

SOLUTIONS THAT EMPOWER PEOPLE, INC.

FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2023

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SOLUTIONS THAT EMPOWER PEOPLE, INC.

Officers, Directors, and Committees

As of June 30, 2023

Board of Directors

Officers

Angela Phillips
President

Heather Kesterson
Treasurer

Sherri Perez
Vice President

Rita Murphy
Secretary

Members

Brandy McKenzie
Cooper Brown

Michael Ferguson
Betty Kingery
Kendall Hall

Patti O'Neal
Douglas Perry

Agency Officials

Kristy Pickeral
Interim Executive Director

Mary Prillaman
Finance Director

Financial Statements



Independent Auditors' Report

To the Board of Directors
Solutions that Empower People, Inc. (STEP)
Rocky Mount, VA

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Solutions that Empower People, Inc. (STEP) (a nonprofit organization), which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Solutions that Empower People, Inc. (STEP) as of June 30, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit 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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Solutions that Empower People, Inc. (STEP) and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Change in Accounting Principle

As described in Note 11 to the financial statements, in 2023, Solutions that Empower People, Inc. (STEP) adopted new accounting guidance, FASB ASU 2016-02, *Leases (Topic 842)*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Solutions that Empower People, Inc. (STEP)'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Solutions that Empower People, Inc. (STEP)'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Solutions that Empower People, Inc. (STEP)'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

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, as required by Title 2 U.S. *Code of Federal Regulations* 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. 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 expenditures of federal awards 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 February 22, 2024 on our consideration of Solutions that Empower People, Inc. (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 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 Solutions that Empower People, Inc. (STEP)'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 Solutions that Empower People, Inc. (STEP)'s internal control over financial reporting and compliance.

Robinson Jarrett, Cox, Associates

Blacksburg, Virginia
February 22, 2024

Solutions that Empower People, Inc. (STEP)

Statement of Financial Position
As of June 30, 2023

	<u>2023</u>
Assets:	
Current assets:	
Cash and cash equivalents	\$ 670,923
Grants receivable	387,183
Accounts receivable	41,682
Investments	152,661
Total current assets	<u>\$ 1,252,449</u>
Other assets:	
Cash Restricted for Debt Reserve	\$ 66,672
Noncurrent assets:	
Property and Equipment	
Land	\$ 265,286
Buildings and building improvements	2,558,274
Vehicles	678,478
Furniture and equipment	431,739
Accumulated depreciation	(2,050,850)
Net property and equipment	<u>\$ 1,882,927</u>
Operating lease right-of-use assets	
Operating lease right-of-use asset	\$ 31,964
Leased asset amortization	(18,071)
Total operating lease right-of-use assets	<u>\$ 13,893</u>
Total noncurrent assets	<u>\$ 1,896,820</u>
Total assets	<u><u>\$ 3,215,941</u></u>
Liabilities:	
Current liabilities:	
Accounts payable	\$ 193,006
Interest payable	2,033
Accrued liabilities	11,718
Compensated absences, current portion	95,085
Notes payable, current portion	28,782
Operating lease payable, current portion	13,893
Total current liabilities	<u>\$ 344,517</u>
Noncurrent liabilities:	
Compensated absences, noncurrent portion	\$ 31,695
Notes payable, noncurrent portion	857,003
Total noncurrent liabilities	<u>\$ 888,698</u>
Total liabilities	<u>\$ 1,233,215</u>
Net assets:	
Without donor restrictions	\$ 1,916,054
With donor restrictions:	
Debt Reserves	66,672
Total net assets	<u>\$ 1,982,726</u>
Total liabilities and net assets	<u><u>\$ 3,215,941</u></u>

The accompanying notes to financial statements are an integral part of this statement.

Solutions that Empower People, Inc. (STEP)

Statement of Activities
For the Year Ended June 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total 2023
Revenues and other support:			
Grants	\$ 4,831,132	\$ -	\$ 4,831,132
Contributions	15,812	-	15,812
Program service fees	1,044	-	1,044
Realized and unrealized gain (loss) on investments	24,700	-	24,700
Dividend income	260	-	260
In-kind contributions	146,520	-	146,520
Miscellaneous income	14,821	-	14,821
Proceeds from sale of fixed assets	2,650	-	2,650
Debt reserve funding requirements	(43,356)	43,356	-
	<u>\$ 4,993,583</u>	<u>\$ 43,356</u>	<u>\$ 5,036,939</u>
Total revenues and other support			
Expenses:			
Program services:			
Head Start	\$ 2,734,644	\$ -	\$ 2,734,644
Youth Services	268,969	-	268,969
Housing	772,426	-	772,426
Senior Services	421,318	-	421,318
Homeless Prevention	185,377	-	185,377
CSBG	289,234	-	289,234
Financial Services	4,827	-	4,827
Supporting services:			
Management and general	149,744	-	149,744
	<u>\$ 4,826,539</u>	<u>\$ -</u>	<u>\$ 4,826,539</u>
Total expenses			
Changes in net assets	\$ 167,044	\$ 43,356	\$ 210,400
Net assets, beginning	<u>1,749,010</u>	<u>23,316</u>	<u>1,772,326</u>
Net assets, ending	<u>\$ 1,916,054</u>	<u>\$ 66,672</u>	<u>\$ 1,982,726</u>

The accompanying notes to financial statements are an integral part of this statement.

Solutions that Empower People, Inc. (STEP)

Statement of Functional Expenses
For the Year Ended June 30, 2023

	Program Services						Supporting Services		Totals	
	Head Start	Youth Services	Housing	Senior Services	Homeless Prevention	CSBG	Financial Services	Total Program Services		Management and General
Personnel salaries	\$ 1,279,501	\$ 102,283	\$ 109,674	\$ 108,108	\$ 45,404	\$ 116,359	\$ -	\$ 1,761,329	\$ 90,072	\$ 1,851,401
Fringe benefits	228,814	17,577	19,692	16,331	8,251	20,470	-	311,135	16,523	327,658
Advertising	1,582	-	649	3,737	3,545	9,375	421	19,309	-	19,309
Consultants and contracts	107,737	1,442	550,778	214	408	30,447	7,579	698,605	78,757	777,362
Tuition, training and travel	52,352	4,181	16,649	463	4,192	6,689	-	84,526	873	85,399
Repairs and maintenance	172,239	55,888	9,030	8,840	-	-	-	245,997	(245,997)	-
Postage and printing	4,603	2,021	131	-	6	3,612	-	10,373	2,100	12,473
Office supplies	2,871	643	1,539	-	219	7,511	-	12,783	708	13,491
Program services expenses - in kind	42,301	7,388	13,189	7,638	103,504	42,749	-	216,769	1,417	218,186
Program supplies	124,320	-	-	-	-	-	-	124,320	-	124,320
Supplies and materials	74,668	6,228	3,847	13,430	186	17,648	-	116,007	8,416	124,423
Meeting expenses	-	2,217	192	249	1,400	50,283	-	54,341	422	54,763
Automobile expenses	3,822	-	-	-	1,053	2,249	-	7,124	300	7,424
Food and kitchen supplies	37,075	880	(420)	28,290	374	1,210	-	67,409	840	68,249
Dues and subscriptions	120,837	8,828	-	186,053	42	227	-	315,987	(149,647)	166,340
Space costs (occupancy)	13,713	3,375	1,500	3,135	2,200	20,868	-	44,791	80	44,871
Space costs (occupancy)-in kind	62,788	28,943	446	4,040	611	779	-	97,607	57,792	155,399
Insurance	22,200	-	-	-	-	-	-	22,200	-	22,200
Interest expense	21,422	1,983	1,728	8,181	-	9,073	-	42,387	1,853	44,240
Depreciation expense	-	-	-	-	-	-	-	-	38,962	38,962
Amortization expense	-	-	11,346	-	6,725	-	-	18,071	185,297	203,368
Bank charges	-	22	-	2,092	1,200	-	-	3,314	-	3,314
Miscellaneous expenses	607	(3,802)	1,496	-	6,057	(95,980)	(3,173)	(94,795)	6,517	(86,278)
Allocated Indirect	361,192	28,872	30,960	30,517	-	45,665	-	497,206	25,292	522,498
Total expenses	\$ 2,734,644	\$ 268,969	\$ 772,426	\$ 421,318	\$ 185,377	\$ 289,234	\$ 4,827	\$ 4,676,795	\$ 149,744	\$ 4,826,539

The accompanying notes to financial statements are an integral part of this statement.

Solutions that Empower People, Inc. (STEP)

Statement of Cash Flows
For the Year Ended June 30, 2023

	<u>2023</u>
Cash flows from operating activities:	
Change in net assets	\$ 210,400
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:	
Depreciation and amortization expense	203,368
Principal payment on operating lease liabilities	(18,071)
Unrealized gain (loss) on investments	(24,700)
(Increase) decrease in assets:	
Grants receivable	62,301
Accounts receivable	31,635
Increase (decrease) in liabilities:	
Accounts payable	148,561
Accrued liabilities	(20,176)
Accrued payroll	(68,714)
Compensated absences	(8,013)
	<u>516,591</u>
Net cash provided by (used for) operating activities	\$ <u>516,591</u>
Cash flows from capital and related financing activities:	
Repayment of notes payable	\$ (25,401)
Purchase of property and equipment	(270,562)
	<u>(295,963)</u>
Net cash provided by (used for) capital and related financing activities	\$ <u>(295,963)</u>
Net change in cash and cash equivalents	\$ 220,628
Cash, cash equivalents, and restricted cash, beginning of year	<u>516,967</u>
Cash, cash equivalents, and restricted cash, end of year	<u><u>\$ 737,595</u></u>

The accompanying notes to financial statements are an integral part of this statement.

Supplemental disclosure for cash flow information

Noncash transactions	
Issuance of operating lease liability	\$ 13,733
Interest paid	38,962

The accompanying notes to financial statements are an integral part of this statement.

Solutions that Empower People, Inc.

Notes to the Financial Statements
As of June 30, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Nature of Activities:

Solutions that Empower People, Inc. (the Organization) is a nonstock non-profit corporation organized as a Community Action Agency serving the Virginia localities of Franklin, Patrick, Bedford, Pittsylvania, and Henry counties along with Martinsville and Danville city. The organization was organized to plan and coordinate programs designed to combat problems of poverty and seek the elimination or reduction of conditions of poverty as they affected the inhabitants of the communities served. Principal sources of revenue are federal and state grants primarily designed to aid low-income individuals or other disadvantaged groups.

The Board of Directors is composed of representatives of local governments, the disadvantaged, and community interest groups. The Board elects officers from its members and employs a full-time Executive Director to manage Organization affairs.

B. Basis of Accounting:

The Organization maintains its assets and liabilities, and records its income and expenses, by use of the accrual basis of accounting. Under the accrual basis, revenues are recognized in the accounting period in which they are earned, while expenses are recognized in the accounting period in which the related liability is incurred.

C. Financial Statement Presentation:

The Organization is required to report information regarding its financial position and activities according to two classes of net assets based on the existence or absence of donor-imposed restrictions:

Net assets without donor restrictions - Net assets not subject to donor-imposed stipulations.

Net assets with donor restrictions - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization as well as net assets whose use is limited by donor-imposed time and/or purpose restrictions.

Support that is restricted by the donor is reported as an increase in net assets without donor restrictions 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 net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

D. Income Taxes:

The Organization is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. A form 990, as required by the Internal Revenue Service, has been filed.

E. Cash and Cash Equivalents:

For purposes of the statement of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months from the date of acquisition or less to be cash equivalents.

F. Accounts Receivable:

Accounts receivable are stated at book value less the allowance for doubtful accounts, if any. The Organization provides for losses on accounts receivable using the allowance method when applicable. As of June 30, 2023, no allowance was considered necessary.

G. Prepaid Expenses:

Certain payments to vendors represent costs applicable to future accounting periods and are recorded as prepaid expenses. The cost of prepaid expenses is recorded as expenses when consumed rather than when purchased.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

H. Inventories:

Inventories consist of supplies, materials, and equipment and are carried at the lower of cost or net realizable value. Inventories are tracked utilizing the first-in, first-out method. All inventory items are less than \$5,000 individually. Items over \$5,000 are fixed assets and are depreciated accordingly.

I. Property and Equipment:

Property and equipment acquired by the Organization are considered to be owned by Solutions that Empower People, Inc. However, funding sources may have a reversionary interest in the property as well as the determination of use of any proceeds from the sale of these assets.

All acquisitions of property and equipment in excess of \$5,000 with a useful life of greater than one year are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of acquisition. Depreciation is computed using the straight-line method over the estimated useful life of the asset:

Buildings and Improvements	30-50 Years
Vehicles	5 Years
Equipment	5-10 Years

J. Donated Goods and Services:

The Organization receives a significant amount of donated services from unpaid volunteers who assist in senior services and meal delivery. No amounts have been recognized in the statement of activities because the criteria for recognition have not been satisfied.

Donated goods and services that meet recognition criteria are detailed below:

<u>Type</u>	<u>Amount</u>	<u>Donor Restriction</u>	<u>Fair Value Techniques</u>
Space	\$ 22,200	None	Fair value of comparable space in the area
IT contractual services	124,320	None	Contractors' standard hourly rates
Total	<u>\$ 146,520</u>		

K. Use of Estimates:

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures. Actual results may differ from these estimates and assumptions.

L. Functional Allocation of Expenses:

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. See Note 7 for additional information.

M. Compensated Absences:

Upon separation of employment the Organization's employees are entitled to the amount of unused vacation time that has accrued. At June 30, 2023, this amount totaled \$126,780.

N. Concentration of Revenue:

During the year, the Organization received 76% of its support from various federal funding agencies and 19% through state and local grants.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

O. Fair Value Measurements

Fair value is the 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. In determining fair value, the Organization uses various methods including market, income, and cost approaches. Based on these approaches, the Organization often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Organization utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the Organization is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value are classified and disclosed in one of the following three categories.

Level 1 - Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury and federal agency securities and federal agency mortgage-backed securities, which are traded by dealers or brokers in active markets. Inputs to valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 - Valuations for assets and liabilities traded in less active dealer or broker markets. Inputs to valuations are obtained from third party pricing services for identical or similar assets or liabilities and include observable inputs other than quoted prices in Level 1, such as quoted prices for similar assets or liabilities.

Level 3 - Inputs to valuations for assets and liabilities that are derived from other unobservable inputs that are supported by little or no market activity and are significant to the fair value, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions.

For the year ended June 30, 2023, the application of valuation techniques applied to similar assets and liabilities has been consistent. The following is a description of the valuation methodologies used for instruments measured at fair value:

Cash and cash equivalents: The carrying amounts reported in the statement of financial position approximate fair values because of the short maturities of those instruments.

Investments: Investments include money market funds, mutual funds, and stocks. The fair values of investments are based on quoted market prices for those or similar investments.

As of June 30, 2023, all investments are considered Level 1 investments.

NOTE 2 - DEPOSITS:

The Federal Deposit Insurance Corporation insures all bank accounts maintained by the Organization thereby limiting potential credit risk to balances in excess of \$250,000. The deposit balance does periodically exceed the FDIC \$250,000 insurance cap, but to date the Organization has not experienced any losses on such accounts. As of June 30, 2023, the Organization had \$507,299 in excess of the FDIC insured amounts.

Solutions that Empower People, Inc.

Notes to the Financial Statements
As of June 30, 2023 (continued)

NOTE 3 - PROPERTY AND EQUIPMENT:

As of June 30, 2023, property and equipment consisted of:

<u>Category</u>	<u>Amount</u>
Land	\$ 265,286
Buildings and improvements	2,558,274
Vehicles	678,478
Furniture and equipment	431,739
Less: accumulated depreciation	(2,050,850)
Net property and equipment	<u>\$ 1,882,927</u>

Depreciation expense for the year ended June 30, 2023 totaled \$185,297.

NOTE 4 - INVESTMENTS

As of June 30, 2023, the investments are recorded at fair value and considered Level 1 investment. Investments consist of the following at June 30:

<u>Investment Type</u>	<u>Fair Value</u>
Money Market Funds	\$ 3,801
Mutual Funds	72,042
Stocks	76,818
Total	<u>\$ 152,661</u>

The Organization does not have a formally adopted investment policy.

NOTE 5 - LONG-TERM OBLIGATIONS:

Changes in Long-term Obligations:

The following is a summary of changes in long-term obligations of the Organization for the fiscal year ended June 30, 2023:

	<u>Balance</u> <u>Beginning of Year</u>	<u>Increases/</u> <u>Issuances</u>	<u>Decreases/</u> <u>Retirements</u>	<u>Balance</u> <u>End of Year</u>	<u>Due Within</u> <u>One Year</u>
Notes Payable	\$ 911,186	\$ -	\$ (25,401)	\$ 885,785	\$ 28,782
Compensated absences	134,793	93,082	(101,095)	126,780	95,085
Total	<u>\$ 1,045,979</u>	<u>\$ 93,082</u>	<u>\$ (126,496)</u>	<u>\$ 1,012,565</u>	<u>\$ 123,867</u>

Solutions that Empower People, Inc.

Notes to the Financial Statements
As of June 30, 2023 (continued)

NOTE 5 - LONG-TERM OBLIGATIONS: (CONTINUED)

Annual requirements to amortize long-term obligations and related interest are as follows:

Year Ending	Principal	Interest
June 30,		
2024	\$ 28,782	\$ 37,812
2025	30,244	36,428
2026	31,586	35,086
2027	32,987	33,685
2028	34,362	32,310
2029-2033	196,492	136,868
2034-2038	244,156	89,204
2039-2043	245,762	31,145
2044-2048	31,535	5,305
2049-2050	9,879	292
Totals	<u>\$ 885,785</u>	<u>\$ 438,135</u>

Details of Long-term Obligations:

	Interest Rates	Issue Date	Final Maturity Date	Amount of Original Issue	Balance at June 30	Amount Due Within One Year
Notes Payable:						
RD-01	4.375%	3/11/2009	2049	\$ 1,108,000	\$ 765,972	\$ 26,198
RD-04	4.000%	1/13/2010	2050	145,000	119,813	2,584
Total Notes Payable					<u>\$ 885,785</u>	<u>\$ 28,782</u>
Other Obligations:						
Compensated Absences	n/a	n/a	n/a	n/a	\$ 126,780	\$ 95,085
Total Long-term Obligations					<u>\$ 1,012,565</u>	<u>\$ 123,867</u>

In addition to the monthly payments of principal and interest, the Organization's debt agreement requires that cash funds be deposited in a separate account in amounts equaling 10% of debt service payments, until the amount accumulated equals 12 months of debt service payments. The funds are ultimately to be used for debt retirement. The funds are termed "cash restricted for debt reserve" in the Statement of Financial Position.

NOTE 6 - LEASING ACTIVITIES:

The Organization has operating lease agreements for building spaces. Both of the leases expire in fiscal year 2024 and contain options to renew. Lease terms exclude any extension options that the Organization is not reasonably certain to exercise; therefore, no extensions have been included in the current year calculations. The discount rate is approximated by the prime rate plus 1 as of the lease issuance date for agreements that do not contain an implicit rate.

NOTE 6 - LEASING ACTIVITIES: (CONTINUED)

The following summarized the weighted average remaining lease term and discount rate as of June 30:

	<u>Operating leases</u>
Weighted average remaining lease term	0.79
Discount rate	5%

Total operating lease expense totaled \$19,200 and cash payments totaled \$19,200 for the fiscal year.

Future maturities of lease liabilities are as follows:

<u>Year</u>	<u>Operating Leases</u>
2024	\$ 14,200
Total lease Payments	\$ 14,200
Less interest	(307)
Present value of lease liabilities	<u>\$ 13,893</u>

NOTE 7 - FUNCTIONAL ALLOCATION OF EXPENSES:

Joint costs are those cost incurred for the common benefit of all Organization programs. Based on the type of joint cost, various methods are used to allocate such costs to benefited programs. Following are cost allocation methods utilized:

1. Personnel
General administration and accounting personnel (Executive Director, Deputy Director, Finance Director and Fiscal Staff) record time spent working on specific programs and general Organization matters. Hours identified to a specific program are charged to that program. Hours spent on general Organization matters are charged to an indirect cost pool account with over-runs (salaried, payroll expenses, benefits, etc.) being paid by the Community Services Block Grant. The percentage used to fund the indirect cost pool is determined by the Department of Health and Human resources on an annual basis.
2. Building
Occupancy costs (repairs and maintenance and supplies) are allocated based on square footage of space occupied by a program to the total square footage of the building. Administrative and common area space allocations are based on space occupied by a single program as a ratio of the occupied space of all programs. Utilities, including telephone and internet, are allocated to the Building Pool regardless of location of services.
3. Copy Cost
Copier costs are allocated to the program based on location of the copier, with the exception of multi-purpose or administrative copiers, which are allocated to the Indirect Cost Pool.
4. Insurance
Insurance cost is allocated to a benefited program based on premiums for each coverage (equipment, space, people, etc.).
5. Telephone
Telephone cost allocation is based on the number of phones in each program to the total number of phones in the system.

NOTE 8 - LIQUIDITY AND AVAILABILITY OF FINACIAL ASSETS:

The Organization monitors its liquidity so that it is able to meet its operating needs and other contractual commitments while attempting to maximize the investment of its excess operating cash. The Organization has the following financial assets that could readily be made available within one year of the statement of financial position to fund expenses without limitations:

	2023
Cash and cash equivalents	\$ 670,923
Grants receivable	387,183
Accounts receivable	41,682
Investments	152,661
Total	<u>\$ 1,252,449</u>

The Organization does not have a formal policy related to investing excess cash and maintaining balances but strives to keep funds in highly liquid accounts that are readily convertible to cash should a need arise.

NOTE 9 - CONTINGENT LIABILITIES:

Federal programs in which the Organization participates were audited in accordance with the provisions of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Pursuant to the provisions of this circular all major programs and certain other programs were tested for compliance with applicable grant requirements. While no matters of noncompliance were disclosed by audit, the Federal Government may subject grant programs to additional compliance tests, which may result in disallowed expenditures. In the opinion of management, any future disallowances of current grant program expenditures, would be immaterial.

NOTE 10 - DATE OF MANAGEMENT’S REVIEW:

In preparing these financial statements, management of the Organization has evaluated events and transactions for the potential recognition of disclosure through February 22, 2024, the date the financial statements were available to be issued.

NOTE 11 - ADOPTION OF ACCOUNTING PRINCIPLE:

The FASB issued ASU No. 2016-02, *Leases (Topic 842)*. ASU No. 2016-02 requires that lessees recognize all leases (other than leases with a term of twelve months or fewer) on the balance sheet as lease liabilities, based upon the present value of the lease payments, with corresponding right of use assets. ASU No. 2016-02 also makes targeted changes to other aspects of current guidance, including identifying a lease and lease classification criteria as well as the lessor accounting model, including guidance on separating components of a contract and consideration in the contract. The Organization recognized the following as a result of the adoption of this standard:

Operating Lease Right-Of-Use Asset	\$ 18,231
Operating Lease Liability	<u>\$ 18,231</u>

Compliance Section



**Independent Auditors' 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
Solutions that Empower People, Inc. (STEP)
Rocky Mount, VA**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Solutions that Empower People, Inc. (STEP) (a nonprofit organization), which comprise the statement of financial position as of June 30, 2023, 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 February 22, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Solutions that Empower People, Inc. (STEP)'s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Solutions that Empower People, Inc. (STEP)'s internal control. Accordingly, we do not express an opinion on the effectiveness of Solutions that Empower People, Inc. (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 the 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2023-001 and 2023-002, that we consider to be material weaknesses.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Solutions that Empower People, Inc. (STEP)'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Solutions that Empower People, Inc. (STEP)'s Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on Solutions that Empower People, Inc. (STEP)'s response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. Solutions that Empower People, Inc. (STEP)'s response was not subjected to the other auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on the response.

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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Robinson Jarmon, Cox, Associates

Blacksburg, Virginia
February 22, 2024



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

**To the Board of Directors
Solutions that Empower People, Inc. (STEP)
Rocky Mount, VA**

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Solutions that Empower People, Inc. (STEP)'s compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of Solutions that Empower People, Inc. (STEP)'s major federal programs for the year ended June 30, 2023. Solutions that Empower People, Inc. (STEP)'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, Solutions that Empower People, Inc. (STEP) complied, in all material respects, with the 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, 2023.

Basis for Opinion on Each Major Federal Program

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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Solutions that Empower People, Inc. (STEP) and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Solutions that Empower People, Inc. (STEP)'s compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Solutions that Empower People, Inc. (STEP)'s federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Solutions that Empower People, Inc. (STEP)'s compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists.

The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Solutions that Empower People, Inc. (STEP)'s compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Solutions that Empower People, Inc. (STEP)'s compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Solutions that Empower People, Inc. (STEP)'s internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Solutions that Empower People, Inc. (STEP)'s internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 a 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 Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

Robinson Jarrett, Cox, Associates

Blacksburg, Virginia
February 22, 2024

Solutions that Empower People, Inc. (STEP)

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2023

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Federal Expenditures
Department of Health and Human Services:			
Direct Payments:			
Head Start Cluster:			
Head Start	93.600	not applicable	\$ 2,419,515
Pass-Through Payments:			
Virginia Department of Social Services:			
Community Services Block Grant	93.569	not available	\$ 169,519
COVID-19 - Community Services Block Grant	93.569	not available	77,595
Temporary Assistance for Needy Families (TANF)	93.558	not available	157,275
Virginia Department of Housing and Community Development:			
Low-Income Home Energy Assistance	93.568	not available	428,965
Southern Area Agency on Aging, Inc.:			
Aging Cluster:			
Special Programs for the Aging, Title III, Part B, Grants for Supportive Services and Senior Centers	93.044	not available	\$ 36,846
Special Programs for the Aging, Title III, Part C, Nutrition services	93.045	not available	194,577
Nutrition Services Incentive Program	93.053	not available	46,180
Total Aging Cluster			<u>277,603</u>
Total Department of Health and Human Services			<u>\$ 3,530,472</u>
Department of Energy			
Pass-Through Payments:			
Virginia Department of Housing and Community Development:			
Weatherization Assistance for Low-Income Persons	81.042	21-WX-22/22-BILWX-22	\$ 90,061
Department of Agriculture:			
Pass-Through Payments:			
Virginia Department of Education			
Child Nutrition Cluster:			
National School Lunch Program (NSLP)	10.555	APE40254	\$ 5,088
Virginia Department of Health:			
Child and Adult Care Food Program	10.558	not available	120,069
Total Department of Agriculture			<u>\$ 125,157</u>
Department of Treasury:			
Direct Payments:			
Volunteer Income Tax Assistance (VITA) Matching Grant Program	21.009	not applicable	\$ (3,165)
Department of Homeland Security:			
Direct Payments:			
Emergency Food and Shelter National Board Program	97.024	not applicable	\$ 8,685
Department of Housing and Urban Development:			
Pass-Through Payments:			
Virginia Housing Development Authority:			
Section 8 Project-Based Cluster:			
Section 8 Housing Assistance Payments Program	14.195	54-0801556	\$ 73,290
Virginia Department of Housing and Community Development:			
Emergency Solutions Grant Program	14.231	not available	26,917
Total Department of Housing and Urban Development			<u>\$ 100,207</u>
Total Expenditures of Federal Awards			<u>\$ 3,851,417</u>

Notes to Schedule of Expenditures of Federal Awards

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal award activity of Solutions that Empower People (STEP, Inc.) under programs of the federal government for the year ended June 30, 2023. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Solutions that Empower People, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Solutions that Empower People (STEP, Inc.).

Note 2 - Summary of Significant Accounting Policies

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

(2) Pass-through entity identifying numbers are presented where available.

(3) The Organization did not elect the 10% de minimis indirect cost rate.

(4) Subrecipients:
The Organization did not have any subrecipients for the year ended June 30, 2023.

(5) Relationship to the Financial Statements:
Federal expenditures, revenues, and capital contributions are reported in the Agency's basic financial statements as follows:

Grant reimbursement contract	\$ 4,831,132
Less: state and local grants	(979,715)
Total per basic financial statements	<u>\$ 3,851,417</u>

Solutions that Empower People, Inc. (STEP)

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2023

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	Yes
Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)?	No

Identification of major programs:

AL#	Name of Federal Program or Cluster
93.600	Head Start

Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as low-risk auditee?	No

Section II - Financial Statement Findings

2023-001

Criteria:	An auditee should have sufficient controls in place to produce financial statements in accordance with applicable standards.
Condition:	The financial statements as presented for audit, did not contain all necessary adjustments to comply with generally accepted accounting principles (GAAP). As such, there were proposed adjustments that were material to the financial statements.
Effect:	There is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected by the Organization's internal controls over financial reporting.
Cause:	The Organization does not have proper controls in place to detect and correct adjustments in closing their year end financial statements.
Recommendation:	The Organization should review the auditors' proposed audit adjustments for the fiscal year and develop a plan to ensure the trial balances and related schedules are accurately presented for audit.
Management's Response:	The Organization will review the auditors' proposed audit adjustments for the fiscal year and will develop a plan of action to ensure that all adjusting entries are made prior to final audit fieldwork next year.

Solutions that Empower People, Inc. (STEP)

Schedule of Findings and Questioned Costs (continued)
For the Year Ended June 30, 2023

Section II - Financial Statement Findings (continued)

2023-002

Criteria:	A key concept of internal controls is the segregation of duties. No one employee should have access to both accounting records and the related assets.
Condition:	The Organization lacks a proper segregation of duties over all accounting functions.
Effect:	There is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected by the Organization's internal controls over financial reporting.
Cause:	Due to recent turnover within the Accounting Department, only one person was on staff for the majority of the year. The Accounting Department typically is staffed with three personnel and able to more adequately segregate duties.
Recommendation:	Management should continue searching for additional personnel to staff the Accounting Department and consider using a Consultant in the interim to assist with the accounting functions.
Management's Response:	Management acknowledges that there is currently an issue with the segregation of duties and is working to address the concerns noted.

Section III - Federal Award Findings and Questioned Costs

There are no federal award findings and questioned costs to report.

Solutions that Empower People, Inc. (STEP)

Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2023

2022-001

Condition: The financial statements as presented for audit, did not contain all necessary adjustments to comply with generally accepted accounting principles (GAAP). As such, there were proposed adjustments that were material to the financial statements.

Recommendation: The Organization should review the auditors' proposed audit adjustments for the fiscal year and develop a plan to ensure the trial balances and related schedules are accurately presented for audit.

Current Status: Finding 2022-001 was repeated in the current year as 2023-01.

2022-002

Condition: The Organization lacks a proper segregation of duties over all accounting functions.

Recommendation: Management should continue searching for additional personnel to staff the Accounting Department and consider using a Consultant in the interim to assist with the accounting functions.

Current Status: Finding 2022-002 was repeated in the current year as 2023-02.