



**STEPS, INC.**

**Financial Statements  
For the years ended  
June 30, 2020 and 2019**

Not-for-Profit Corporation  
501c(3)





STEPS, INC.

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## Report of Independent Auditors

To the Board of Directors of  
STEPS, Inc.  
Farmville, Virginia

### Report on the Financial Statements

We have audited the accompanying financial statements of STEPS, Inc. (the "Corporation", a non-profit organization), which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities, 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 the 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 STEPS, Inc. as of June 30, 2020 and 2019, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.





**Other Matters – Supplementary and Other Information**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2, U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such 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 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 December 28, 2020, on our consideration of the Corporation’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 STEPS, 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 Inc.’s internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Davidson Doyle &amp; Hiller, LLP".

Lynchburg, Virginia  
December 28, 2020



**STEPS, INC.**  
**Statements of Financial Position**  
**June 30, 2020 and 2019**



	<b>Assets</b>	
	<u>2020</u>	<u>2019</u>
<b>Current assets</b>		
Cash and equivalents	\$ 245,926	\$ 88,187
Accounts receivable	26,947	192,135
Grants receivable	315,107	-
Prepaid expenses	<u>59,542</u>	<u>53,247</u>
<b>Total current assets</b>	<u>647,522</u>	<u>333,569</u>
<b>Property and equipment</b>		
Land	15,852	15,852
Building	987,292	987,292
Leasehold improvements	1,381,318	1,323,930
Furniture and equipment	187,530	159,414
Classroom furniture	145,787	107,093
Playground equipment	158,578	157,828
Transportation	<u>1,005,605</u>	<u>921,878</u>
	3,881,962	3,673,287
Less accumulated depreciation	<u>1,953,559</u>	<u>1,762,084</u>
<b>Total property and equipment</b>	<u>1,928,403</u>	<u>1,911,203</u>
<b>Total assets</b>	<u>\$ 2,575,925</u>	<u>\$ 2,244,772</u>
	<b>Liabilities and Net Assets</b>	
<b>Current liabilities</b>		
Accounts payable	\$ 161,273	\$ 145,840
Current maturities of notes payable	136,127	58,442
Accrued compensation expenses and other liabilities	<u>124,486</u>	<u>122,928</u>
<b>Total current liabilities</b>	<u>421,886</u>	<u>327,210</u>
<b>Long-term liabilities</b>		
Long-term debt, net of current maturities and unamortized debt issuance costs	<u>301,726</u>	<u>371,290</u>
<b>Total long-term liabilities</b>	<u>301,726</u>	<u>371,290</u>
<b>Total liabilities</b>	<u>723,612</u>	<u>698,500</u>
<b>Net assets</b>		
Without donor restrictions	1,581,480	1,546,272
With donor restrictions	<u>270,833</u>	<u>-</u>
<b>Total net assets</b>	<u>1,852,313</u>	<u>1,546,272</u>
<b>Total liabilities and net assets</b>	<u>\$ 2,575,925</u>	<u>\$ 2,244,772</u>







**STEPS, INC.**  
**Statement of Activities**  
**Year ended June 30, 2020**

	<b>2020</b>		
	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenues, gains (losses), and other support</b>			
Grant revenue	\$ 174,288	\$ 5,398,615	\$ 5,572,903
In-kind revenue	284,258	-	284,258
Business services	241,673	-	241,673
Contributions - direct	49,424	-	49,424
Gain on sale of assets	12,000	-	12,000
Special events, net of expense of \$13,007	6,358	-	6,358
	<u>768,001</u>	<u>5,398,615</u>	<u>6,166,616</u>
Assets released from restrictions	5,127,782	( 5,127,782 )	-
<b>Total revenues, gains, and other support</b>	<u>5,895,783</u>	<u>270,833</u>	<u>6,166,616</u>
<b>Operating expenses</b>			
Program services	4,886,573	-	4,886,573
Administrative and general	606,273	-	606,273
Fundraising	36,774	-	36,774
	<u>5,529,620</u>	<u>-</u>	<u>5,529,620</u>
<b>Total operating expenses</b>	<u>5,529,620</u>	<u>-</u>	<u>5,529,620</u>
<b>Increase in net operating assets</b>	366,163	270,833	636,996
<b>Other expenses</b>			
Depreciation	330,955	-	330,955
	<u>330,955</u>	<u>-</u>	<u>330,955</u>
<b>Total other expenses</b>	<u>330,955</u>	<u>-</u>	<u>330,955</u>
<b>Increase in net assets</b>	35,208	270,833	306,041
Net assets at beginning of year	<u>1,546,272</u>	<u>-</u>	<u>1,546,272</u>
Net assets at end of year	\$ <u>1,581,480</u>	\$ <u>270,833</u>	\$ <u>1,852,313</u>



**STEPS, INC.**  
**Statement of Activities**  
**Year ended June 30, 2019**



	<b>2019</b>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>Revenues, gains (losses), and other support</b>			
Grant revenue	\$ 134,994	\$ 4,442,693	\$ 4,577,687
Business services	387,733	-	387,733
Production revenue	99,153	-	99,153
In-kind revenue	399,248	-	399,248
Contributions - direct	51,430	-	51,430
Miscellaneous	58	-	58
Gain on sale of assets	50,800	-	50,800
Special events, net of expense of \$1,593	5,418	-	5,418
	<u>1,128,834</u>	<u>4,442,693</u>	<u>5,571,527</u>
Assets released from restrictions	4,442,693	( 4,442,693 )	-
<b>Total revenues, gains (losses), and other support</b>	<u>5,571,527</u>	<u>-</u>	<u>5,571,527</u>
<b>Operating expenses</b>			
Program services	4,797,424	-	4,797,424
Administrative and general	459,321	-	459,321
Fundraising	15,719	-	15,719
<b>Total operating expenses</b>	<u>5,272,464</u>	<u>-</u>	<u>5,272,464</u>
<b>Increase in net operating assets</b>	299,063	-	299,063
<b>Other expenses</b>			
Depreciation	292,921	-	292,921
<b>Total other expenses</b>	<u>292,921</u>	<u>-</u>	<u>292,921</u>
<b>Increase in net assets</b>	6,142	-	6,142
<b>Net assets at beginning of year</b>	<u>1,540,130</u>	<u>-</u>	<u>1,540,130</u>
<b>Net assets at end of year</b>	\$ <u>1,546,272</u>	\$ <u>-</u>	\$ <u>1,546,272</u>





**STEPS, INC.**  
**Statement of Functional Expenses**  
**Year ended June 30, 2020**

	2020			
	Program Services	Administrative and General	Fundraising	Total
Salaries and wages	\$ 2,691,804	\$ 421,393	\$ 3,847	\$ 3,117,044
Client assistance	464,330	-	-	464,330
Payroll taxes	298,857	45,545	426	344,828
Rent	241,474	28,619	-	270,093
Utilities	204,368	24,222	-	228,590
Office supplies	184,758	3,911	-	188,669
Employee benefits	162,213	6,004	208	168,425
Professional services	127,465	17,330	-	144,795
Repairs and maintenance	99,776	11,825	-	111,601
Insurance	96,157	11,396	-	107,553
Telephone	81,901	9,707	-	91,608
Auto expenses	76,399	12,991	-	89,390
Conferences	47,684	5,651	-	53,335
Miscellaneous	40,444	4,793	-	45,237
Marketing and seminars	4,245	-	32,293	36,538
Dues and membership fees	16,662	1,975	-	18,637
Interest	24,641	-	-	24,641
Bad debt	15,706	-	-	15,706
Printing	7,689	911	-	8,600
<b>Total expenses</b>	<b>\$ 4,886,573</b>	<b>\$ 606,273</b>	<b>\$ 36,774</b>	<b>\$ 5,529,620</b>







**STEPS, INC.**  
**Statement of Functional Expenses**  
**Year ended June 30, 2019**

	2019			
	Program Services	Administrative and General	Fundraising	Total
Salaries and wages	\$ 2,668,932	\$ 269,742	\$ 2,781	\$ 2,941,455
Client assistance	393,610	-	-	393,610
Payroll taxes	298,243	45,551	325	344,119
Rent	253,635	30,061	-	283,696
Utilities	175,579	20,809	-	196,388
Professional services	158,833	17,330	-	176,163
Office supplies	149,032	3,154	-	152,186
Employee benefits	141,001	6,168	139	147,308
Conferences	121,835	14,440	-	136,275
Insurance	97,399	11,544	-	108,943
Auto expenses	79,932	12,991	-	92,923
Miscellaneous	66,566	7,889	-	74,455
Repairs and maintenance	65,754	7,793	-	73,547
Telephone	62,855	7,450	-	70,305
Printing	21,077	2,498	-	23,575
Interest	22,855	-	-	22,855
Dues and membership fees	16,041	1,901	-	17,942
Marketing and seminars	4,245	-	12,474	16,719
	<u>4,797,424</u>	<u>459,321</u>	<u>15,719</u>	<u>5,272,464</u>
Total expenses	\$	\$	\$	\$





**STEPS, INC.**  
**Statements of Cash Flows**  
**Years ended June 30, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
<b>Cash flows from operating activities</b>		
Increase (decrease) in net assets	\$ 306,041	\$ 6,142
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation	330,955	292,921
Amortization, included in interest expense	1,962	1,962
(Gain) loss on sale of fixed assets	( 12,000 )	( 50,800 )
Bad debt	15,706	-
(Increase) decrease in operating assets:		
Accounts receivable	149,482	123,093
Grants receivable	( 315,107 )	
Prepaid expenses	( 6,295 )	( 3,364 )
Increase (decrease) in operating liabilities:		
Accounts payable	15,433	( 38,460 )
Accrued payroll and taxes	<u>1,558</u>	<u>( 4,583 )</u>
<b>Net cash provided by operating activities</b>	<u>487,735</u>	<u>326,911</u>
<b>Cash flows from investing activities</b>		
Purchase of fixed assets	( 348,154 )	( 291,810 )
Proceeds on sale of fixed assets	<u>12,000</u>	<u>50,800</u>
<b>Net cash used in financing activities</b>	<u>( 336,154 )</u>	<u>( 241,010 )</u>
<b>Cash flows from financing activities</b>		
Proceeds on notes payable	75,000	-
Principal payments on notes payable	( <u>68,842</u> )	( <u>66,316</u> )
<b>Net cash provided by (used in) financing activities</b>	<u>6,158</u>	<u>( 66,316 )</u>
<b>Net increase in cash</b>	157,739	19,585
<b>Cash at beginning of year</b>	<u>88,187</u>	<u>68,602</u>
<b>Cash at end of year</b>	\$ <u>245,926</u>	\$ <u>88,187</u>
<b>Supplemental disclosure of cash flow information:</b>		
Interest paid	\$ <u>24,641</u>	\$ <u>22,855</u>



STEPS, INC.  
Notes to Financial Statements  
June 30, 2020 and 2019



**Note 1 – Nature of the corporation and summary of significant accounting policies**

**Nature of the Corporation**

STEPS, Inc. (the “Corporation”) is an extremely diversified Community Action Agency which delivers services to those in need. Services are delivered under Four Pillars of Service: *Workforce Development* – STEPS provides job training and employment opportunities to citizens living with disabilities, individuals who want to exit the welfare system and senior citizens living below the poverty level; *Economic Development* - STEPS is a major employer in our region and in addition operates two (2) commercial lines of business: secure document shredding, operation of a regional recycling center, and industrial sewing; *Housing* - STEPS provides services to alleviate and/or prevent homelessness and serves as a partner to Dominion Power in their EnergyShare program, meeting heating and cooling needs; *Education* - STEPS works with students with disabilities who are transitioning from the public education system and operates Head Start and Early Head Start services.

**Basis of financial statement presentation**

The Corporation's financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

**Revenue recognition**

Income is derived from several activities including business services which includes job training and transportation, grants, contributions, and sales of manufactured products. Service and product revenue are recognized as the obligation performance is met. Contributions and grants received are recorded depending on the absence or existence – and nature of any donor restrictions.

The Corporation recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions of which they depend have been met.

The Corporation accounts for contributions in accordance with FASB ASC 958-605, Accounting for Contributions Received and Contributions Made. In accordance with FASB ASC 958-605, contributions received are recorded as with or without donor restricted support depending on the existence and/or nature of any donor restrictions. The Corporation recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met.

Gifts of cash and other assets are presented 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, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Gifts of property and equipment are presented as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash and other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Association reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

**Net Assets**

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

*Net Assets Without Donor Restrictions*- Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board may designate, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.

*Net Assets With Donor Restrictions*- Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature where the donor stipulates that the resources be maintained in perpetuity. Donor imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.







STEPS, INC.  
Notes to Financial Statements  
June 30, 2020 and 2019

**Note 1 – Nature of the corporation and summary of significant accounting policies (continued)**

**Promises to give**

Unconditional promises to give are recognized as contribution revenue in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Promises to give are recorded at net realizable value if expected to be collected in one year and at fair value if expected to be collected in more than one year. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

**Accounts receivable**

Accounts receivable consist of trade accounts receivable and are stated at invoiced amount. Credit is extended to customers after an evaluation of the customer's financial condition and generally collateral is not required. It is the Corporation's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected. Bad debt expense for the years ended June 30, 2020 and 2019 are \$15,706 and \$-0-.

**Property and equipment**

Property and equipment acquisitions are recorded at cost, or fair value if contributed. Depreciation is computed using the straight-line method over the estimated useful lives as follows:

<u>Classification</u>	<u>Estimated Useful Life</u>
Building	15-39 years
Leasehold improvements	15 years
Furniture and equipment	5-10 years

Expenses for maintenance and repairs are charged against revenues in the year the cost is incurred. Expenditures for additions and major improvements are capitalized and depreciated. The Corporation capitalizes all property and equipment with a cost of \$2,500 or more. Cost and accumulated depreciation are removed from the accounts for property sold or retired, and any resulting gain or loss is included in the statement of activities.

**Donated services**

Amounts have been reflected in the financial statements for donated services. The Corporation generally pays for services requiring specific expertise, but others are donated. However, many individuals volunteer their time and perform a variety of tasks that assist the Corporation with specific assistance programs, campaign solicitations, and various committee assignments.

**Performance obligation**

For performance obligations related to the providing of services, control transfers to the customer at a point in time in which the service is provided.

**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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Income taxes**

No provision for income taxes has been made in the financial statements because the Corporation is a not-for-profit corporation as described in Section 501 (c)(3) of the Internal Revenue Code (IRC) and is exempt from federal income taxes on related income pursuant to Section 501(a) of the IRC. The Corporation has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) of the IRC.





**STEPS, INC.**  
**Notes to Financial Statements**  
**June 30, 2020 and 2019**

**Note 1 – Nature of the corporation and summary of significant accounting policies (continued)**

**Income taxes (continued)**

The Financial Accounting Standards Board ASC 740-10 prescribes a comprehensive model for how an organization should measure, recognize, present, and disclose in its financial statements uncertain tax positions that an organization has taken or expects to take on a tax return. The Corporation has analyzed tax positions taken for filing with the Internal Revenue Service and all state jurisdictions where it operates. The Corporation believes that income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse affect on the Corporation's financial condition, results of operations or cash flows. Accordingly, the Corporation has not recorded any reserves, or related accruals for interest and penalties for uncertain income tax positions at June 30, 2020. Fiscal years ending on or after June 30, 2017 remain subject to examination by federal and state tax authorities.

**Functional expenses**

The costs of providing the Corporation's various programs and supporting services have been summarized on a functional basis in the accompanying statement of functional expenses. The functional expenses of the various programs and supporting services include those costs directly attributable to the specific program as well as an allocation of supporting service expenditures, which, in the estimation of management, are indirectly attributable to the programs.

**Advertising**

The Corporation expenses advertising costs as incurred. Such expenses are shown in the statements of activities.

**Shipping and handling revenue, fees and costs**

The Corporation classifies amounts billed for shipping and handling as revenue in accordance with FASB ASC 605-45-50-2, *Shipping and Handling Fees and Costs*. Shipping and handling fees and costs are included in operating expenses.

**New accounting pronouncements**

On May 28, 2014, FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The new standard is effective for annual financial statements issued for fiscal years beginning after December 15, 2018. Early application of the amendments in the ASU is permitted. The ASU is intended to align with International reporting standards. The ASU is intended to provide guidance on revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflect the consideration to which the entity expects to be entitled in exchange for those goods or services. There are five core steps that are defined to achieve this core principle. The Company has adopted the new ASU to date.

In February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The new standard is effective for annual financial statements issued for fiscal years beginning after December 15, 2020. Early application of the amendments in the ASU is permitted. The update is intended to increase transparency and comparability among Companies by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The Company has not adopted the new ASU to date.

In June 2018, FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*. The new standard is effective different dates depending on its applicability – transactions in which the entity serves as the resource recipient for annual periods beginning after December 15, 2018 and transactions in which the entity serves as the resource provider for annual periods beginning after December 15, 2019. The amendment is to clarify and improve current guidance about whether a transfer of assets or the reduction, settlement or cancellation of liabilities is a contribution or an exchange transaction.

**Note 2 - Cash balances**

The Corporation places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation (FDIC) insured limit is currently \$250,000. During the year, the Corporation from time to time may have had amounts on deposit in excess of the federally insured limits. Management does not feel there is a risk of loss with these deposits.

For purposes of the Statement of Cash Flows, the Corporation considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.







**STEPS, INC.**  
**Notes to Financial Statements**  
**June 30, 2020 and 2019**

**Note 3 - Property and depreciation**

A summary of depreciation expense for the year ended June 30, 2020 and accumulated depreciation at June 30, 2020 is as follows:

	Accumulated Depreciation 2020	Depreciation Expense 2020
Buildings	\$ 778,055	\$ 25,928
Furniture and equipment	106,160	23,166
Transportation	652,775	144,810
Classroom furniture and equipment	76,970	23,804
Playground equipment	53,194	23,790
Leasehold improvements	286,405	89,457
	<u>\$ 1,953,559</u>	<u>\$ 330,955</u>

A summary of depreciation expense for the year ended June 30, 2019 and accumulated depreciation at June 30, 2019 is as follows:

	Accumulated Depreciation 2019	Depreciation Expense 2019
Buildings	\$ 752,127	\$ 25,928
Furniture and equipment	82,994	15,757
Transportation	647,445	124,358
Classroom furniture and equipment	53,166	19,315
Playground equipment	29,404	20,471
Leasehold improvements	196,948	87,092
	<u>\$ 1,762,084</u>	<u>\$ 292,921</u>

Depreciation expense for the year ended June 30, 2020 and 2019, was \$330,955 and \$292,921, respectively.

**Note 4 – Notes payable**

The Corporation's notes payable at June 30, 2020 and 2019 were as follows:

	Maturity	2020	2019
Union First loan, payable \$6,497 monthly including interest at 4.5% with balance due upon maturity, secured by property	2021	\$ 365,142	\$ 433,985
Paycheck Protection Program, payable monthly including interest at 1.0% with balance due upon maturity	2022	75,000	-
		<u>440,142</u>	<u>433,985</u>
Less portion due currently		<u>136,127</u>	<u>58,442</u>
Long-term debt		304,015	375,543
Unamortized debt issuance costs		( 2,290 )	( 4,252 )
Net Long-term debt		<u>\$ 301,725</u>	<u>\$ 371,291</u>







**STEPS, INC.**  
**Notes to Financial Statements**  
**June 30, 2020 and 2019**

**Note 4 – Notes payable (continued)**

Aggregate principal payments on long-term debt are scheduled as follows:

Year Ending	Amount
2021	\$ 136,127
2022	304,015
2023	-
2024	-
2025	-
Thereafter	-
	\$ 440,142

**Note 5 – Line of Credit**

The Corporation maintains a line of credit with a bank that has a borrowing limit of \$90,000. The line of credit bears an interest rate of prime plus 1.69% and is secured by other accounts and general intangibles. The agreement expires on September 19, 2020. As of June 30, 2020, there was no balance on the line of credit.

**Note 6 – Operating leases**

The Corporation leases equipment and real estate under operating lease agreements. The lease agreements expire at various dates. Rental expenses for these leases totaled \$270,093 and \$283,696 for the years ended June 30, 2020 and 2019. Future minimum lease payments under operating leases that have remaining terms in excess of one year as of June 30, 2020 are as follows:

Year Ending	Amount
2021	\$ 82,200
2022	52,844
2023	53,066
2024	53,066
2025	53,066
Thereafter	219,009
	\$ 513,251

**Note 7 – In-kind contributions**

The Corporation received various donated goods and services during the year. In-kind contributions totaled \$284,258 and \$399,248 for the years ended June 30, 2020 and 2019 and consisted of the following:

	2020	2019
Space / rent	\$ 183,956	\$ 221,296
Services	94,353	167,477
Auto (mileage)	3,345	243
Education / materials	2,557	10,232
Other	47	-
	\$ 284,258	\$ 399,248



STEPS, INC.  
Notes to Financial Statements  
June 30, 2020 and 2019



**Note 8 – Donor restricted net assets**

The Corporation received grant revenue from several federal and state agencies. These programs are accounted for in the financial statements as grant revenue with donor restrictions. Donor restricted net assets of June 30, 2020 and 2019 totaled \$270,833 and \$-0-.

**Note 9 – Defined contribution retirement plan**

The Corporation has a 403(b) plan covering substantially all full time employees. The Corporation made no contributions to the Plan during the years ended June 30, 2020 and 2019.

**Note 10 - Major customers**

The Corporation derived 57% and 59% of its revenue in 2020 and 2019 from the U.S. Department of Health and Human Services related to the Head Start grant.

**Note 11 – Liquidity and Availability**

The Corporation regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Corporation has various sources of liquidity at its disposal, including cash and cash equivalents.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Corporation considers all expenditures related to its ongoing activities of teaching and student development as well as the conduct of services undertaken to support those activities to be general expenditures.

In addition to financial assets available to meet general expenditures over the next 12 months, the Corporation aims to operate with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. Refer to the statement of cash flows which identifies the sources and uses of the Corporation’s cash and shows positive cash generated by operations for fiscal year 2020.

As of June 30, 2020, the following financial assets could readily be made available to meet general expenditures:

Cash and cash equivalents	\$	245,926
Accounts receivable		342,054
Less: accounts payable		<u>(161,273)</u>
Cash flow available	\$	<u>426,707</u>

**Note 12 - Subsequent Events**

The Corporation has evaluated subsequent events through December 28, 2020, the date the financial statements were available to be issued.

The Corporation’s operations may be affected by the recent and ongoing outbreak of the coronavirus disease 2019 (COVID-19) which was declared a pandemic by the World Health Organization in March 2020. The ultimate disruption which may be caused by the outbreak is uncertain; however, it may result in a material adverse impact on the Corporation’s financial position, operations and cash flows. Possible effects may include, but are not limited to, disruption to the Corporation’s customers and revenue, absenteeism in the company’s labor workforce, unavailability of products or services used in operations, and a decline in the value of assets held by the Corporation, including property and equipment and marketable securities. The Corporation continues to monitor developments, including government requirements and recommendations at the national, state, and local level to evaluate business decisions.

The Corporation received funding under the Paycheck Protection Program and management expects the amount to be fully forgiven by the SBA.





**Supplemental Information**





**STEPS, INC.**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2020**

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<b>U.S. Department of Health and Human Services</b>			
Head Start Program	93.600	03CH010185	\$ 3,511,850
Pass-through from:			
Virginia Department of Social Services			
Community Services Block Grant	93.569	CVS-16-001-24	264,003
Community Services Block Grant – CARES Act	93.569		12,731
Temporary Assistance for Needy Families	93.558		161,250
Whole Family Pilot Program	93.558	CVS-20-037-5	<u>124,013</u>
<b>Total U.S. Department of Health and Human Services</b>			<u>4,073,847</u>
<b>U.S. Department of Agriculture</b>			
Child and Adult Care Food Program	10.558		<u>212,461</u>
<b>Total U.S. Department of Agriculture</b>			<u>212,461</u>
<b>U.S. Department of Labor</b>			
Pass-through from:			
Virginia Department for Aging and Rehabilitative Services			
Senior Community Service Employment Program	17.235	16-055	239,924
South Central Workforce Development Board			
Workforce Innovation and Opportunity Act-Out of School Program	17.259		<u>274,401</u>
<b>Total U.S. Department of Labor</b>			<u>514,325</u>
<b>Total expenditures of federal awards</b>			<b>\$ <u>4,800,633</u></b>



See accompanying notes to schedule of expenditures of federal awards.



**STEPS, INC.**  
**Notes to Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2020**

**Note 1 – Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of STEPS, Inc. under programs of the federal government for the year ended June 30, 2020. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of STEPS, Inc., it is not intended to and does not present the financial position, changes in net assets or cash flows of STEPS, Inc.

**Note 2 – Summary of Significant Accounting Policies**

**Expenditures**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**Pass-through**

Pass-through entity identifying numbers are presented where available.

**Note 3 – Indirect Cost Rate**

The Corporation has elected not to use the ten percent de minimis indirect cost rate allowed under the Uniform Guidance.







DAVIDSON, DOYLE & HILTON  
CERTIFIED PUBLIC ACCOUNTANTS

**Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of Financial Statements Performed in Accordance  
with *Government Auditing Standards***

To the Board of Directors of  
STEPS, Inc.  
Farmville, Virginia

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of STEPS, Inc., which comprise the statement of financial position as of June 30, 2020 and the related statements of activities and cash flows and for the year ended, and the related notes to the financial statements, and have issued our report thereon dated December 28, 2020.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered STEPS, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of STEPS, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of STEPS, 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 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 STEPS, Inc.'s financial statements are free of 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 determination of financial statement amounts. 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.

A handwritten signature in blue ink that reads "David W. Doyle &amp; Hill, Inc." The signature is written in a cursive style.

Lynchburg, Virginia  
December 28, 2020





**Independent Auditor's Report on Compliance for Each Major Program and on  
Internal Control over Compliance Required by the Uniform Guidance**

To the Board of Directors of  
STEPS, Inc.  
Farmville, Virginia

**Report on Compliance for Each Major Federal Program**

We have audited STEPS, 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 STEPS, Inc.'s major federal programs for the year ended June 30, 2020. STEPS, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

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

**Auditor's Responsibility**

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





**Opinion on Each Major Federal Program**

In our opinion, STEPS, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

**Report on Internal Control over Compliance**

Management of STEPS, Inc. 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 STEPS, Inc.'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 our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of STEPS, Inc.'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 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.

*Davidson Doyle & Hutto, LLP*  
Lynchburg, Virginia  
December 28, 2020





STEPS, INC.  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2020

Section I- Summary of Auditor’s Results

Financial Statements

- The auditor's report expresses an unmodified opinion on whether the financial statements of STEPS, Inc. were prepared in accordance with accounting principles generally accepted in the United States of America.
- During the audit of the financial statements, no significant deficiencies or material weaknesses in internal control are disclosed or reported.
- No instances of noncompliance material to the financial statements of STEPS, Inc., which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.

Federal Awards

- During the audit, no significant deficiencies or material weaknesses in internal control over major federal award programs are disclosed or reported.
- The auditor’s report on compliance for the major federal award programs for STEPS, Inc. expresses an unmodified opinion on all major federal programs.
- The audit disclosed no audit findings relating to the major program in accordance with Section 2 CFR section 200.516(a).
- Prior year audit findings that are required to be reported in accordance with the Uniform Guidance are reported in this Schedule.

Identification of Major Programs/Programs Tested

- The programs tested as major programs were:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
93.600	Head Start Program

- The threshold used for distinguishing between Type A and Type B programs was \$750,000.
- The auditee was not determined to be a low-risk auditee.

Section II- Financial Statement Findings

No reportable findings noted.

Section III- Federal Award Findings and Questioned Costs

No reportable findings noted.







**STEPS, INC.**  
**Summary Schedule of Prior Audit Findings**  
**For the Year Ended June 30, 2020**

No reportable prior year findings noted.

