



**STEPS, INC.**

**Financial Statements  
For the years ended  
June 30, 2018 and 2017**

Not-for-Profit Corporation  
501c(3)





STEPS, INC.

Contents

	Page
Report of Independent Auditors	1
Statements of Financial Position	3
Statements of Activities	4
Statements of Functional Expenses	6
Statements of Cash Flows	7
Notes to Financial Statements	8
Supplemental Information	
Schedule of Expenditures of Federal Awards	16
Notes to Schedule of Expenditures of Federal Awards	17
Compliance	
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters	18
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by Uniform Guidance	20
Schedule of Findings and Questioned Costs	22
Summary Schedule of Prior Audit Findings	24



Statement

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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"), which comprise the statements of financial position as of June 30, 2018 and 2017, 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, 2018 and 2017, 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**

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 basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. 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 basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2018, 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 "David D. Dayle &amp; Hiton, LLP".

Lynchburg, Virginia  
October 18, 2018





**STEPS, INC.**  
**Statements of Financial Position**  
**June 30, 2018 and 2017**

	<b>Assets</b>	
	<u>2018</u>	<u>2017</u>
<b>Current assets</b>		
Cash and equivalents	\$ 68,602	\$ 99,259
Accounts receivable	315,228	272,767
Prepaid expenses	<u>49,882</u>	<u>53,546</u>
<b>Total current assets</b>	<u>433,712</u>	<u>425,572</u>
<b>Property and equipment</b>		
Land	15,852	15,852
Building	987,292	2,696,294
Leasehold improvements	1,296,167	765,041
Furniture and equipment	291,437	291,437
Classroom furniture	91,326	91,325
Playground equipment	24,363	24,363
Transportation	<u>923,055</u>	<u>907,264</u>
	3,629,492	4,791,576
Less accumulated depreciation	<u>1,717,177</u>	<u>2,017,984</u>
<b>Total property and equipment</b>	<u>1,912,315</u>	<u>2,773,592</u>
<b>Total assets</b>	<u>\$ 2,346,027</u>	<u>\$ 3,199,164</u>
	<b>Liabilities and Net Assets</b>	
<b>Current liabilities</b>		
Accounts payable	\$ 184,300	\$ 227,332
Current maturities of notes payable	55,875	53,420
Accrued compensation expenses and other liabilities	<u>127,511</u>	<u>133,126</u>
<b>Total current liabilities</b>	<u>367,686</u>	<u>413,878</u>
<b>Long-term liabilities</b>		
Long-term debt, net of current maturities and unamortized debt issuance costs	<u>438,211</u>	<u>507,972</u>
<b>Total long-term liabilities</b>	<u>438,211</u>	<u>507,972</u>
<b>Total liabilities</b>	<u>805,897</u>	<u>921,850</u>
<b>Net assets</b>		
Without donor restrictions	1,540,130	1,266,629
With donor restrictions	<u>-</u>	<u>1,010,685</u>
<b>Total net assets</b>	<u>1,540,130</u>	<u>2,277,314</u>
<b>Total liabilities and net assets</b>	<u>\$ 2,346,027</u>	<u>\$ 3,199,164</u>





**STEPS, INC.**  
**Statement of Activities**  
**Year ended June 30, 2018**

	<b>2018</b>		
	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenues, gains (losses), and other support</b>			
Grant revenue	\$ 138,084	\$ 4,512,845	\$ 4,650,929
Business services	404,253	-	404,253
Production revenue	232,192	-	232,192
In-kind revenue	309,194	-	309,194
Contributions - direct	57,404	-	57,404
Rental income	13,230	-	13,230
Miscellaneous	180	-	180
Interest income	1,031	-	1,031
Special events, net of expense of \$1,593	12,490	-	12,490
	<u>1,168,058</u>	<u>4,512,845</u>	<u>5,680,903</u>
Assets released from restrictions	<u>5,523,530</u>	( <u>5,523,530</u> )	<u>-</u>
<b>Total revenues, gains (losses), and other support</b>	<u>6,691,588</u>	( <u>1,010,685</u> )	<u>5,680,903</u>
<b>Operating expenses</b>			
Program services	4,716,636	-	4,716,636
Administrative and general	281,364	-	281,364
Fundraising	11,892	-	11,892
	<u>5,009,892</u>	<u>-</u>	<u>5,009,892</u>
<b>Total operating expenses</b>	<u>5,009,892</u>	<u>-</u>	<u>5,009,892</u>
<b>Increase (decrease) in net operating assets</b>	1,681,696	( 1,010,685 )	671,011
<b>Other expenses</b>			
Loss on sale of building	1,107,961	-	1,107,961
Depreciation	300,234	-	300,234
	<u>1,408,195</u>	<u>-</u>	<u>1,408,195</u>
<b>Total other expenses</b>	<u>1,408,195</u>	<u>-</u>	<u>1,408,195</u>
<b>Increase (decrease) in net assets</b>	273,501	( 1,010,685 )	( 737,184 )
<b>Net assets at beginning of year</b>	<u>1,266,629</u>	<u>1,010,685</u>	<u>2,277,314</u>
<b>Net assets at end of year</b>	\$ <u>1,540,130</u>	\$ <u>-</u>	\$ <u>1,540,130</u>





**STEPS, INC.**  
**Statement of Activities**  
**Year ended June 30, 2017**

	2017		
	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenues, gains (losses), and other support</b>			
Grant revenue	\$ 138,084	\$ 5,041,894	\$ 5,179,978
Business services	395,220	-	395,220
Production revenue	230,998	-	230,998
In-kind revenue	213,304	-	213,304
Contributions - direct	46,460	-	46,460
Rental income	27,585	-	27,585
Miscellaneous	2,217	-	2,217
Interest income	19	-	19
Special events, net of expense of \$12,847	( 308 )	-	( 308 )
	<u>1,053,579</u>	<u>5,041,894</u>	<u>6,095,473</u>
Assets released from restrictions	<u>5,122,495</u>	( <u>5,122,495</u> )	<u>-</u>
<b>Total revenues, gains (losses), and other support</b>	<u>6,176,074</u>	( <u>80,601</u> )	<u>6,095,473</u>
<b>Operating expenses</b>			
Program services	4,489,613	-	4,489,613
Administrative and general	261,396	-	261,396
Fundraising	<u>35,460</u>	<u>-</u>	<u>35,460</u>
<b>Total operating expenses</b>	<u>4,786,469</u>	<u>-</u>	<u>4,786,469</u>
<b>Increase (decrease) in net operating assets</b>	1,389,605	( 80,601 )	1,309,004
<b>Other expenses</b>			
Depreciation	<u>240,501</u>	<u>-</u>	<u>240,501</u>
<b>Total other expenses</b>	<u>240,501</u>	<u>-</u>	<u>240,501</u>
<b>Increase (decrease) in net assets</b>	1,149,104	( 80,601 )	1,068,503
<b>Net assets at beginning of year</b>	( <u>117,525</u> )	<u>1,091,286</u>	<u>1,208,811</u>
<b>Net assets at end of year</b>	\$ <u>1,266,629</u>	\$ <u>1,010,685</u>	\$ <u>2,277,314</u>







**STEPS, INC.**  
**Statement of Functional Expenses**  
**Year ended June 30, 2018**

	2018			
	Program Services	Administrative and General	Fundraising	Total
Salaries and wages	\$ 2,624,653	\$ 142,161	\$ 2,207	\$ 2,769,021
Client assistance	376,890	-	-	376,890
Payroll taxes	309,084	15,023	258	324,365
Rent	229,879	27,245	-	257,124
Utilities	204,047	24,185	-	228,232
Repairs and maintenance	159,168	18,864	-	178,032
Office supplies	157,552	6,456	-	164,008
Professional services	125,243	5,867	-	131,110
Employee benefits	121,774	5,919	102	127,795
Auto expenses	104,662	3,322	-	107,984
Insurance	85,692	10,156	-	95,848
Telephone	70,716	8,381	-	79,097
Conferences	40,715	4,826	-	45,541
Miscellaneous	30,146	3,571	-	33,717
Interest	26,702	-	-	26,702
Printing	14,183	1,681	-	15,864
Dues and membership fees	13,612	1,613	-	15,225
Marketing and seminars	4,245	-	9,325	13,570
Staff development	11,277	1,336	-	12,613
Moving	6,396	758	-	7,154
	<u>\$ 4,716,636</u>	<u>\$ 281,364</u>	<u>\$ 11,892</u>	<u>\$ 5,009,892</u>
Total expenses	\$ 4,716,636	\$ 281,364	\$ 11,892	\$ 5,009,892





**STEPS, INC.**  
**Statement of Functional Expenses**  
**Year ended June 30, 2017**

	2017			
	Program Services	Administrative and General	Fundraising	Total
Salaries and wages	\$ 2,455,404	\$ 74,043	\$ 19,298	\$ 2,548,745
Client assistance	389,500	-	-	389,500
Payroll taxes	324,681	1,290	2,487	328,458
Repairs and maintenance	227,980	17,935	-	245,915
Utilities	189,224	35,268	-	224,492
Rent	180,604	31,871	-	212,475
Office supplies	150,490	15,442	-	165,932
Employee benefits	124,877	497	956	126,330
Auto expenses	107,256	7,044	-	114,300
Professional services	68,013	17,827	-	85,840
Insurance	77,893	4,901	-	82,794
Telephone	69,028	12,531	-	81,559
Conferences	65,682	7,358	-	73,040
Miscellaneous	19,219	10,508	-	29,727
Interest	17,682	9,667	-	27,349
Dues and membership fees	8,570	6,209	-	14,779
Marketing and seminars	-	-	12,719	12,719
Staff development	8,155	4,458	-	12,613
Printing	5,355	4,547	-	9,902
	<u>\$ 4,489,613</u>	<u>\$ 261,396</u>	<u>\$ 35,460</u>	<u>\$ 4,786,469</u>
Total expenses	<u>\$ 4,489,613</u>	<u>\$ 261,396</u>	<u>\$ 35,460</u>	<u>\$ 4,786,469</u>





**STEPS, INC.**  
**Statements of Cash Flows**  
**Years ended June 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>Cash flows from operating activities</b>		
Increase (decrease) in net assets	\$ ( 737,184 )	\$ 1,068,503
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation	300,234	240,501
Amortization, included in interest expense	1,963	1,635
Loss on sale of fixed assets	1,107,961	-
(Increase) decrease in operating assets:		
Accounts receivable	( 42,461 )	37,413
Prepaid expenses	3,664	( 14,720 )
Increase (decrease) in operating liabilities:		
Accounts payable	( 43,032 )	( 79,288 )
Accrued payroll and taxes	( 5,615 )	41,910
<b>Net cash provided by operating activities</b>	<u>585,530</u>	<u>1,295,954</u>
<b>Cash flows from investing activities</b>		
Purchase of fixed assets	( 546,919 )	( 1,217,894 )
Proceeds on sale of fixed assets	<u>1</u>	<u>-</u>
<b>Net cash used in financing activities</b>	<u>( 546,918 )</u>	<u>( 1,217,894 )</u>
<b>Cash flows from financing activities</b>		
Principal payments on line of credit	-	( 386,236 )
Proceeds on notes payable	-	625,000
Loan costs incurred	-	( 9,813 )
Principal payments on notes payable	( 69,269 )	( 295,667 )
<b>Net cash used in financing activities</b>	<u>( 69,269 )</u>	<u>( 66,716 )</u>
<b>Net increase (decrease) in cash</b>	<u>( 30,657 )</u>	<u>11,344</u>
<b>Cash at beginning of year</b>	<u>99,259</u>	<u>87,915</u>
<b>Cash at end of year</b>	\$ <u><u>68,602</u></u>	\$ <u><u>99,259</u></u>
<b>Supplemental disclosure of cash flow information:</b>		
Interest paid	\$ <u><u>26,702</u></u>	\$ <u><u>27,349</u></u>



**STEPS, INC.**  
**Notes to Financial Statements**  
**June 30, 2018 and 2017**



**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 three (3) 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.

**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 was designated, 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.

**Contributions**

Support that is restricted by the donor is reported as an increase in without donor restriction net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in without donor restriction net assets, depending on the nature of the restriction. When a restriction expires, with donor restriction net assets are reclassified to without donor restriction net assets.

**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.

**Income recognition**

Income is derived from several activities including job training and transportation, grants, contributions and sales of manufactured products. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted net assets depending on the absence or existence and nature of any donor restrictions.





STEPS, INC.  
Notes to Financial Statements  
June 30, 2018 and 2017

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

**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 Organization's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected. The Organization's main customer is the Federal Government and therefore there has not been a need for an allowance for doubtful accounts.

**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 Organization capitalizes all property and equipment with a cost of \$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**

No amounts have been reflected in the financial statements for donated services. The Organization generally pays for services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the Organization with specific assistance programs, campaign solicitations, and various committee assignments.

**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.

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, 2018. Fiscal years ending on or after June 30, 2015 remain subject to examination by federal and state tax authorities.



**STEPS, INC.**  
**Notes to Financial Statements**  
**June 30, 2018 and 2017**



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

**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 August 18, 2016, FASB issued ASU No. 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities (Topic 958)*. The new standards are effective for annual financial statements issued for fiscal years beginning after December 15, 2017. Early application of the amendments in the ASU is permitted. The ASU, which is the first phase of a two-phase project, makes significant changes in seven areas: net asset classes, liquidity and availability of resources, classification and disclosure of underwater endowment funds, expense reporting, statement of cash flows, investment return, and release of restrictions on capital assets. The Organization has adopted ASU No. 2016-14.

**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.

**Note 3 - Property and depreciation**

A summary of depreciation expense for the year ended June 30, 2018 and accumulated depreciation at June 30, 2018 is as follows:

	Accumulated Depreciation 2018	Depreciation Expense 2018
Buildings	\$ 725,222	\$ 69,932
Furniture and equipment	271,336	11,680
Transportation	567,978	114,528
Classroom furniture and equipment	33,852	18,265
Playground equipment	8,933	4,873
Leasehold improvements	109,856	80,956
	<u>\$ 1,717,177</u>	<u>\$ 300,234</u>





**STEPS, INC.**  
**Notes to Financial Statements**  
**June 30, 2018 and 2017**

**Note 3 – Property and depreciation (continued)**

A summary of depreciation expense for the year ended June 30, 2017 and accumulated depreciation at June 30, 2017 is as follows:

	Accumulated Depreciation 2017	Depreciation Expense 2017
Buildings	\$ 1,256,332	\$ 98,188
Furniture and equipment	259,656	24,012
Transportation	453,450	70,202
Classroom furniture and equipment	15,587	15,586
Playground equipment	4,060	4,060
Leasehold improvements	28,899	28,453
	<u>\$ 2,017,984</u>	<u>\$ 240,501</u>

Depreciation expense for the year ended June 30, 2018 and 2017, was \$300,234 and \$240,501, respectively.

**Note 4 – Line of credit**

In 2016, the Corporation renewed a line of credit agreement with a bank, which permits short-term borrowings up to \$413,000 with interest at 5.5% per year. The agreement is collateralized by real estate of the Corporation. The agreement matured January 10, 2017. The outstanding balance as of June 30, 2018 and 2017 was \$-0- and \$-, respectively.

**Note 5 – Notes payable**

The Corporation's notes payable at June 30, 2018 and 2017 were as follows:

	Maturity	2018	2017
Union First loan, payable \$6,497 monthly including interest at 4.5% with balance due upon maturity, secured by property	2021	\$ 500,301	\$ 569,570
		<u>500,301</u>	<u>569,570</u>
Less portion due currently		<u>55,875</u>	<u>53,420</u>
Long-term debt		444,426	516,150
Unamortized debt issuance costs		( <u>6,215</u> )	( <u>8,178</u> )
Net Long-term debt		<u>\$ 438,211</u>	<u>\$ 507,972</u>





**STEPS, INC.**  
**Notes to Financial Statements**  
**June 30, 2018 and 2017**

**Note 5 – Notes payable (continued)**

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

Year Ending	Amount
2019	\$ 55,875
2020	58,442
2021	61,126
2022	324,858
2023	-
Thereafter	-
	<b>\$ 500,301</b>

**Note 6 – Restricted use covenants**

The county of Prince Edward had secured a \$400,000 deed of trust against the Craddock Terry building for twenty years which would remain unsatisfied as long as STEPS, Inc. did not sell the property. Should STEPS, Inc. have sold the property within the twenty year period ending March 21, 2021, the full \$400,000 deed of trust would be due. At the end of the twenty year holding period, the deed of trust would be released without obligation if STEPS, Inc. still owned the building. In March 2018, the building was sold back to Prince Edward County. The book value of this building was accounted for in the financial statements as donor restricted funds in 2017 and released from restriction when it was sold in 2018.

The county of Prince Edward secured grant money through the Department of Mines, Minerals, and Energy for STEPS, Inc. in the amount of \$1,009,002 to replace the roof and HVAC system in the Craddock Terry Building. Because the building was encumbered by the county until March 21, 2021, the book value of the assets used to improve the building was also accounted for in the financial statements as donor restricted funds until the building was sold in 2018.

**Note 7 – Rental income**

The Corporation received rental income of \$13,230 and \$27,585 from other agencies under non-cancellable operating lease arrangements for space in the Corporation's building for the year ended June 30, 2018 and 2017, respectively. The lease expired during the year ended June 30, 2018 and was not renewed.

**Note 8 – 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 \$257,124 and \$212,475 for the years ended June 30, 2018 and 2017. Future minimum lease payments under operating leases that have remaining terms in excess of one year as of June 30, 2018 are as follows:

Year Ending	Amount
2019	\$ 62,400
2020	59,400
2021	47,400
2022	18,045
2023	18,266
Thereafter	162,742
	<b>\$ 368,253</b>

**Note 9 – In-kind contributions**

The Corporation received various donated goods and services during the year. In-kind contributions totaled \$309,194 and \$213,304 for the years ended June 30, 2018 and 2017. This included \$194,724 and \$147,582 in donated rent for various Head Start facilities.







**STEPS, INC.**  
**Notes to Financial Statements**  
**June 30, 2018 and 2017**

**Note 10 – 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 temporarily restricted funds.

Donor restricted net assets of June 30, 2018 and 2017 consisted of the following:

	<u>2018</u>	<u>2017</u>
<b>Donor Restricted</b>		
Craddock Terry building deed of trust	\$ -	\$ 400,000
Prince Edward building improvements grant	-	1,009,002
Less: Accumulated depreciation	<u>-</u>	<u>(398,317)</u>
<b>Total donor restricted</b>	<u>\$ -</u>	<u>\$ 1,010,685</u>

**Note 11 – 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, 2018 and 2017.

**Note 12 - Major customers**

The Corporation derived 73% and 64% of its revenue in 2018 and 2017 from the U.S. Department of Health and Human Services related to the Head Start grant.

**Note 13 – 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 2018.

As of June 30, 2018, the following financial assets could readily be made available to meet general expenditures:

Cash and cash equivalents	\$ 68,602
Accounts receivable	<u>315,228</u>
	<u>\$ 383,830</u>

**Note 14 - Subsequent Events**

The Corporation has evaluated subsequent events through October 18, 2018, the date the financial statements were available to be issued.





**Supplemental Information**





**STEPS, INC.**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2018**

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
<b>U.S. Department of Health and Human Services</b>			
Head Start Program	93.600	03CH010185	\$ 3,388,467
Pass-through from:			
Virginia Department of Social Services			
Community Services Block Grant	93.569	CVS-16-001-24	256,488
Temporary Assistance for Needy Families	93.558		<u>109,650</u>
<b>Total U.S. Department of Health and Human Services</b>			<u>3,754,605</u>
<b>U.S. Department of Housing and Urban Development</b>			
Pass-through from:			
Virginia Department of Housing and Community Development			
Virginia Housing Support Program	14.231		<u>21,105</u>
<b>Total U.S. Department of Housing and Urban Development</b>			<u>21,105</u>
<b>U.S. Department of Agriculture</b>			
Child and Adult Care Food Program	10.558		<u>225,750</u>
<b>Total U.S. Department of Agriculture</b>			<u>225,750</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	<u>228,390</u>
<b>Total U.S. Department of Labor</b>			<u>228,390</u>
<b>Total expenditures of federal awards</b>			\$ <u>4,229,850</u>



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, 2018**

**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, 2018. 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 Organization has elected not to use the ten percent de minimis indirect cost rate allowed under the Uniform Guidance.





**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, 2018 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 October 18, 2018.

**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 "Davidson Doyle Hilton, LLC".

Lynchburg, Virginia  
October 18, 2018





**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, 2018. 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.

**Basis for Qualified Opinion on Head Start Program**

As described in the accompanying schedule of findings and questioned costs, STEPS did not comply with the requirements regarding CFDA 93.600 Head Start as described in finding number 2018-01 for Equipment. Compliance with such requirements is necessary, in our opinion, for STEPS to comply with the requirements applicable to that program.

**Opinion on Each Major Federal Program**

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, 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, 2018.





## 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.

## Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of STEPS, Inc. as of and for the year ended June 30, 2018, and have issued our report thereon dated October 18, 2018, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in blue ink that reads "Davidson Dagle" followed by a stylized signature.

Lynchburg, Virginia  
October 18, 2018







STEPS, INC.  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2018

**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 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.
- 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.





STEPS, INC.  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2018

**Section III- Federal Award Findings and Questioned Costs**

2018-001 Head Start Program – CFSA No. 93.600; Grant No. 03CH010185; Grant period: Year Ended July 31, 2017

*Criteria and Condition:* Grant recipients must maintain proper records for equipment and adequately safeguard and maintain equipment. STEPS has not fully complied with this requirement.

*Context:* We requested asset listings for equipment and property purchased using Head Start funds and the latest physical inventory performed on such assets. We noted that a list of significant assets for STEPS is maintained by accounting but a comprehensive list of all Head Start assets is not maintained. A physical inventory count has not been performed to date.

*Cause:* Although assets are safeguarded and maintained by staff, there is no formal control system in place to track assets. Although assets appear to be in good condition, there are no formal maintenance procedures in place to ensure that those assets are kept in good condition.

*Effect:* The absence of a comprehensive list of Head Start assets makes it difficult for STEPS to comply with grant requirements regarding equipment. A physical inventory cannot be performed if there is no list to agree to. In addition, it will make it difficult to track unused or obsolete equipment that should be returned to the agency in the future without a comprehensive list.

*Recommendation:* Appropriate written policies and procedures should be established to ensure proper tracking and maintenance of all Head Start equipment and other physical assets. These procedures should include the need for a physical inventory to be performed on a minimum of every other year.

*Views of Responsible Officials and Planned Corrective Action:* TBD (STEPS)

**Section IV- Corrective Action Plan**

**Finding 2018-001**

Equipment

**Views of Responsible Officials and Corrective Action:**

TBD

**Name of Responsible Person:** Sharon Harrup, Executive Director

**Name of Contact:** Sharon Harrup, Executive Director

**Projected Implementation Date:** TBD





**STEPS, INC.**  
**Summary Schedule of Prior Audit Findings**  
**For the Year Ended June 30, 2018**

2017-001 Head Start Program – CFSA No. 93.600; Grant No. 03CH010185; Grant period: Year Ended July 31, 2016

*Criteria and Condition:* A Head Start Agency that uses Head Start funds to purchase real property or purchase, construct, or renovate a facility appurtenant to real property must record a Notice of Federal Interest. STEPS has not fully complied with this requirement.

*Recommendation:* Appropriate written policies and procedures should be established to ensure proper filing and proper execution of wording in lease agreements. These procedures should provide for appropriate review and approvals by the Executive Director.

*Current Status:* Legal counsel was retained, and the appropriate Notices of Federal Interest were filed. No similar findings were noted in the 2018 audit.

