRICTIONS AT END OF YEAR	<u>\$ 405,879</u>	<u>\$ 383,536</u>
TOTAL NET ASSETS AT END OF YEAR	<u>\$ 7,584,414</u>	<u>\$ 6,212,660</u>

SASHA BRUCE YOUTHWORX, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2021

	Program Services			Supporting Services			Total Expenses	
	Safe Homes	Life Skills Development	Workforce and Educational Opportunities	Total Program Services	Management and General	Fundraising		Total Supporting Services
Salaries	\$ 3,527,106	\$ 1,880,032	\$ 113,253	\$ 5,520,391	\$ 968,568	\$ 215,464	\$ 1,184,032	\$ 6,704,423
Fringe benefits	712,925	415,450	23,178	1,151,553	124,667	45,462	170,129	1,321,682
Occupancy and other related costs	1,171,432	135,661	-	1,307,093	30,930	-	30,930	1,338,023
Consultants and professional fees	510,023	290,134	6,583	806,740	232,936	138,930	371,866	1,178,606
Client and auxiliary services	225,925	255,272	22,396	503,593	662	-	662	504,255
Equipment rental and maintenance	201,102	88,804	15,098	305,004	46,965	67,669	114,634	419,638
Office supplies and expenses	58,453	58,626	3,291	120,370	80,489	13,693	94,182	214,552
Contributed services	-	-	-	-	201,332	-	201,332	201,332
Telephone	91,421	48,418	984	140,823	13,336	1,479	14,815	155,638
Depreciation and amortization	-	-	-	-	133,856	-	133,856	133,856
Annual gala	-	-	-	-	-	126,644	126,644	126,644
Insurance	5,250	-	-	5,250	102,954	-	102,954	108,204
Transportation and travel	40,266	13,590	1,491	55,347	21,794	271	22,065	77,412
Miscellaneous expense	1,367	2,744	213	4,324	31,494	10,534	42,028	46,352
Interest expense	-	-	-	-	1,262	-	1,262	1,262
TOTAL	\$ 6,545,270	\$ 3,188,731	\$ 186,487	\$ 9,920,488	\$ 1,991,245	\$ 620,146	\$ 2,611,391	\$ 12,531,879

SASHA BRUCE YOUTHWORX, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2020

	Program Services			Supporting Services			Total Expenses
	Safe Homes	Life Skills Development	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Salaries	\$ 3,183,121	\$ 1,686,841	\$ 4,869,962	\$ 768,288	\$ 237,202	\$ 1,005,490	\$ 5,875,452
Fringe benefits	640,265	348,162	988,427	48,321	47,431	95,752	1,084,179
Occupancy and other related costs	550,641	334,843	885,484	43,877	300	44,177	929,661
Client and auxiliary services	186,259	156,272	342,531	8,265	-	8,265	350,796
Consultants and professional fees	382,591	132,968	515,559	290,958	111,669	402,627	918,186
Contributed services	-	-	-	156,625	-	156,625	156,625
Office supplies and expenses	33,804	19,297	53,101	72,254	13,025	85,279	138,380
Depreciation and amortization	72,504	38,422	110,926	19,775	5,499	25,274	136,200
Transportation and travel	69,096	29,375	98,471	27,091	10	27,101	125,572
Equipment rental and maintenance	115,647	107,354	223,001	68,852	20,161	89,013	312,014
Telephone	66,809	43,585	110,394	12,397	49	12,446	122,840
Miscellaneous expense	5,426	1,551	6,977	58,766	5,003	63,769	70,746
Insurance	6,750	-	6,750	86,006	-	86,006	92,756
Annual gala	-	-	-	-	16,840	16,840	16,840
Interest expense	-	-	-	1,309	-	1,309	1,309
TOTAL	\$ 5,312,913	\$ 2,898,670	\$ 8,211,583	\$ 1,662,784	\$ 457,189	\$ 2,119,973	\$ 10,331,556

SASHA BRUCE YOUTHWORX, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 1,371,754	\$ 827,676
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	133,856	136,200
Unrealized gain	(349,802)	(116,650)
Realized gain	(147,788)	(50,751)
(Increase) decrease in:		
Accounts, grants and contributions receivable	(95,789)	(313,351)
Prepaid expenses	598	6,469
Other current assets	(21,516)	(3,057)
Deferred compensation	(34,582)	(1,010)
Increase (decrease) in:		
Accounts payable	13,645	258
Accrued expenses	125,152	63,868
Deferred revenue	(133)	215,362
Deferred compensation	34,582	1,010
Refundable advance	<u>(380,104)</u>	<u>325,410</u>
Net cash provided by operating activities	<u>649,873</u>	<u>1,091,434</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(31,822)	(40,802)
Purchase of investments	(937,180)	(978,137)
Sale of investments	<u>926,176</u>	<u>1,015,102</u>
Net cash used by investing activities	<u>(42,826)</u>	<u>(3,837)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on mortgages payable	<u>(25,700)</u>	<u>(25,564)</u>
Net cash used by financing activities	<u>(25,700)</u>	<u>(25,564)</u>
Net increase in cash and cash equivalents	581,347	1,062,033
Cash and cash equivalents at beginning of year	<u>2,798,784</u>	<u>1,736,751</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 3,380,131</u>	<u>\$ 2,798,784</u>
SUPPLEMENTAL INFORMATION:		
Interest Paid	<u>\$ 1,262</u>	<u>\$ 1,309</u>
Donated Securities	<u>\$ 46,904</u>	<u>\$ 65,586</u>

SASHA BRUCE YOUTHWORK, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

Founded in 1974, the mission of Sasha Bruce Youthwork, Inc. (SBY) is to improve the lives of runaway, homeless and disconnected youth and their families in the Washington, D.C. area. The overarching goal of the organization is to provide youth with the tools they need to curb high risk behaviors, stabilize their living situations, succeed at school, strengthen family relationships and develop the skills they need to be self-sufficient.

SBY provides cost-effective services through three primary initiatives: safe homes, life skills and educational and workforce opportunities. During its 45-year history, SBY has reunited over 13,000 homeless youth with strengthened families. Today, SBY serves approximately 1,500 youth and 5,000 family members annually in the District of Columbia and through a shelter in Prince George's County, Maryland.

Basis of presentation -

The accompanying financial statements are presented on the accrual basis of accounting, and in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. As such, net assets are reported within two net asset classifications: without donor restrictions and with donor restrictions. Descriptions of the two net asset categories are as follows:

- **Net Assets without Donor Restrictions** - Net assets available for use in general operations and not subject to donor restrictions are recorded as "net assets without donor restrictions". Assets restricted solely through the actions of the Board are referred to as Board Designated and are also reported as net assets without donor restrictions.
- **Net Assets with Donor Restrictions** - Contributions restricted by donors are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in "net assets with donor restrictions", depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statements of Activities as net assets released from donor restrictions. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue without donor restrictions when the assets are placed in service.

Cash and cash equivalents -

Cash and cash equivalents consist of checking and savings accounts, certificates of deposits (with maturities of three months or less), and money market funds held outside of its managed investment accounts. SBY has cash and cash equivalents recorded in their investments in the amount of \$15,132 and \$68,965 at June 30, 2021 and 2020, respectively.

Investments -

Investments in certificates of deposit, institutional mutual funds, equity securities, and debt securities are measured and reported at fair value. The fair values of certificates of deposit, institutional mutual funds, equity securities, and debt securities with readily determinable fair values are based on quotations obtained from national security exchanges.

SASHA BRUCE YOUTHWORK, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION**
(Continued)

Investments (continued) -

Certificates of deposit, institutional mutual funds, equity securities, and debt securities with fair values that are not readily determinable are carried at estimated fair values as provided by the investment managers. SBY's management reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining their estimated fair values. Due to the inherent uncertainties of these estimates, these values may differ from the values that would have been reported had a ready market for such investments existed.

Realized and unrealized gains and losses and investment interest/dividends are included in investment income, net of investment expenses paid to external investment advisors, in the non-operating section of the accompanying Statements of Activities.

Accounts, grants and contributions receivable -

Accounts, grants and contributions receivable approximate fair value and primarily represent amounts due from funding organizations for reimbursable expenses incurred in accordance with grant agreements. Management considers all amounts to be fully collectible within one year. Accordingly, an allowance for doubtful accounts has not been established.

Property and equipment -

Property and equipment greater than \$5,000 is capitalized and carried at cost, generally five to fifteen years. Donated land, buildings, and property and equipment are stated at fair value at the date of donation.

Expenditures for major additions, renewals and improvements greater than \$5,000 are capitalized; expenditures for repairs and maintenance costs are expensed when incurred. Upon the retirement or disposal of assets, the cost and accumulated depreciation and amortization are eliminated from the accounts and the resulting gain or loss is reflected in the accompanying Statements of Activities. Depreciation and amortization is determined on a straight-line basis over the estimated useful lives of the assets, generally five to twenty-five years.

Impairment of long-lived assets -

Management reviews asset carrying amounts whenever events or circumstances indicate that such carrying amounts may not be recoverable. When considered impaired, the carrying amount of the assets is reduced, by a charge to the Statements of Activities, to its current fair value.

Income taxes -

SBY is exempt from Federal tax under the provisions of Section 501(c)(3) of the Internal Revenue Code. For the years ended June 30, 2021 and 2020, SBY has documented its consideration of FASB ASC 740-10, Income Taxes, that provides guidance for reporting uncertainty in income taxes and has determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements. Accordingly, the accompanying financial statements do not include a provision for Federal and state income taxes. SBY did not have any unrelated business income for the years ended June 30, 2021 and 2020.

SASHA BRUCE YOUTHWORK, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION**
(Continued)

Income taxes (continued) -

Tax years prior to 2018 are no longer subject to examination by the IRS or the tax jurisdiction of the District of Columbia. SBY has been classified by the Internal Revenue Service as a publicly supported organization not a private foundation under Section 170(b)(1)(A)(VI).

Revenue - (combo of grants/contributions and program revenue)

The majority of SBY's activities are supported by grants and contributions from the District of Columbia, the U.S. Government, and other private entities. These awards are for various activities performed by SBY. Grants and contributions are recognized in the appropriate category of net assets in the period received. SBY performs an analysis of the individual grant or contribution to determine if the revenue streams follow the contribution rules or if they should be recorded as an exchange transaction depending upon whether the transactions are deemed reciprocal or nonreciprocal under ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*.

For grants and contributions qualifying under the contribution rules, revenue is recognized upon notification of the award and satisfaction of all conditions, if applicable. Contributions and grants qualifying as contributions that are unconditional and have donor restrictions are recognized as "without donor restrictions" only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions. Funds in excess of expenses incurred are shown as net assets with donor restrictions in the accompanying financial statements.

Contributions and grants qualifying as conditional contributions contain a right of return from obligation provision that limits SBY on how funds transferred should be spent. Additionally, a barrier is present that is related to the purpose of the agreement. Revenue is recognized when the condition or conditions on which they depend are substantially met. Most grant awards from the United States Government and other entities are for direct and indirect program costs. These transactions are nonreciprocal and classified as conditional and are therefore recognized as contributions when the revenue becomes unconditional. SBY recognizes revenue for these conditional contributions when the related barrier has been overcome (generally, when qualifying expenditures are incurred). Funds received in advance of the incurrence of qualifying expenditures are recorded as refundable advances. For contributions and grants treated as contributions, SBY had approximately \$1,109,714 in unrecognized conditional awards as of June 30, 2021.

Grants and contracts classified as exchange transactions follow ASU 2014-09, *Revenue from Contracts With Customers* and are recorded as revenue at a point in time when the performance obligations are met. SBY has elected to opt out of all (or certain) disclosures not required for nonpublic entities. Transaction price is based on cost.

Revenue received for the annual gala is recorded as revenue when the related event has occurred.

Donated investments are reflected as contributions revenue and are recorded at their fair value on the date of receipt. All donated investments are recorded as revenue without donor restrictions unless specifically restricted by the donor.

SASHA BRUCE YOUTHWORK, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 20201. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)

Revenue - (combo of grants/contributions and program revenue) (continued) -

Contributed services are recorded in the financial statements to the extent that those services create or enhance a non-financial asset, or the services require specialized skills, the service is provided by individuals who possess those skills, and the service would typically need to be purchased if not contributed. Contributed services are recorded in the Statements of Activities and consist of pro-bono services from attorneys and other professional services as follows for the years ended June 30:

	<u>2021</u>	<u>2020</u>
Legal	\$ 201,332	\$ 136,325
Other professional services	<u>-</u>	<u>20,300</u>
TOTAL CONTRIBUTED SERVICES	<u>\$ 201,332</u>	<u>\$ 156,625</u>

Volunteers assist in a variety of tasks, such as volunteering for specific assistance programs, campaign solicitations, and various committee assignments. These services are not reflected in the accompanying Statements of Activities because they do not meet the necessary criteria for recognition.

Use of estimates -

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Functional allocation of expenses -

The costs of supporting the various programs and other activities have been summarized on a functional basis in the Statements of Activities. Certain costs have been allocated among the program and supporting service categories based on various methods, including time spent and space occupied.

Risks and uncertainties -

SBY invests in various investment securities. Investment securities are exposed to various risks such as interest rates, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying financial statements.

Fair value measurement -

SBY reports fair value in accordance with the provisions of FASB ASC 820, *Fair Value Measurement*. FASB ASC 820 defines fair value and establishes a fair value hierarchy based on the quality of inputs (assumptions that market participants would use in pricing assets and liabilities, including assumptions about risk) used to measure fair value, and enhances disclosure requirements for fair value measurements. SBY accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement.

SASHA BRUCE YOUTHWORK, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION**
(Continued)

Fair value measurement (continued) -

The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Investments recorded in the Statements of Financial Position are categorized based on the inputs to valuation techniques as follows:

Level 1. These are investments where values are based on unadjusted quoted prices for identical assets in an active market SBY has the ability to access.

Level 2. These are investments where values are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or model-based valuation techniques that utilize inputs that are observable either directly or indirectly for substantially the full-term of the investments.

Level 3. These are investments where inputs to the valuation methodology are unobservable and significant to the fair value measurement.

For disclosure of inputs and valuation techniques, see Note 2.

Concentrations -

SBY maintains its cash and cash equivalents with commercial financial institutions. SBY's cash and cash equivalents consist of commercial checking and savings accounts. These accounts were insured by the Federal Deposit Insurance Corporation (FDIC), up to a limit of \$250,000.

As of June 30, 2021 and 2020, the accounts exceeded the insured limit by approximately \$3,130,000 and \$2,379,000, respectively. SBY monitors the creditworthiness of the institutions and has not experienced any credit losses on its cash and cash equivalents, nor does it expect to experience any such losses.

For the years ended June 30, 2021 and 2020, approximately 91 percent and 93 percent of total revenue (excluding contributed services) was received from Federal and District of Columbia funds.

Economic uncertainties -

On March 11, 2020, the World Health Organization declared the Coronavirus disease (COVID-19) a global pandemic. As a result of the spread of COVID-19, economic uncertainties have arisen which may negatively impact SBY's operations. The overall potential impact is unknown at this time.

Reclassification -

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.

SASHA BRUCE YOUTHWORX, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

2. INVESTMENTS

In accordance with FASB ASC 820, *Fair Value Measurement*, SBY has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The tables below summarize, by level within the fair value hierarchy, SBY's investments as of June 30, 2021 and 2020:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total June 30, 2021</u>
Asset Class: Investments				
Money market funds	\$ 15,132	\$ -	\$ -	\$ 15,132
U.S. Treasury and agency notes	50,547	-	-	50,547
Municipal bonds	-	255,515	-	255,515
Corporate bonds	598,296	-	-	598,296
U.S. Equities	<u>1,776,218</u>	<u>-</u>	<u>-</u>	<u>1,776,218</u>
TOTAL INVESTMENTS	<u>\$ 2,440,193</u>	<u>\$ 255,515</u>	<u>\$ -</u>	<u>\$ 2,695,708</u>
DEFERRED COMPENSATION	<u>\$ 108,760</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 108,760</u>

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total June 30, 2020</u>
Asset Class: Investments				
Money market funds	\$ 68,965	\$ -	\$ -	\$ 68,965
U.S. Treasury and agency notes	50,648	-	-	50,648
Municipal bonds	-	207,314	-	207,314
Corporate bonds	506,807	-	-	506,807
U.S. Equities	1,325,363	-	-	1,325,363
ETF	<u>28,017</u>	<u>-</u>	<u>-</u>	<u>28,017</u>
TOTAL INVESTMENTS	<u>\$ 1,979,800</u>	<u>\$ 207,314</u>	<u>\$ -</u>	<u>\$ 2,187,114</u>
DEFERRED COMPENSATION	<u>\$ 74,178</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 74,178</u>

There were no transfers between levels in the fair value hierarchy during the years ended June 30, 2021 and 2020. Transfers between levels are recorded at the end of the reporting period, if applicable. Following is a description of the valuation methodology used for investments measured at fair value. There have been no changes in the methodologies used at June 30, 2021 and 2020.

- *Money market funds* - Fair value is equal to the reported net asset value of the fund.
- *Certificates of deposit* - Generally valued at original cost plus accrued interest, which approximates fair value.
- *U.S. Treasury and agency notes* - Valued at the closing price reported on the active market in which the individual securities are traded. Accordingly, the fair values are included in Level 1 of the hierarchy.
- *Municipal bonds* - Fair value is based upon current yields available on comparable securities of issuers with similar ratings, the security's terms and conditions, and interest rate and credit risk. Accordingly, the estimates of fair value, as provided by the pricing service, are included in Level 2 of the hierarchy.

SASHA BRUCE YOUTHWORK, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

2. INVESTMENTS (Continued)

- *Corporate bonds* - Valued at the closing price reported on the active market in which the individual securities are traded. Accordingly, the fair values are included in Level 1 of the hierarchy.
- *U.S. Equities and ETF* - Fair value based on market quotes from major exchanges. Accordingly, the fair values are included in Level 1 of the hierarchy.

Included in investment income for the years ended June 30, 2021 and 2020 are the following:

	<u>2021</u>	<u>2020</u>
Unrealized gain	\$ 349,802	\$ 116,650
Interest and dividends	40,254	42,796
Realized gain	147,788	50,751
Management fees	<u>(29,245)</u>	<u>(25,509)</u>
TOTAL INVESTMENT INCOME, NET	<u>\$ 508,599</u>	<u>\$ 184,688</u>

The investment portfolio has been assigned as collateral for the \$1,000,000 line of credit in the event of default on repayment of line of credit draws.

3. MORTGAGES PAYABLE

Mortgages payable consisted of the following as of June 30, 2021 and 2020:

- Interest-free first mortgage note dated June 6, 1991, for \$315,000 for the purchase of a building, due on August 1, 2023, and guaranteed by the U.S. Department of Housing and Urban Development, with principal payments of \$875 due monthly.
- Second mortgage note dated September 9, 1998, for \$424,186 for the purchase of a building, due on September 1, 2028, and guaranteed by the U.S. Department of Housing and Urban Development, accruing interest at a fixed annual rate of 1%, with interest and principal payments of \$1,364 due monthly.

As of June 30, 2021 and 2020, the outstanding principal on these mortgage payables was \$127,038 and \$152,738, respectively. Principal payments are due as follows:

<u>Year Ended June 30,</u>	
2022	\$ 24,593
2023	24,561
2024	15,678
2025	15,835
2026	15,995
2027 and Thereafter	<u>30,376</u>
	<u>\$ 127,038</u>

SASHA BRUCE YOUTHWORK, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**3. MORTGAGES PAYABLE (Continued)**

For the years ended June 30, 2021 and 2020, interest expense totaled \$1,262 and \$1,309, respectively.

4. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following as of June 30, 2021 and 2020.

	<u>2021</u>	<u>2020</u>
Scholarships and Special Projects	\$ 152,000	\$ 152,000
Life Skills - Transformation Project	117,957	112,964
Youth Drop-In	85,922	92,474
Measure 4 Change DC	25,000	-
Life Skills	<u>25,000</u>	<u>26,098</u>
NET ASSETS WITH DONOR RESTRICTIONS	<u>\$ 405,879</u>	<u>\$ 383,536</u>

The following net assets with donor restrictions were released from donor restrictions by incurring expenses (or through the passage of time) which satisfied the restricted purposes specified by the donors:

	<u>2021</u>	<u>2020</u>
Youth Drop-In	\$ 131,552	\$ 52,480
Life Skills - Transformation Project	53,307	4,036
Measure 4 Change DC	30,000	-
Life Skills	27,598	15,673
Family Strengthening	-	16,119
Special Events	<u>-</u>	<u>3,500</u>
NET ASSETS RELEASED FROM DONOR RESTRICTIONS	<u>\$ 242,457</u>	<u>\$ 91,808</u>

5. COMMITMENTS

Leases -

SBY has month-to-month leases for residential and office space under several of its youth programs. Rent and other related expenses for the years ended June 30, 2021 and 2020 was \$639,224 and \$474,080, respectively, which is included with "Occupancy and other related costs" in the Statements of Functional Expenses. Other related costs include utilities, repairs and maintenance, property taxes, trash removal and cleaning.

SBY has a three year lease for residential space under one of its youth programs that commenced July 1, 2019 and expires June 30, 2022. The lease includes a 2% rent increase per year beginning in the second year and the Landlord holds the security deposit in the amount of \$21,214.

SASHA BRUCE YOUTHWORK, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

5. COMMITMENTS (Continued)

Leases (continued) -

SBY entered into a lease that commenced on September 15, 2020 and will expire on September 30, 2021. The lease does include three one year extensions if SBY so chooses to do so.

Future minimum lease payments are as follows:

Year Ending June 30, 2022	\$ <u>379,853</u>
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Line of Credit -

SBY obtained a \$1 million line of credit dated June 20, 2019 that has no stated expiration date, but that is subject to annual review by the financial institution starting June 20, 2020. The line of credit accrues interest on outstanding amounts at prime less 1% and is collateralized by SBY's investments. SBY had no amounts outstanding at June 30, 2021 and 2020, respectively.

6. PAYCHECK PROTECTION PROGRAM

On May 5, 2020, SBY received loan proceedings totaling \$1,053,547 under the Paycheck Protection Program. The promissory note calls for monthly principal and interest payments amortized over the term of the promissory note with a deferral of payments for the first six months. Under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), the promissory note may be forgiven by the Small Business Administration in whole or in part. SBY intends to use the proceeds for purposes consistent with the Paycheck Protection Program and believes that its use of the loan proceeds will meet the conditions for forgiveness of the loan, and accordingly has reflected the expected forgiveness amounts as deferred revenue in the statement of financial position. SBY intends to apply for forgiveness after completing the 24-week period. SBY's management has made the decision to treat these funds as a conditional grant with barriers that they must overcome (full time employees and other qualifying expenses incurred). SBY considers the request for forgiveness as an administrative task only, it is not a barrier to overcome. During of June 30, 2021 and 2020, SBY recognized \$658,512 and \$263,137 as grant income from this loan. At June 30, 2021, the remaining funds are recorded as a refundable advance in the amount of \$131,989. These funds did not meet the criteria for forgiveness and will be refunded to the SBA. On October 4, 2021, SBY received forgiveness from the SBA on the portion claimed.

Principal payments as stated in the promissory note are due as follows unless otherwise forgiven:

<u>Year Ending June 30,</u>	
2022	\$ 432,586
2023	210,863
2024	212,981
2025	<u>197,117</u>
	\$ <u>1,053,547</u>

SASHA BRUCE YOUTHWORK, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

7. LIQUIDITY AND AVAILABILITY

Financial assets available for use for general expenditures within one year of the Statements of Financial Position date comprise the following:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	3,380,131	2,798,784
Accounts, grants and contributions receivable	<u>1,589,523</u>	<u>1,493,734</u>
Subtotal financial assets available within one year	4,969,654	4,292,518
Less: Donor restricted funds	<u>(405,879)</u>	<u>(383,536)</u>
FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS FOR GENERAL EXPENDITURES WITHIN ONE YEAR	<u>\$ 4,563,775</u>	<u>\$ 3,908,982</u>

SBY has a policy to structure its financial assets to be available and liquid as its obligations become due. SBY's goal is to have enough liquidity to meet 60 days of normal operating expenses. As of June 30, 2021, SBY has financial assets equal to approximately four months of operating expenses. In addition, SBY has a line of credit agreement (as further discussed in Note 5) which allows for additional available borrowings up to \$1,000,000.

8. CONTINGENCY

SBY receives grants from various agencies of the United States Government. Such grants are subject to audit under the provisions 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)*. The ultimate determination of amounts received under the United States Government grants is based upon the allowance of costs reported to and accepted by the United States Government as a result of the audits.

Audits in accordance with the applicable provisions have been completed for all required fiscal years through 2021. Until such audits have been accepted by the United States Government, there exists a contingency to refund any amount received in excess of allowable costs. Management is of the opinion that no material liability will result from such audits.

9. DEFERRED COMPENSATION PLAN

SBY has a 457(b) deferred compensation plan, effective September 23, 2008, limited to the top hat group of employees. Elective deferrals may be made to the Plan up to the maximum allowed by law. As of June 30, 2021 and 2020, \$108,760 and \$74,178 was deferred under the Plan.

10. SUBSEQUENT EVENTS

In preparing these financial statements, SBY has evaluated events and transactions for potential recognition or disclosure through , the date the financial statements were issued.

SUPPLEMENTAL INFORMATION

SASHA BRUCE YOUTHWORX, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2021

Federal Granting Agency and Program Title	Pass-Through Entity	CFDA Number or Award Number	2021 Expenditures	Loan Balance Outstanding
Department of Housing and Urban Development:				
Department of Housing and Urban Development	District of Columbia Department of Housing and Community Development	DHCD No. 91-06	\$ -	\$ 21,875
Department of Housing and Urban Development	District of Columbia Department of Housing and Community Development	DHCD No. 91-06	-	105,501
Total Department of Housing and Urban Development			-	127,376
U.S. Department of Health and Human Services:				
Teen Pregnancy Prevention and Youth Development Program	N/A	93.297	771,605	-
Human Immunodeficiency Virus (HIV) Prevention Projects For Community Based Organizations	N/A	93.939	373,937	-
Promoting Adolescent Sexual Health and Safety	Urban Institute	93.092	87,214	-
Street Outreach	N/A	93.557	117,638	-
Basic Center Program	N/A	93.623	406,481	-
DC Prevention Center	District of Columbia Department of Behavioral Health	93.788	112,226	-
Substance Abuse Prevention and Treatment Block Grant	District of Columbia Department of Behavioral Health	93.959	229,707	-
Total U.S. Department of Health and Human Services			2,098,808	-
U.S. Department of Housing and Urban Development:				
Supportive Housing Program (OC and ILP)	N/A	14.235	413,737	-
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 2,512,545	\$ 127,376

SASHA BRUCE YOUTHWORX, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2021**Note 1. Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the Federal grant activity of SBY under programs of the Federal government for the year ended June 30, 2021. The information in the Schedule is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Because the Schedule presents only a selected portion of the operations of SBY, it is not intended to and does not present the financial position, changes in net assets or cash flows of SBY.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. SBY has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 3. Reconciliation of Grants and Contracts

Federal Grants	\$ 2,512,545
Non-Federal grants and contracts	<u>9,661,843</u>
TOTAL GRANTS AND CONTRACTS	<u>\$ 12,174,388</u>

Note 4. Subrecipients

There were no amounts passed through to subrecipients during the year ended June 30, 2021.

SASHA BRUCE YOUTHWORK, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2021

Section I - Summary of Auditor's Results

Financial Statements

1). Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP on the accrual basis of accounting: Unmodified

2). Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? Yes None Reported

3). Noncompliance material to financial statements noted? Yes No

Federal Awards

4). Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? Yes None Reported

5). Type of auditor's report issued on compliance for major programs: Unmodified

6). Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes No

7). Identification of major programs:

<u>Federal Program Title</u>	<u>CFDA Number</u>	<u>Expenditures</u>
Teen Pregnancy Prevention and Youth Development Program	93.297	\$ 771,605

8). Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

9). Auditee qualified as a low-risk auditee? Yes No

SASHA BRUCE YOUTHWORK, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2021

Section II - Financial Statement Findings

There were no reportable findings.

Section III - Federal Award Findings and Questioned Costs (2 CFR 200.516(a))

There were no reportable findings.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Independent Auditor's Report

To the Board of Directors
Sasha Bruce Youthwork, Inc.
Washington, D.C.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Sasha Bruce Youthwork, Inc. (SBY) as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise SBY's basic financial statements, and have issued our report thereon dated .

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered SBY'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SBY's internal control. Accordingly, we do not express an opinion on the effectiveness of SBY'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 SBY'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 SBY'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 entity'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.

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY TITLE 2 U.S. CODE OF FEDERAL
REGULATIONS (CFR) PART 200, UNIFORM ADMINISTRATIVE REQUIREMENTS, COST
PRINCIPALS, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS (UNIFORM GUIDANCE)**

Independent Auditor's Report

To the Board of Directors
Sasha Bruce Youthwork, Inc.
Washington, D.C.

Report on Compliance for Each Major Federal Program

We have audited Sasha Bruce Youthwork, Inc.'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 SBY's major federal programs for the year ended June 30, 2021. SBY's major Federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of SBY's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administration Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance)*. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about SBY's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, SBY 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, 2021.

Report on Internal Control Over Compliance

Management of SBY is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered SBY's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of SBY's internal control over compliance.

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

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

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