



**SUPPORT TO ELIMINATE POVERTY, INC.**

**FINANCIAL REPORT**

**(In Accordance with the Requirements of OMB Circular A-133)**

**June 30, 2015**



**SUPPORT TO ELIMINATE POVERTY, INC. (STEP)**

**FINANCIAL REPORT**

**(In Accordance with the Requirements of OMB Circular A-133)**

**June 30, 2015**

**EIN# 54-0801556**

## CONTENTS

|   | Page |
|---|------|
| INDEPENDENT AUDITOR’S REPORT .....  | 3    |
| FINANCIAL STATEMENTS  |      |
| Statements of Financial Position .....  | 5    |
| Statements of Activities .....  | 6    |
| Statements of Functional Expenses .....   | 7    |
| Statements of Cash Flows .....  | 9    |
| Notes to Financial Statements .....   | 10   |
| SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS .....  | 15   |
| INDEPENDENT AUDITOR’S REPORT ON:  |      |
| Internal Control over Financial Reporting and on Compliance and<br>Other Matters Based on an Audit of Financial Statements<br>Performed in Accordance with <i>Government Auditing Standards</i> ..... | 16   |
| Compliance for Each Major Program and on Internal Control over<br>Compliance in Accordance with <i>OMB Circular A-133</i> .....   | 18   |
| SCHEDULE OF FINDINGS AND QUESTIONED COSTS .....   | 20   |

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Support to Eliminate Poverty, Inc.  
Rocky Mount, Virginia

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Support to Eliminate Poverty, Inc. ("STEP") which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities, functional expenses, and cash flows for the years then ended and the related notes to 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of STEP as of June 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Other Information***

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying information on pages 15 to 20, as required by the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 26, 2016, on our consideration of STEP's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering STEP's internal control over financial reporting and compliance.

*Brown, Edwards & Company, L.L.P.*

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia  
May 26, 2016

**SUPPORT TO ELIMINATE POVERTY, INC.**

**STATEMENTS OF FINANCIAL POSITION**

**June 30, 2015 and 2014**

|  | <b>2015</b>  | <b>2014</b>  |
|--|--------------|--------------|
| <b>ASSETS</b>  |              |              |
| Current assets   |              |              |
| Cash and cash equivalents                              | \$ 138,043   | \$ 84,821    |
| Investments (Note 2)                                   | 55,835       | 55,743       |
| Inventories  | 43,376       | 37,543       |
| Accounts receivable                                    | 245,491      | 435,319      |
| Prepaid expenses                                       | 24,858       | 3,805        |
| Total current assets                                   | 507,603      | 617,231      |
| Property, plant, and equipment, at cost (Note 3)       |              |              |
| Land   | 346,387      | 346,387      |
| Building and building improvements                     | 2,151,628    | 2,261,187    |
| Furniture, equipment, and vehicles                     | 1,070,564    | 1,098,459    |
|  | 3,568,579    | 3,706,033    |
| Less: accumulated depreciation                         | (1,592,154)  | (1,466,537)  |
| Net property, plant, and equipment                     | 1,976,425    | 2,239,496    |
| Total assets   | \$ 2,484,028 | \$ 2,856,727 |
| <b>LIABILITIES AND NET ASSETS</b>                      |              |              |
| Current liabilities                                    |              |              |
| Accounts payable                                       | \$ 109,579   | \$ 142,092   |
| Advances from grantors                                 | -            | 39,301       |
| Accrued salaries and wages                             | 80,031       | 85,839       |
| Accrued liability for compensated absences             | 269,520      | 249,072      |
| Payroll taxes and other current liabilities            | 14,122       | 22,319       |
| Security deposits returnable                           | 5,490        | 4,590        |
| Bank line of credit (Note 4)                           | -            | 95,000       |
| Current portion of long-term debt (Note 3)             | 25,782       | 24,407       |
| Accrued employee benefit plan contribution (Note 5)    | 150,876      | 84,433       |
| Total current liabilities                              | 655,400      | 747,053      |
| Long-term debt, net of current portion (Notes 2 and 3) | 1,630,818    | 1,656,315    |
| Commitment and contingent liabilities (Note 6)         | -            | -            |
| Net assets   |              |              |
| Unrestricted (Note 7)                                  | 197,810      | 440,119      |
| Temporarily restricted                                 | -            | 13,240       |
| Total net assets                                       | 197,810      | 453,359      |
| Total liabilities and net assets                       | \$ 2,484,028 | \$ 2,856,727 |

**SUPPORT TO ELIMINATE POVERTY, INC.**

**STATEMENTS OF ACTIVITIES**  
**Years Ended June 30, 2015 and 2014**

|   | <u>2015</u>       | <u>2014</u>       |
|---|-------------------|-------------------|
| Unrestricted support and revenue                            |                   |                   |
| Grant revenues and local government support                 | \$ 3,818,449      | \$ 3,701,834      |
| Contributions   | 96,273            | 122,010           |
| Program income and miscellaneous revenue                    | 92,243            | 71,483            |
| Interest and other investment income                        | 132               | 7,453             |
| Donated services, space, supplies, and equipment            | 288,014           | 260,297           |
| Net assets released from restrictions                       | 13,240            | -                 |
|   | <u>4,308,351</u>  | <u>4,163,077</u>  |
| Total support and revenue                                   |                   |                   |
| Expenses  |                   |                   |
| Program expenses  | 4,550,660         | 4,206,110         |
| General and administrative expenses                         | -                 | 163,909           |
|   | <u>4,550,660</u>  | <u>4,370,019</u>  |
| Total expense   |                   |                   |
| Changes in unrestricted net assets                          | (242,309)         | (206,942)         |
| Temporarily restricted net assets released from restriction | (13,240)          | -                 |
| Change in temporarily restricted net assets                 | (13,240)          | -                 |
| Net assets, beginning of year                               | <u>453,359</u>    | <u>660,301</u>    |
| Net assets, end of year                                     | <u>\$ 197,810</u> | <u>\$ 453,359</u> |

**SUPPORT TO ELIMINATE POVERTY, INC.**

**STATEMENT OF FUNCTIONAL EXPENSE  
For the Year Ended June 30, 2015**

|                                      | <b>Senior Services</b> | <b>CSBG</b>       | <b>Head Start</b>   | <b>Youth Services</b> | <b>Homeless Prevention</b> | <b>Weatherization</b> | <b>Financial Services</b> | <b>Agency</b>     | <b>Total Agency</b> |
|--------------------------------------|------------------------|-------------------|---------------------|-----------------------|----------------------------|-----------------------|---------------------------|-------------------|---------------------|
| Salaries and wages                   | \$ 96,625              | \$ 70,922         | \$ 1,138,921        | \$ 258,059            | \$ 95,418                  | \$ 164,973            | \$ 31,933                 | \$ 340,216        | \$ 2,197,067        |
| Fringe benefits                      | 21,282                 | 12,397            | 232,209             | 48,065                | 20,263                     | 34,041                | 6,652                     | 130,443           | 505,352             |
| Tuition, training, and travel        | 1,634                  | 1,691             | 41,554              | 3,119                 | 15,048                     | 9,100                 | 2,436                     | 6,518             | 81,100              |
| Insurance                            | 7,916                  | -                 | 15,014              | 1,930                 | 649                        | 7,295                 | 48                        | 15,803            | 48,655              |
| Consulting and contracting           | 929                    | 26,160            | 120,998             | 1,125                 | 2,904                      | 103,556               | 181                       | 45,525            | 301,378             |
| Food purchases and kitchen services  | 133,573                | -                 | 145,115             | 14,432                | -                          | -                     | -                         | 96,884            | 390,004             |
| Office supplies                      | 130                    | -                 | 8,006               | 768                   | 1,589                      | 1,573                 | -                         | 4,721             | 16,787              |
| Program supplies                     | 3,282                  | -                 | 15,242              | 2,839                 | 2,563                      | 5,344                 | 2,771                     | 8,139             | 40,180              |
| Classroom supplies                   | -                      | -                 | 1,347               | 238                   | -                          | -                     | -                         | -                 | 1,585               |
| Postage and shipping                 | 133                    | -                 | 730                 | 136                   | 143                        | 712                   | 49                        | 3,635             | 5,538               |
| Occupancy                            | 7,556                  | 359               | 44,309              | 13,718                | 21,229                     | 16,773                | 759                       | 76,117            | 180,820             |
| Printing and duplication             | 837                    | 157               | 15,613              | 2,749                 | 1,189                      | 1,277                 | 309                       | 2,307             | 24,438              |
| Dues and subscriptions               | 441                    | 8,155             | 4,379               | 1,992                 | 1,392                      | 4,222                 | 1,980                     | 9,459             | 32,020              |
| Student/parent activities            | -                      | -                 | 3,394               | 346                   | -                          | -                     | -                         | -                 | 3,740               |
| Medical, dental, and health services | 326                    | -                 | 9,136               | 333                   | -                          | 937                   | 72                        | 1,864             | 12,668              |
| Support services                     | -                      | -                 | -                   | -                     | 27,201                     | -                     | -                         | -                 | 27,201              |
| Meeting expenses                     | 4                      | 68                | 3,405               | 182                   | -                          | 143                   | 1,854                     | 13,205            | 18,861              |
| Automobile expense                   | 33,694                 | -                 | 9,709               | -                     | 1,054                      | 6,001                 | -                         | 2,282             | 52,740              |
| Tools and equipment                  | -                      | -                 | 2,465               | -                     | 230                        | 4,812                 | -                         | 1,343             | 8,850               |
| Interest expense                     | -                      | -                 | -                   | -                     | -                          | -                     | -                         | 82,099            | 82,099              |
| Materials purchases                  | -                      | -                 | 49,748              | -                     | -                          | 12,023                | -                         | 2,747             | 64,518              |
| Miscellaneous                        | 534                    | -                 | 3,204               | 700                   | 81                         | -                     | 27                        | 11,278            | 15,824              |
| In-kind expenses                     | 31,635                 | -                 | 231,959             | -                     | -                          | -                     | 17,891                    | 6,529             | 288,014             |
| Indirect expenses                    | 24,135                 | 12,695            | 282,906             | 64,035                | 24,741                     | 41,606                | 5,695                     | (456,681)         | (868)               |
| Depreciation                         | 1,721                  | 1,174             | 66,789              | 2,668                 | 3,375                      | 20,346                | 129                       | 55,887            | 152,089             |
| <b>Total program expenses</b>        | <b>366,387</b>         | <b>133,778</b>    | <b>2,446,152</b>    | <b>417,434</b>        | <b>219,069</b>             | <b>434,734</b>        | <b>72,786</b>             | <b>460,320</b>    | <b>4,550,660</b>    |
| Administrative and general           | -                      | -                 | -                   | -                     | -                          | -                     | -                         | -                 | -                   |
|                                      | <b>\$ 366,387</b>      | <b>\$ 133,778</b> | <b>\$ 2,446,152</b> | <b>\$ 417,434</b>     | <b>\$ 219,069</b>          | <b>\$ 434,734</b>     | <b>\$ 72,786</b>          | <b>\$ 460,320</b> | <b>\$ 4,550,660</b> |
| Program services                     | \$ 366,387             | \$ 133,778        | \$ 2,446,152        | \$ 417,434            | \$ 219,069                 | \$ 434,734            | \$ 72,786                 | \$ 460,320        | \$ 4,550,660        |
| Support services:                    |                        |                   |                     |                       |                            |                       |                           |                   |                     |
| Administrative and general           | -                      | -                 | -                   | -                     | -                          | -                     | -                         | -                 | -                   |
| <b>Total expenses</b>                | <b>\$ 366,387</b>      | <b>\$ 133,778</b> | <b>\$ 2,446,152</b> | <b>\$ 417,434</b>     | <b>\$ 219,069</b>          | <b>\$ 434,734</b>     | <b>\$ 72,786</b>          | <b>\$ 460,320</b> | <b>\$ 4,550,660</b> |

The Notes to Financial Statements are an integral part of this statement.



**SUPPORT TO ELIMINATE POVERTY, INC.**

**STATEMENT OF FUNCTIONAL EXPENSE**

**For the Year Ended June 30, 2014**

|   | <b>Senior Services</b> | <b>CSBG</b>       | <b>Head Start</b>   | <b>Youth Services</b> | <b>Homeless<br/>Prevention</b> | <b>Housing</b>    | <b>Weatherization</b> | <b>Financial<br/>Services</b> | <b>Other Programs</b> | <b>Agency</b>     | <b>Total Agency</b> |
|---|------------------------|-------------------|---------------------|-----------------------|--------------------------------|-------------------|-----------------------|-------------------------------|-----------------------|-------------------|---------------------|
| Salaries and wages                              | \$ 99,784              | \$ 61,194         | \$ 1,060,257        | \$ 300,754            | \$ 79,589                      | \$ 49,382         | \$ 134,031            | \$ -                          | \$ 81,842             | \$ 272,666        | \$ 2,139,499        |
| Fringe benefits                                 | 18,225                 | 11,050            | 200,640             | 53,688                | 14,912                         | 8,912             | 25,326                | -                             | 15,263                | 62,974            | 410,990             |
| Tuition, training, and travel                   | 4,722                  | 9,837             | 51,098              | 8,262                 | 8,718                          | 2,522             | 8,436                 | -                             | 11,981                | 1,195             | 106,771             |
| Insurance                                       | 147                    | -                 | 10,735              | 1,793                 | 147                            | -                 | 5,199                 | -                             | 111                   | 10,527            | 28,659              |
| Consulting and contracting                      | 1,447                  | 20,152            | 22,919              | 3,875                 | 558                            | 44,673            | 71,240                | -                             | 2,110                 | 33,660            | 200,634             |
| Food purchases and<br>kitchen services          | 122,231                | -                 | 152,960             | 13,999                | -                              | -                 | 74                    | -                             | 289                   | (125,913)         | 163,640             |
| Program supplies                                | 3,462                  | 2,234             | 17,101              | 8,459                 | 448                            | -                 | 5,049                 | -                             | 1,977                 | 7,394             | 46,124              |
| Occupancy                                       | 7,533                  | 11,851            | 48,893              | 18,718                | 9,019                          | 2,067             | 12,950                | -                             | 9,401                 | 48,601            | 169,033             |
| Printing and duplication                        | 570                    | 6,593             | 13,314              | 5,191                 | 1,063                          | 363               | 719                   | -                             | 1,102                 | (1,470)           | 27,445              |
| Student/parent activities                       | -                      | -                 | 4,560               | 7,446                 | -                              | -                 | -                     | -                             | -                     | -                 | 12,006              |
| Medical, dental, and<br>health services         | 562                    | 450               | 5,663               | 274                   | -                              | -                 | 925                   | -                             | 25                    | 276               | 8,175               |
| Support services                                | -                      | -                 | -                   | -                     | 148,504                        | -                 | -                     | -                             | 3,640                 | -                 | 152,144             |
| Meeting expenses                                | -                      | 2,253             | 1,640               | 1,281                 | -                              | 16                | 228                   | -                             | 171                   | 711               | 6,300               |
| Automobile expense                              | 39,170                 | 1,193             | 12,567              | 2,572                 | 22                             | 649               | 10,150                | -                             | -                     | (200)             | 66,123              |
| Tools and equipment                             | -                      | 900               | 439                 | 4,142                 | -                              | -                 | 2,563                 | -                             | 20                    | 226               | 8,290               |
| Materials purchases                             | -                      | -                 | -                   | -                     | -                              | 5,302             | 22,975                | -                             | -                     | 324               | 28,601              |
| In-kind expenses                                | 26,758                 | -                 | 232,924             | -                     | -                              | -                 | -                     | -                             | 615                   | -                 | 260,297             |
| Indirect expenses                               | 19,782                 | 9,572             | 213,663             | 61,070                | 15,660                         | 9,837             | 26,743                | -                             | 13,855                | (170,755)         | 199,427             |
| Depreciation                                    | 3,406                  | 4,577             | 60,950              | 8,034                 | 1,177                          | 958               | 22,093                | -                             | 1,299                 | 69,458            | 171,952             |
| <b>Total program expenses</b>                   | <b>347,799</b>         | <b>141,856</b>    | <b>2,110,323</b>    | <b>499,558</b>        | <b>279,817</b>                 | <b>124,681</b>    | <b>348,701</b>        | <b>-</b>                      | <b>143,701</b>        | <b>209,674</b>    | <b>4,206,110</b>    |
| <b>Administrative and general</b>               | <b>938</b>             | <b>24,773</b>     | <b>11,904</b>       | <b>7,754</b>          | <b>811</b>                     | <b>1,327</b>      | <b>8,611</b>          | <b>-</b>                      | <b>3,329</b>          | <b>104,462</b>    | <b>163,909</b>      |
|   | <b>\$ 348,737</b>      | <b>\$ 166,629</b> | <b>\$ 2,122,227</b> | <b>\$ 507,312</b>     | <b>\$ 280,628</b>              | <b>\$ 126,008</b> | <b>\$ 357,312</b>     | <b>\$ -</b>                   | <b>\$ 147,030</b>     | <b>\$ 314,136</b> | <b>\$ 4,370,019</b> |
| Program services                                | \$ 347,799             | \$ 141,856        | \$ 2,110,323        | \$ 499,558            | \$ 279,817                     | \$ 124,681        | \$ 348,701            | \$ -                          | \$ 143,701            | \$ 209,674        | \$ 4,206,110        |
| Support services:<br>Administrative and general | 938                    | 24,773            | 11,904              | 7,754                 | 811                            | 1,327             | 8,611                 | -                             | 3,329                 | 104,462           | 163,909             |
| <b>Total expenses</b>                           | <b>\$ 348,737</b>      | <b>\$ 166,629</b> | <b>\$ 2,122,227</b> | <b>\$ 507,312</b>     | <b>\$ 280,628</b>              | <b>\$ 126,008</b> | <b>\$ 357,312</b>     | <b>\$ -</b>                   | <b>\$ 147,030</b>     | <b>\$ 314,136</b> | <b>\$ 4,370,019</b> |

**SUPPORT TO ELIMINATE POVERTY, INC.**

**STATEMENTS OF CASH FLOWS**  
**For the Years Ended June 30, 2015 and 2014**

|   | <b>2015</b>       | <b>2014</b>      |
|---|-------------------|------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                   |                  |
| Change in Net Assets  | \$ (255,549)      | \$ (206,942)     |
| Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities |                   |                  |
| Depreciation  | 152,089           | 171,952          |
| Loss on disposal of property, plant, and equipment  | 1,155             | -                |
| Unrealized gains on investments   | 2,178             | (2,023)          |
| Change in accounts receivable   | 189,828           | (153,322)        |
| Change in inventory   | (5,833)           | (10,302)         |
| Change in prepaid expenses  | (21,053)          | 15,874           |
| Change in accounts payable and other accrued expenses   | 40,373            | 47,098           |
| Change in advances from grantors  | (39,301)          | 9,301            |
| Change in security deposits returnable  | 900               | 60               |
|   | <u>64,787</u>     | <u>(128,304)</u> |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                   |                  |
| Proceeds from disposals of property, plant, and equipment   | 109,827           | -                |
| Purchases of investments  | (2,270)           | (2,587)          |
|   | <u>107,557</u>    | <u>(2,587)</u>   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |                   |                  |
| Principal payments on long-term debt  | (24,122)          | (23,265)         |
| Change in bank line of credit   | (95,000)          | (17,496)         |
|   | <u>(119,122)</u>  | <u>(40,761)</u>  |
| <b>Net increase (decrease) in cash and cash equivalents</b>   | 53,222            | (171,652)        |
| Cash and cash equivalents at beginning of year  | 84,821            | 256,473          |
|   | <u>\$ 138,043</u> | <u>\$ 84,821</u> |
| <b>SUPPLEMENTAL DISCLOSURES</b>   |                   |                  |
| Cash paid for interest  | <u>\$ 82,635</u>  | <u>\$ 88,628</u> |

**SUPPORT TO ELIMINATE POVERTY, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

**Note 1. Summary of Significant Accounting Policies**

Organization and nature of activities:

Support to Eliminate Poverty, Inc. (the "Corporation") is a nonprofit Corporation organized to strengthen the lives of underprivileged children and adults in the communities the Corporation serves. The Corporation focuses on educating and enriching the lives of children through the Head Start program as well as several day care and youth programs administered by the organization. In addition, the organization provides housing assistance and fuel assistance to adults in need throughout the service area.

Financial statement presentation and accounting:

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of financial statements in conformity with these principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at 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.

The accompanying financial statements present information regarding the Corporation's financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. The three classes are differentiated based on the existence or absence of donor-imposed restrictions.

**Unrestricted** net assets are free of donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties. Revenues, gains, and losses that are not temporarily or permanently restricted by donors are included in this classification. Expenses are reported as decreases in this classification.

**Temporarily restricted** net assets are limited in use by donor-imposed stipulations that expire either by the passage of time or that can be fulfilled by action of the Corporation pursuant to those stipulations.

**Permanently restricted** net assets are amounts required by donors to be held in perpetuity; however, generally, the income on these assets is available to meet various operating needs. Currently, the Corporation does not have any permanently restricted net assets.

Cash and cash equivalents:

For purposes of the statement of cash flows, the Corporation considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Accounts receivable:

Accounts receivable are stated at the amount management expects to collect from outstanding grants and contracts. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual receivables from grants and contracts. There is no allowance for doubtful accounts at June 30, 2015 and 2014, as accounts receivable are deemed to be fully collectible by management.

**SUPPORT TO ELIMINATE POVERTY, INC.**

**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**Note 1. Summary of Significant Accounting Policies (Continued)**

Investments:

Financial Accounting Standards Board *Accounting Standards Codification 820, Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. Fair Value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, and establishes a framework for measuring fair value. A three-level hierarchy establishes fair value measurements based upon the transparency of inputs to the valuation on an asset or liability as of the measurement date as follows:

- Level 1 - inputs to the valuation methodology are quoted market prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 - inputs to the valuation methodology include quoted market prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 - inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Investment income or loss (including gains and losses on investments, interest, and dividends) is included in the statement of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law.

Recognition of donor-restricted contributions:

Support that is restricted by the donor is reported as an increase in unrestricted 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 temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Concentration of credit risk:

Financial instruments that potentially expose the Corporation to concentration of credit risk consists primarily of cash and cash equivalents. At times, cash balances held at financial institutions were in excess of FDIC insurance limits. Cash and cash equivalents are maintained at high-quality financial institutions. The Corporation has not experienced any losses on its cash and cash equivalents.

Inventory:

Inventory consists of supplies purchased to facilitate the weatherization program and are valued at cost.

Property, plant, and equipment:

Property, plant, and equipment are stated at cost. Expenditures for acquisitions, renewals, and betterments are capitalized; whereas maintenance and repair costs are charged to expense as incurred. When properties are retired or otherwise disposed of, the appropriate accounts are relieved of costs and accumulated depreciation and any gain or loss is credited or charged to income.

**SUPPORT TO ELIMINATE POVERTY, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

**Note 1. Summary of Significant Accounting Policies (Continued)**

Property, plant, and equipment: (Continued)

Depreciation of property, plant, and equipment is provided using the straight-line method over estimated useful lives which range from five to fifteen years for furniture and equipment and thirty-one and thirty-five years for the buildings.

Property and equipment purchased with state and federal revenues may have a reversionary interest in the property as well as the determination of use of any proceeds from the sale of these assets.

Income taxes:

The Corporation is exempt from Federal income taxes under Section 501(c)(3) of the *Internal Revenue Code*.

Functional allocation of expenses:

The costs of providing the Corporation's programs and support services have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated between program and support services benefitted.

In-kind donations:

The Corporation records as income and expense the value of donated space, services, and equipment at their fair value as determined by the donor at the date of the gift.

**Note 2. Investments**

Investments are stated at fair value, using Level 1 inputs, and consist of balanced mutual funds.

Investments are being held in lieu of required reserves of \$36,096 in connection with two loans from the United States Department of Agriculture as described in Note 3, Long-Term Debt.

**Note 3. Long-Term Debt**

The Corporation obtained a loan from the United States Department of Agriculture for \$1,108,000 to build a facility in Patrick County, Virginia. The facility houses operations for Patrick County including the Head Start program, housing and weatherization programs, senior meals program, and other supportive services. The loan is payable in monthly installments of approximately \$4,942, over forty years, with an interest rate of 4.375%. The loan is secured by the property. The loan agreement requires monthly payments of \$495 to a reserve account until a sum of \$59,304 is accumulated for future repairs and improvements to the facility.

The Corporation obtained a second loan from the United States Department of Agriculture for \$145,000 in connection with the facility in Patrick County, Virginia. The loan is payable in monthly installments of \$614 over forty years, with an interest rate of 4.00%. The loan is secured by the property. The loan agreement requires monthly payments of \$69 to a reserve account until a sum of \$8,184 is accumulated for future repairs and improvements to the facility.

**SUPPORT TO ELIMINATE POVERTY, INC.**

**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**Note 3. Long-Term Debt (Continued)**

On August 31, 2009, the Corporation obtained a bank promissory loan for \$522,000 to purchase a twelve unit apartment building located at 265 Dent Street in the Town of Rocky Mount, Virginia. The loan is payable in monthly installments of \$3,027, until September 5, 2016 at which time the final payment of \$471,016 will be due. The loan accrues interest at 5.55% and is secured by a deed of trust on the apartment building at 265 Dent Street and the corporate main office property at 200 Dent Street in the Town of Rocky Mount, Virginia.

Loan payment maturities for all of the specified notes are as follows:

|                        | <u>Patrick County<br/>Facility</u> | <u>Patrick County<br/>Furnishings<br/>and Equipment</u> | <u>Dent Street<br/>Apartments</u> | <u>Total</u>        |
|------------------------|------------------------------------|---|-----------------------------------|---------------------|
| 2016                   | \$ 13,966                          | \$ 2,178  | \$ 9,638                          | \$ 25,782           |
| 2017                   | 14,714                             | 1,984   | 469,478                           | 486,176             |
| 2018                   | 15,370                             | 2,065   | -                                 | 17,435              |
| 2019                   | 16,057                             | 2,150   | -                                 | 18,207              |
| 2020                   | 16,656                             | 2,222   | -                                 | 18,878              |
| 2021 and<br>thereafter | <u>963,049</u>                     | <u>127,073</u>  | <u>-</u>                          | <u>1,090,122</u>    |
| Total                  | <u>\$ 1,039,812</u>                | <u>\$ 137,672</u>                                       | <u>\$ 479,116</u>                 | <u>\$ 1,656,600</u> |

**Note 4. Line of Credit**

The Corporation has a \$300,000 line of credit with Franklin Community Bank that will remain in effect until May 11, 2017. The line of credit accrues interest on any outstanding balance at a rate of 5.50%. The line of credit is collateralized by a credit line deed of trust on real estate at 200 Dent Street, Rocky Mount, Virginia.

**Note 5. Employee Benefit Plan**

The Corporation has a defined contribution plan covering all employees with at least one year of employment and the accumulation of 1,000 hours of services. The employer may make discretionary contributions to the plan on behalf of plan participants. The allocation of employer contributions will be made in the ratio that each participant's compensation for the plan year bears to the combined total compensation of all participants eligible for contribution. All contributions to the plan are fully vested upon deposit. Total employer contributions accrued to the plan for the years ended June 30, 2015 and 2014 are \$150,876 and \$84,433, respectively.

**Note 6. Commitments and Contingent Liabilities**

Grant expenditures are subject to audit by funding agencies to determine compliance with various grant requirements. Should any expenditures be disallowed or matching requirements not met, the Corporation may be required to make refunds to funding agencies.

**SUPPORT TO ELIMINATE POVERTY, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

**Note 7. Unrestricted Net Assets**

The Board of Directors has designated the unrestricted net assets for the following purposes for the years ended December 31 as follows:

|                           | <u>2015</u>      | <u>2014</u>   |
|---------------------------|------------------|---------------|
| Emergency Program funding | \$ 20,000        | \$ 20,000     |
| Building Improvement fund | 40,177           | 40,177        |
|                           | <u>\$ 60,177</u> | <u>60,177</u> |

**Note 8. Operating Lease Commitments**

The Corporation has entered into various operating leases for program facilities requiring accumulated monthly rental payments of approximately \$1,300. Original lease terms vary from monthly to two years.

**Note 9. Evaluation of Subsequent Events**

The Corporation has evaluated subsequent events through May 26, 2016, the date which the financial statements were available to be issued.

Subsequent to year end, the Corporation sold the Dent Street Apartments and satisfied the outstanding debt obligation.

**SUPPORT TO ELIMINATE POVERTY, INC.**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended June 30, 2015**

| Federal Granting Agency/<br>Recipient State Agency/<br>Grant Program /Grant Number   | <b>Federal<br/>Catalog<br/>Number</b> | <b>Federal<br/>Expenditures</b> |
|--|---------------------------------------|---------------------------------|
| Department of Agriculture:<br>Pass-Through Payments:<br>Child and Adult Care Food Program  | 10.558                                | \$ 62,467                       |
| Department of Health and Human Services:<br>Direct Payments:<br>Administration for Children, Youth, and Families – Head Start and<br>Early Head Start Grant      | 93.600                                | 2,151,727                       |
| Pass-Through Payments:<br>Virginia Department of Social Services<br>Community Services Block Grant   | 93.569                                | 133,778                         |
| Community Services Block Grant – Virginia CARES  | 93.569                                | 54,253                          |
| Pass-Through Payments:<br>Virginia Department for the Aging<br>Southern Area Agency on Aging, Inc.<br>Nutrition Services Incentive Program – Congregate Meals    | 93.053                                | 76,305                          |
| Nutrition Services Incentive Program – Home Delivered Meals  | 93.053                                | 178,145                         |
| Transportation Services – Title IIIB   | 93.044                                | 80,303                          |
| Pass-Through Payments:<br>Department of Housing and Community Development<br>Low Income Home Energy Assistance   | 93.568                                | 272,890                         |
| Department of Social Services<br>Crisis Heating and Cooling  | 93.568                                | 11,834                          |
| Department of Energy:<br>Pass-Through Payments:<br>Department of Housing and Community Development<br>DOE  | 81.042                                | 72,565                          |
| Department of Housing and Urban Development:<br>Pass-Through Payments:<br>Virginia Housing Development Authority<br>Section 8 Housing Assistance Payment Program | 14.195                                | 77,350                          |
| Total Schedule of Expenditures of Federal Awards   |                                       | <u>\$ 3,171,617</u>             |

Note A-Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the general grant activity of Support to Eliminate Poverty, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.



**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  
Support to Eliminate Poverty, Inc. (STEP)  
Rocky Mount, Virginia

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Support to Eliminate Poverty, Inc. (STEP), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 26, 2016.

**Internal Control over Financial Reporting**

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

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

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

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether STEP'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.

*Brown, Edwards & Company, L.L.P.*

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia  
May 26, 2016



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH  
*OMB CIRCULAR A-133***

To the Board of Directors  
Support to Eliminate Poverty, Inc.  
Rocky Mount, Virginia

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

We have audited the Support to Eliminate Poverty, Inc. (STEP)'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of STEP's major federal programs for the year ended June 30, 2015. The entity's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the entity'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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 the entity'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 the entity's compliance.

***Opinion on Each Major Federal Program***

**In our opinion, STEP, 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, 2015.**

## Report on Internal Control Over Compliance

Management of STEP 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 STEP's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the STEP's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Brown, Edwards & Company, L.L.P.*

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia  
May 26, 2016

**SUPPORT TO ELIMINATE POVERTY, INC.**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2015**

**A. SUMMARY OF AUDITOR'S RESULTS**

1. The auditor's report expresses an **unmodified opinion** on the financial statements.
2. **No significant deficiencies** relating to the audit of the financial statements were reported in the 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*.
3. **No instances of noncompliance** material to the financial statements were disclosed during the audit.
4. **No significant deficiencies** relating to the audit of the major federal award programs were reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs expresses an **unmodified opinion**.
6. The audit disclosed **no audit findings relative to the major programs**.
7. The programs tested as major programs included:

|        |  |
|--------|--|
| 93.600 | Head Start and Early Head Start Grants |
|--------|--|
8. The **threshold** for distinguishing Types A and B programs was **\$300,000**.
9. STEP was determined not to be a **low-risk auditee**.

**B. FINDINGS – FINANCIAL STATEMENT AUDIT**

None.

**C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT**

None.