STEPPING STONES, INC.
(A NON-PROFIT ORGANIZATION)

FINANCIAL STATEMENTS
WITH ADDITIONAL INFORMATION

YEARS ENDED JUNE 30, 2009 AND 2008

DHHR - Finance

APR 26 2010

Date Received

STEPPING STONES, INC.
FINANCIAL STATEMENTS WITH ADDITIONAL INFORMATION
YEARS ENDED JUNE 30, 2009 AND 2008

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Stepping Stones, Inc.
Lavalette, West Virginia

We have audited the accompanying statements of financial position of Stepping Stones, Inc., (a non-profit organization) as of June 30, 2009 and 2008, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Stepping Stones, Inc. as of June 30, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2009 on our consideration of Stepping Stones, Inc.'s internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Stepping Stones, Inc. taken as a whole The schedules of functional expenses are presented for purposes of additional analysis and is not part of the basic financial statements of the organization. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S Office of Management and Budget Circular A-133 Audits of States, Local governments, and Non-profit Organizations, and is also not a required part of the basic financial statements of the Organization. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Ware & Hall PLLC

Huntington, West Virginia
November 13, 2009

STEPPING STONES, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2009 AND 2008

	2009	2008
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 257,138	$ 304,658
Accounts receivable (less allowance for doubtful accounts of $19,317 as of June 30, 2009)	216,243	323,780
Prepaid expenses	22,468	16,815
TOTAL CURRENT ASSETS	495,849	645,253
PROPERTY AND EQUIPMENT, NET	257,901	306,036
OTHER ASSETS		
Other	18,360	18,360
TOTAL ASSETS	$ 772,110	$ 969,649
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 144,098	$ 135,526
Note payable - bank	-0-	16,740
Accrued and withheld payroll taxes	-0-	10,562
Accrued vacation	26,853	18,899
Current portion of long-term debt	19,527	15,359
TOTAL CURRENT LIABILITIES	190,478	197,086
LONG-TERM DEBT , LESS CURRENT PORTION INCLUDED ABOVE	20,686	42,342
TOTAL LIABILITIES	211,164	239,428
NET ASSETS		
Unrestricted	560,946	730,221
TOTAL LIABILITIES AND NET ASSETS	$ 772,110	$ 969,649

STEPPING STONES, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
UNRESTRICTED NET ASSETS		
SUPPORT AND REVENUE		
Medicaid	$ 147,139	$ 255,722
Residential child care	712,222	809,382
Transition to independence	308,009	313,498
Community Based Teams	-0-	15,000
Department of Education	10,938	14,912
Transitional living	-0-	311
Contributions	500	670
Interest	7,894	8,550
Other	-0-	452
TOTAL UNRESTRICTED SUPPORT AND REVENUE	1,186,702	1,418,497
EXPENSES		
Program services		
Residential Child care	756,417	693,881
Community Based Teams	-0-	2,913
Transition to independence	290,437	271,083
TOTAL PROGRAM SERVICES	1,046,854	967,877
Supporting services		
Management and general	309,123	267,990
TOTAL EXPENSES	1,355,977	1,235,867
CHANGE IN UNRESTRICTED NET ASSETS	(169,275)	182,630
NET ASSETS AT BEGINNING OF YEAR	730,221	547,591
NET ASSETS AT END OF YEAR	$ 560,946	$ 730,221

STEPPING STONES, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (169,275)	$ 182,630
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	64,079	56,892
Loss from disposition of fixed assets	1,138	-0-
(Increase) decrease in operating assets:		
Accounts receivable	107,537	(130,020)
Prepaid expenses	(5,653)	2,915
Increase (decrease) in operating liabilities:		
Accounts payable	8,572	29,530
Accrued and withheld payroll taxes	(10,562)	3,934
Accrued vacation	7,954	(490)
Deferred revenue	-0-	(15,000)
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	3,790	130,390
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(17,082)	(103,442)
NET CASH (USED IN) INVESTING ACTIVITIES	(17,082)	(103,442)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term debt	-0-	16,740
Payment of short-term debt	(16,740)	(26,594)
Proceeds from long-term debt	-0-	33,483
Principal payments on long-term debt	(17,488)	(10,306)
NET CASH PROVIDED BY FINANCING ACTIVITIES	(34,228)	13,323

Continued (next page)

STEPPING STONES, INC.
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	$ (47,520)	$ 40,272
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	304,658	264,386
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 257,138	$ 304,658
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year for:		
Interest	$ 4,652	$ 1,714

STEPPING STONES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF ORGANIZATION

Stepping Stones, Inc. is a non-profit organization which provides residential and living support services for adolescent boys in Wayne County, West Virginia. The Organization is supported primarily through third party reimbursements from the West Virginia Department of Health and Human Resources.

PROMISES TO GIVE

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

ACCOUNTS RECEIVABLE

The Organization provides services to children on a third-party reimbursement basis. The Organization bills the West Virginia Department of Health and Human Resources for Residential Child Care, Medicaid, and Transition to Independence Programs and the West Virginia Department of Education for breakfast and lunch programs (School Breakfast Program and National School Lunch Program) in accordance with contractual agreements without requiring collateral or any other security.

BAD DEBTS

The Organization utilizes the direct charge - off method of accounting for bad debts. This method does not result in a materially different provision for bad debt expense than would result from the use of the reserve method.

As of June 30, 2009 an allowance for doubtful accounts was established for certain medical billing prior to June 30, 2008. Substantial doubt exists as to the collectibility of these accounts, however, the Organization is continuing its efforts in this regard.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INVENTORY
Disposable supplies and household goods are considered immaterial and are expensed when purchased.

PROPERTY AND EQUIPMENT
Property and equipment is stated at their purchased cost. Contributed assets are stated at estimated fair value. Major expenditures and those which substantially increase useful lives are capitalized. Maintenance, repairs and minor renewals are charged to operations when incurred. When property and equipment is sold or otherwise disposed of, the asset account and related accumulated depreciation account are relieved, and any gain or loss is included in operations.

Property and equipment acquired with federal funds is owned by the Organization while used in the program for which it was purchased or in other future authorized programs. The funding sources, however, have a reversionary interest in the property and equipment purchased with grant funds; therefore its disposition, as well as the ownership of any sale proceeds therefrom is subject to funding source regulations.

DEPRECIATION
The cost of property and equipment is depreciated over the estimated useful lives of the related assets. Depreciation is computed on the straight line method. The useful lives of property and equipment for purposes of computing depreciation are:

Land improvements	10 to 15 years
Buildings and improvements	5 to 30 years
Furniture and equipment	3 to 10 years
Vehicles	5 years

INCOME TAXES
The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

CASH AND CASH EQUIVALENTS
For purposes of the statement of cash flows, cash equivalents include time deposits, certificates of deposit and all unrestricted highly liquid investments

FUNCTIONAL ALLOCATION OF EXPENSES
The cost of providing the various programs and other activities have been summarized on a functional basis in the Statements of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefitted.

STEPPING STONES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 2 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2009 and 2008:

	2009	2008
Land and improvements	$ 55,085	$ 55,085
Buildings and improvements	362,817	387,865
Furniture and equipment	183,852	224,410
Vehicles	220,900	220,900
	822,654	888,260
Less: Accumulated Depreciation	(564,753)	(582,224)
Property and equipment, net	$ 257,901	$ 306,036

Depreciation expense for the years ended June 30, 2009 and 2008 totaled $64,079 and $56,892, respectively.

NOTE 3 - LONG-TERM DEBT

Notes payable at June 30, 2009 and 2008 are summarized as follows:

	2009	2008
Chase Bank - original face $20,834, payable in 60 monthly installments of $422 including interest at a rate of 7.80% secured by a vehicle with a book value of $6,545 at June 30, 2009, due November, 2011.	$ 6,001	$ 9,850
United Bank - original face $27,108, payable in 55 monthly installments of $576 including interest at an annual rate of 6.75%, secured by a vehicle with a book value of $8,511 as of June 30, 2009, due September, 2010.	8,268	14,368
United Bank - original face $33,483 payable in 48 monthly installments of $798 including interest at an annual rate of 6.65% secured by a vehicle with a book value of $23,438 as of June 30, 2009 due July, 2012.	25,944	33,483
Total	40,213	57,701
Less: Current Portion	19,527	15,359
Long-term Portion	$ 20,686	$ 42,342

NOTE 3 - LONG-TERM DEBT - (CONTINUED)

Following are maturities of long-term debt for each of the next five years and in aggregate:

Year Ending June 30, 2010	$ 19,527
2011	11,594
2012	9,092
2013	-0-
Total	$ 40,213

Interest expense for the years ended June 30, 2009 and 2008 amounted to $4,652 and $1,714, respectively.

NOTE 4 - CONCENTRATION OF CREDIT RISK

Stepping Stones, Inc is a non-profit organization that provides residential and living support services to adolescent boys under license with the West Virginia Department of Health and Human Services The Organization provides services according to contractual agreements with WV/DHHR. The accounts receivable from such contractual agreements are unsecured and have been adjusted for all known uncollectible accounts.

NOTE 5 - RETIREMENT PLAN

Stepping Stones, Inc. sponsors a "simple" retirement plan for the benefit of its employees. Under the provisions of the Plan, each eligible employee can, at his/her discretion, defer up to $10,500 of their salary into the plan each year. Stepping Stones, Inc. is required to match the employee's contribution in an amount not to exceed 3% of the employee's compensation or the salary deferral amount, whichever is less. All funds are invested with a professional money-manager and are self-directed by the employee in a variety of securities offered by the money-manager. All contributions of the employee and matching contributions by Stepping Stones, Inc. are fully vested to the employee at the date of contribution. The amount of retirement expense was $4,916 and $6,868 for the years ended June 30, 2009 and 2008.

NOTE 6 - LEASES

Stepping Stones, Inc. leases real property under operating leases on a year to year basis Certain operating leases provide for renewal options In the normal course of business, operating leases are generally renewed or replaced by other leases Rental expense charged to operations under operating leases for the years ended June 30, 2009 and 2008 amounted to $29,150 and $30,012, respectively

NOTE 7 - CONTINGENT LIABILITY

Findings from an administrative services audit conducted in December, 2007 resulted in a potential disallowance of Medicaid funding of approximately $32,000. Stepping Stones, Inc. has filed an appeal of these findings with the Bureau of Medicaid Services No amount has been accrued in these financial statements as the outcome of this matter is uncertain and the amount of a settlement cannot be reasonably established at this time.

ADDITIONAL INFORMATION

STEPPING STONES, INC.
SCHEDULES OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2009 AND 2008

	2009				
	Program Services			Supporting Services	
	Child Care	Youth Transition to Independence	Total Program	Management and General	Total
Salaries and wages	$ 363,274	$ 120,720	$ 483,994	$ 127,900	$ 611,894
Employee benefits	88,622	44,671	133,293	30,914	164,207
Medicaid tax	6,922	-0-	6,922	-0-	6,922
Professional fees	54,549	2,565	57,114	-0-	57,114
Dietary	57,923	6,701	64,624	-0-	64,624
Housekeeping	2,090	3,322	5,412	-0-	5,412
Educational materials	-0-	1,916	1,916	-0-	1,916
Youth personal expense	39,576	12,148	51,724	-0-	51,724
Supplies	7,753	2,579	10,332	-0-	10,332
Insurance	-0-	7,500	7,500	10,329	17,829
Utilities and telephone	34,887	16,441	51,328	6,950	58,278
Maintenance and repairs	42,300	1,122	43,422	-0-	43,422
Transportation	28,758	3,971	32,729	-0-	32,729
Staff travel	248	-0-	248	-0-	248
Conferences and training	13,078	10,039	23,117	-0-	23,117
Depreciation	14,030	17,184	31,214	32,865	64,079
Other	565	9,042	9,607	57,450	67,057
Interest	1,842	1,366	3,208	1,444	4,652
Rent	-0-	29,150	29,150	-0-	29,150
Bad debts	-0-	-0-	-0-	40,133	40,133
Disp of fixed assets	-0-	-0-	-0-	1,138	1,138
Total	$ 756,417	$ 290,437	$ 1,046,854	$ 309,123	$ 1,355,977

STEPPING STONES, INC.
SCHEDULES OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2009 AND 2008

2008

Program Services				Supporting Services	
Child Care	Community Based Teams	Youth Transition to Independence	Total Program	Management and General	Total
$ 311,956	$ -0-	$ 76,786	$ 388,742	$ 128,918	$ 517,660
86,726	-0-	21,471	108,197	34,767	142,964
12,908	-0-	-0-	12,908	-0-	12,908
42,742	550	1,235	44,527	-0-	44,527
59,119	-0-	6,316	65,435	-0-	65,435
3,614	-0-	-0-	3,614	-0-	3,614
-0-	-0-	40,247	40,247	-0-	40,247
49,846	1,645	12,358	63,849	-0-	63,849
4,245	-0-	3,886	8,131	-0-	8,131
-0-	-0-	-0-	-0-	21,709	21,709
23,048	-0-	9,870	32,918	11,597	44,515
42,581	-0-	-0-	42,581	-0-	42,581
25,946	-0-	2,430	28,376	-0-	28,376
20	-0-	2,077	2,097	-0-	2,097
16,204	471	20,654	37,329	-0-	37,329
13,308	-0-	12,528	25,836	31,056	56,892
1,618	247	34,825	36,690	34,617	71,307
-0-	-0-	-0-	-0-	1,714	1,714
-0-	-0-	26,400	26,400	3,612	30,012
-0-	-0-	-0-	-0-	-0-	-0-
-0-	-0-	-0-	-0-	-0-	-0-
$ 693,881	$ 2,913	$ 271,083	$ 967,877	$ 267,990	$ 1,235,867

STEPPING STONES, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2009

Federal Funds Pass-Through Grantor Program Title	CFDA Number	Federal Program Period From	To
Department of Health and Human Services Pass Through-State of West Virginia, West Virginia Department of Health and Human Resources			
Foster Care - Title IV-E	93.658	07/01/08	06/30/09
Department of Agriculture Pass Through-State of West Virginia, West Virginia Department of Education			
School Breakfast Program	10 553	07/01/08	06/30/09
National School Lunch Program	10 555	07/01/08	06/30/09
Total Federal Awards			
State Funds			
WV Department of Health & Human Resources			
Youth Transition to Independence	93 958	07/01/08	06/30/09
Total State Awards			

Program or Award Amount		Receipts or Revenue Recognized		Disbursement/ Expenditures	
$	712,222	$	712,222	$	907,463
$	3,176	$	3,176	$	3,176
$	7,762	$	7,762	$	7,762
		$	723,160	$	918,401
$	308,009	$	308,009	$	302,057 *
		$	308,009	$	302,057

* See Note 1 - Basis of Presentation

STEPPING STONES, INC.
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2009

NOTE 1 - BASIS OF PRESENTATION

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles which require expenditures for property and equipment to be capitalized and depreciated over the assets useful lives as opposed to being expensed when purchased Expenditures made under the Youth Transition to Independence program in the Schedule of Expenditures of Federal and State Awards have been prepared on the budgetary basis which differs from the financial statements In accordance with the grant award budget, expenditures for property and equipment and other various items are expensed in the period in which the expenditure is made.

A reconciliation of expenditures of the Youth Transition to Independence Program from the financial statements to the accompanying schedule of Expenditures of Federal and State Awards is as follows:

Total expenditures per financial statements	$	290,437
Reconciling items:		
Depreciation		(17,184)
Prepaid expenses and lease deposits		17,050
Cost of property and equipment purchased		11,754
Total expenditures per the accompanying schedule of expenditures	$	302,057

INDEPENDENT AUDITOR'S REPORTS ON COMPLIANCE AND ON INTERNAL CONTROL

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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*

Board of Directors
Stepping Stones, Inc
Lavalette, West Virginia

We have audited the financial statements of Stepping Stones, Inc (a nonprofit organization) as of and for the year ended June 30, 2009, and have issued our report thereon dated November 13, 2009 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Stepping Stones, Inc 's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Stepping Stones, Inc.'s internal control over financial reporting Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliability in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal controls. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting See findings 09-1, 09-2 and 09-3

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses However, we consider item 09-1to be a material weaknesses.

Compliance and Other Matters

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

Stepping Stones, Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs We did not audit Stepping Stones, Inc.'s response, and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the board of directors and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.

Ware & Hall PLLC

Huntington, West Virginia
November 13, 2009

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Certified Public Accountants

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

Board of Directors
Stepping Stones, Inc.
Lavalette, West Virginia

Compliance

We have audited the compliance of Stepping Stones, Inc (a nonprofit organization) with the types of compliance requirements described in the *U S Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009 Stepping Stones, Inc 's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Stepping Stones, Inc 's management. Our responsibility is to express an opinion on Stepping Stones, Inc 's compliance based on our audit.

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 Stepping Stones, Inc 's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Stepping Stones, Inc 's compliance with those requirements

In our opinion, Stepping Stones, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009

Internal Control Over Compliance

The management of Stepping Stones, Inc is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs In planning and performing our audit, we considered Stepping Stones, Inc 's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 Stepping Stones, Inc.'s internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely effects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control

A material weakness is a significant deficiency, or combination of significant deficiency's that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Stepping Stone's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs We did not audit Stepping Stone's response and, accordingly, we express no opinion on it

This report is intended solely for the information and use of management, the board of directors and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties

Ware & Hall PLLC

Ware and Hall, PLLC
Huntington, West Virginia
November 13, 2009

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

STEPPING STONES, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2009

2008 FINDING NO: 08-1

Condition: Several audit entries were required at year-end and in the interim, thus management was unable to produce financial statements presented in accordance with generally accepted accounting principles.

Recommendation: Strengthen review procedure that would reconcile general ledger accounts with supporting documentation to ensure that transactions are recorded completely, timely, and accurately

Status: Management has not implemented the recommendation The finding has been repeated as 09-1

2008 FINDING NO: 08-2

Condition: The accounting functions lack a proper segregation of duties in regard to receiving and disbursing of funds.

Recommendation: Review current duties of management staff and make changes where possible or develop compensating controls.

Status: Management has implemented several compensating controls and has partially complied with the recommendation The finding has been repeated as 09-2

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

STEPPING STONES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2009

A. SUMMARY OF AUDITOR'S RESULTS

1) The independent auditor's report expresses an unqualified opinion on the financial statements of Stepping Stones, Inc for the year ended June 30, 2009

2) Three significant deficiencies were noted during the audit of the financial statements of Stepping Stones, Inc for the year ended June 30, 2009. Significant deficiency 09-1 was considered to be a material weakness

3) No instance of noncompliance which may be material to the financial statements of Stepping Stones, Inc for the year ended June 30, 2009 were noted during the audit

4) No significant deficiencies were identified during the audit of the major federal award programs of Stepping Stones, Inc for the year ended June 30, 2009

5) The independent auditor's report on compliance for the major federal award programs for Stepping Stones, Inc for the year ended June 30, 2009 expresses an unqualified opinion.

6) No audit findings were identified which are required to be reported under §510(a) of OMB Circular A-133

7) The following program was tested as a major program:

Program	CFDA#
Department of Health and Human Services Foster Care - Title IV-E	93 658
West Virginia Department of Health and Human Resources Youth Transition to Independence	93.958

8) The threshold for distinguishing type A and B programs was the greater of $300,000 or 3% of total federal awards expended by Stepping Stones, Inc for the year ended June 30, 2009

9) Stepping Stones, Inc has not qualified as a low risk auditee under § 530 of OMB Circular A-133 for the year ended June 30, 2009.

STEPPING STONES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2009

B. FINDINGS - FINANCIAL STATEMENT AUDIT

- **SIGNIFICANT DEFICIENCIES:**

09-1 Reconciliation of Accounting Records to Supporting Documentation

Condition: Several audit adjusting entries were required to be made to the Organization's accounting records to reflect accurate balances in the Organization's assets, liabilities, revenues and expenses Adjusting entries were also required in the interim in order to prepare the semi-annual cost reports

Criteria: One of the objectives of an internal control system is to provide management with reasonable assurance that transactions are recorded properly to permit the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America In addition, timely, accurate and complete financial reporting is an essential management tool in monitoring and controlling operations

Effect: This results in an inaccurate and incomplete presentation of the financial position, results of operations, and cash flows of the Organization. Management therefore, is unable to produce financial statements presented in accordance with generally accepted accounting principles.

Recommendation: Review procedures should be strengthened which would include reconciliation of the general ledger accounts with supporting documentation to ensure that transactions are recorded completely, timely, and accurately in order to prepare financial statements in accordance with generally accepted accounting principles

09-2 Segregation of Duties

Condition: Although various compensating controls and oversight has been implemented, the Organization lacks actual segregation of duties within the accounting department

Criteria: Proper internal controls require separation of duties between the recording of the transaction and the custody of the related assets.

Cause: The Organization has a limited number of employees which makes segregation of duties difficult.

Recommendation: Review current duties of management staff and make changes where possible or develop compensating controls where segregation is not feasible This finding was also noted in the prior year's audit.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

- **SIGNIFICANT DEFICIENCIES (CONTINUED):**

09-3 Documentation of Transactions

Condition: Numerous exceptions were noted in documentation of accounts payable expenditures, acknowledgment and approval of payroll time reporting and employee file documentation

Criteria: An objective of an internal control system is to provide adequate support for assertions made in the financial statements

Effect: When internal controls are over-ridden misstatements caused by error or fraud could result in amounts that could be material to the financial statements and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Recommendation: Review established policies regarding documentation, update if needed for current applicability, and reinforce compliance with these policies

- **NONCOMPLIANCE FINDINGS**

None

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM

Department of Health and Human Services

None

Stepping Stones, Inc.
Helping WV Kids One Step At A Time
PO Box 539 • Lavalette , WV 25535
(304) 429-2297 • Fax (304) 429-8365

Stepping Stones, Inc.
PLAN OF CORRECTION – Audit Year Ending June 30, 2009

09-1 Reconciliation of Accounting Records to Supporting Documents
Corrective Action

a. Capitol & Depreciation Schedules: The Administrative Assistant will confer/review purchases with the Executive Director and then designate items with one + year anticipated life to the depreciation schedule.
b. When preparing the Financial Statement, the Administrative Assistant will make timely and appropriate cash allocations, interest adjustments, etc. The Assistant Director and Executive Director will review the draft activity report, reconcile revenue with expenses prior to the completion of the finalizing the monthly Financial Statement.
c. The Administrative Assistant will ensure and file in a timely manner matched invoices with check stubs.

09-2 Segregation of Duties
Corrective Action

a. The Office Assistant has been crossed trained to: prepare invoices for payment; oversee the purchase order system; check bank reconciliation; perform Department of Health and Human Resource Social Service billings; and, submit the electronic Medicaid billing.
b The Agency has contracted with ADP to perform all aspects of payroll management.
c. Mail continues to be received and opened by the Executive Director, the Assistant Director and/or the Office Assistant.

09-03 Documentation of Transactions
Corrective Action

a. Staff Work Schedules are posted and disseminated to staff. The Work Schedule remains effective until the next mandatory change. Staff work schedules rarely change from week to week; the only exceptions may be when a staff's daily work shift is adjusted for overtime purposes when colleagues are on vacation, sick or personal leave. In such events, staff are notified in advance; emergency call in shifts are not routine but may occur at any time the supervision needs of the youth in care is potentially affected.
b. Payroll is drafted by the Child Care Worker Supervisor from daily payroll schedule notes and adjustments. The draft payroll sheets are then submitted to the Assistant Director. The Assistant Director checks the draft against the posted staff schedule as well as against

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the Assistant Director's daily payroll schedule notes and adjustments. The Assistant Director then submits the final draft payroll schedule to the Administrative Assistant. The Administrative Assistant prepares hours and schedules for ADP.

c. ADP disseminates payroll as indicated to staff via direct deposit and/or "live checks".

d. Staff receiving "live checks" are asked to sign at receipt of the check. Staff with direct deposit will also now be asked to sign acknowledging receipt of direct deposit. As has been policy, procedure and practice, when signing for receipt of check, staff will have the ability to review the final payroll schedule for the pay period.

e. As per Employee Handbook, staff questioning hours documented or asking for a payroll adjustment is asked to submit issue in writing to the Administrative Assistant. The Issue is then reviewed by the Child Care Worker Supervisor and the Assistant Director. Payroll adjustment is then made as indicated; if no payroll adjustment is verified, then an explanatory discussion occurs between the staff person and either the Child Care Worker Supervisor and/or the Assistant Director.

f. Staff file documentation will be kept up-to-date. From this point forward, W-4's will be updated at minimum annually (staff may continue to adjust at any time as per need); I-9's will be updated and reviewed at least annually.

g. At the Annual Policy and Procedure Training, staff members will be asked to review and sign new Employee Handbook forms regarding receipt of Handbook and policies within.

Executive Director

11/13/09
Date