



STEPS, INC.

**Financial Statements
For the years ended
June 30, 2019 and 2018**

Not-for-Profit Corporation
501c(3)





STEPS, INC.

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DAVIDSON, DOYLE & HILTON
CERTIFIED PUBLIC ACCOUNTANTS

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, 2019 and 2018, 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, 2019 and 2018, 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 November 4, 2019, 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 W. Doyle & Hittler, LLP". The signature is written in a cursive style.

Lynchburg, Virginia
November 4, 2019





STEPS, INC.
Statements of Financial Position
June 30, 2019 and 2018

	Assets	
	2019	2018
Current assets		
Cash and equivalents	\$ 88,187	\$ 68,602
Accounts receivable	192,135	315,228
Prepaid expenses	53,247	49,882
Total current assets	333,569	433,712
Property and equipment		
Land	15,852	15,852
Building	987,292	987,292
Leasehold improvements	1,323,930	1,296,167
Furniture and equipment	159,414	291,437
Classroom furniture	107,093	91,326
Playground equipment	157,828	24,363
Transportation	921,878	923,055
	3,673,287	3,629,492
Less accumulated depreciation	1,762,084	1,717,177
Total property and equipment	1,911,203	1,912,315
Total assets	\$ 2,244,772	\$ 2,346,027
	Liabilities and Net Assets	
Current liabilities		
Accounts payable	\$ 145,840	\$ 184,300
Current maturities of notes payable	58,442	55,875
Accrued compensation expenses and other liabilities	122,928	127,511
Total current liabilities	327,210	367,686
Long-term liabilities		
Long-term debt, net of current maturities and unamortized debt issuance costs	371,290	438,211
Total long-term liabilities	371,290	438,211
Total liabilities	698,500	805,897
Net assets		
Without donor restrictions	1,546,272	1,540,130
With donor restrictions	-	-
Total net assets	1,546,272	1,540,130
Total liabilities and net assets	\$ 2,244,772	\$ 2,346,027



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



	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains (losses), and other support			
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 \$3,282	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)	-
Total revenues, gains, and other support	<u>5,571,527</u>	<u>-</u>	<u>5,571,527</u>
Operating expenses			
Program services	4,797,424	-	4,797,424
Administrative and general	459,321	-	459,321
Fundraising	15,719	-	15,719
	<u>5,272,464</u>	<u>-</u>	<u>5,272,464</u>
Total operating expenses	<u>5,272,464</u>	<u>-</u>	<u>5,272,464</u>
Increase in net operating assets	299,063	-	299,063
Other expenses			
Depreciation	292,921	-	292,921
	<u>292,921</u>	<u>-</u>	<u>292,921</u>
Total other expenses	<u>292,921</u>	<u>-</u>	<u>292,921</u>
Increase (decrease) in net assets	6,142	-	6,142
Net assets at beginning of year	<u>1,540,130</u>	<u>-</u>	<u>1,540,130</u>
Net assets at end of year	\$ <u>1,546,272</u>	\$ <u>-</u>	\$ <u>1,546,272</u>



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



	2018		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues, gains (losses), and other support			
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>
Total revenues, gains (losses), and other support	<u>6,691,588</u>	(<u>1,010,685</u>)	<u>5,680,903</u>
Operating expenses			
Program services	4,716,636	-	4,716,636
Administrative and general	281,364	-	281,364
Fundraising	11,892	-	11,892
Total operating expenses	<u>5,009,892</u>	<u>-</u>	<u>5,009,892</u>
Increase (decrease) in net operating assets	1,681,696	(1,010,685)	671,011
Other expenses			
Loss on sale of building	1,107,961	-	1,107,961
Depreciation	300,234	-	300,234
Total other expenses	<u>1,408,195</u>	<u>-</u>	<u>1,408,195</u>
Increase (decrease) in net assets	273,501	(1,010,685)	(737,184)
Net assets at beginning of year	<u>1,266,629</u>	<u>1,010,685</u>	<u>2,277,314</u>
Net assets at end of year	\$ <u>1,540,130</u>	\$ <u>-</u>	\$ <u>1,540,130</u>





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

	2019			
	<u>Program Services</u>	<u>Administrative and General</u>	<u>Fundraising</u>	<u>Total</u>
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.
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
	\$ 4,716,636	\$ 281,364	\$ 11,892	\$ 5,009,892
Total expenses				





STEPS, INC.
Statements of Cash Flows
Years ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Increase (decrease) in net assets	\$ 6,142	\$ (737,184)
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation	292,921	300,234
Amortization, included in interest expense	1,962	1,963
(Gain) loss on sale of fixed assets	(50,800)	1,107,961
(Increase) decrease in operating assets:		
Accounts receivable	123,093	(42,461)
Prepaid expenses	(3,364)	3,664
Increase (decrease) in operating liabilities:		
Accounts payable	(38,460)	(43,032)
Accrued payroll and taxes	(4,583)	(5,615)
Net cash provided by operating activities	<u>326,911</u>	<u>585,530</u>
Cash flows from investing activities		
Purchase of fixed assets	(291,810)	(546,919)
Proceeds on sale of fixed assets	<u>50,800</u>	<u>1</u>
Net cash used in investing activities	(<u>241,010</u>)	(<u>546,918</u>)
Cash flows from financing activities		
Principal payments on notes payable	(<u>66,316</u>)	(<u>69,269</u>)
Net cash used in financing activities	(<u>66,316</u>)	(<u>69,269</u>)
Net increase (decrease) in cash	19,585	(30,657)
Cash at beginning of year	<u>68,602</u>	<u>99,259</u>
Cash at end of year	\$ <u>88,187</u>	\$ <u>68,602</u>
Supplemental disclosure of cash flow information:		
Interest paid	\$ <u>22,855</u>	\$ <u>26,702</u>





STEPS, INC.
Notes to Financial Statements
June 30, 2019 and 2018

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 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.

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 with 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. 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.





STEPS, INC.
Notes to Financial Statements
June 30, 2019 and 2018

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 Corporation's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected. The Corporation'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 Corporation 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

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.

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, 2019. Fiscal years ending on or after June 30, 2016 remain subject to examination by federal and state tax authorities.





STEPS, INC.
Notes to Financial Statements
June 30, 2019 and 2018

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 Corporation has adopted ASU No. 2016-14.

On June 21, 2018, FASB also issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*. The new standards are effective for financial statements for years beginning after December 15, 2017. The ASU was issued to clarify and improve the scope and the accounting guidance for contributions received and contributions made, to assist in determining if transactions are contributions or exchange transactions, and to help determine whether a contribution is conditional.

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, 2019 and accumulated depreciation at June 30, 2019 is as follows:

	<u>Accumulated Depreciation 2019</u>	<u>Depreciation Expense 2019</u>	
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	<u>196,948</u>	<u>87,092</u>	
	<u>\$ 1,762,084</u>	<u>\$ 292,921</u>	





STEPS, INC.
Notes to Financial Statements
June 30, 2019 and 2018

Note 3 – Property and depreciation (continued)

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	<u>109,856</u>	<u>80,956</u>
	\$ <u>1,717,177</u>	\$ <u>300,234</u>

Depreciation expense for the year ended June 30, 2019 and 2018, was \$292,921 and \$300,234, respectively.

Note 4 – Notes payable

The Corporation's notes payable at June 30, 2019 and 2018 were as follows:

	Maturity	2019	2018
Union First loan, payable \$6,497 monthly including interest at 4.5% with balance due upon maturity, secured by property	2021	\$ 433,985	\$ 500,301
		<u>433,985</u>	<u>500,301</u>
Less portion due currently		<u>58,442</u>	<u>55,875</u>
Long-term debt		375,543	444,426
Unamortized debt issuance costs		(4,252)	(6,215)
Net Long-term debt		\$ <u>371,291</u>	\$ <u>438,211</u>

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

Year Ending	Amount
2020	\$ 58,442
2021	61,127
2022	314,416
2023	-
2024	-
Thereafter	<u>-</u>
	\$ <u>433,985</u>



STEPS, INC.
Notes to Financial Statements
June 30, 2019 and 2018



Note 5 – 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 6 – Rental income

The Corporation received rental income of \$-0- and \$13,230 from other agencies under non-cancellable operating lease arrangements for space in the Corporation's building for the year ended June 30, 2019 and 2018, respectively. The lease expired during the year ended June 30, 2018 and was not renewed.

Note 7 – 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 \$283,696 and \$257,124 for the years ended June 30, 2019 and 2018. Future minimum lease payments under operating leases that have remaining terms in excess of one year as of June 30, 2019 are as follows:

<u>Year Ending</u>	<u>Amount</u>
2020	\$ 41,400
2021	29,400
2022	-
2023	-
2024	-
Thereafter	-
	<u>\$ 70,800</u>

Note 8 – In-kind contributions

The Corporation received various donated goods and services during the year. In-kind contributions totaled \$399,248 and \$309,194 for the years ended June 30, 2019 and 2018. This included \$221,296 and \$194,724 in donated rent for various Head Start facilities.

Note 9 – 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. There were no donor restricted net assets of June 30, 2019 and 2018.





STEPS, INC.
Notes to Financial Statements
June 30, 2019 and 2018

Note 10 – 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, 2019 and 2018.

Note 11 - Major customers

The Corporation derived 59% and 73% of its revenue in 2019 and 2018 from the U.S. Department of Health and Human Services related to the Head Start grant.

Note 12 – 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 2019.

As of June 30, 2019, the following financial assets could readily be made available to meet general expenditures:

Cash and cash equivalents	\$	88,187
Accounts receivable		<u>192,135</u>
	\$	<u>280,322</u>

Note 13 - Subsequent Events

The Corporation has evaluated subsequent events through November 4, 2019, 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, 2019

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. Department of Health and Human Services			
Head Start Program	93.600	03CH010185	\$ 3,307,267
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>161,250</u>
Total U.S. Department of Health and Human Services			<u>3,725,005</u>
U.S. Department of Agriculture			
Child and Adult Care Food Program	10.558		<u>234,779</u>
Total U.S. Department of Agriculture			<u>234,779</u>
U.S. Department of Labor			
Pass-through from:			
Virginia Department for Aging and Rehabilitative Services			
Senior Community Service Employment Program	17.235	16-055	<u>203,515</u>
Total U.S. Department of Labor			<u>203,515</u>
Total expenditures of federal awards			\$ <u>4,163,299</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, 2019

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, 2019. 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.





**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, 2019 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 November 4, 2019.

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 Hiller, CPA".

Lynchburg, Virginia
November 4, 2019





**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, 2019. 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, 2019.





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, 2019, and have issued our report thereon dated November 4, 2019, 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 Doyle & Hittor, LLP".

Lynchburg, Virginia
November 4, 2019





STEPS, INC.
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

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.
- 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, 2019

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.

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.

Current Status: Procedures were established and implemented and a physical inventory of grant assets was taken. No similar findings were noted in the 2019 audit.

