

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

**FINANCIAL STATEMENTS
WITH ADDITIONAL INFORMATION**

YEARS ENDED JUNE 30, 2010 AND 2009

DHHR - Finance

DEC 12 2011

Date Received

STEPPING STONES, INC.
FINANCIAL STATEMENTS WITH ADDITIONAL INFORMATION
YEARS ENDED JUNE 30, 2010 AND 2009

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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, 2010 and 2009, 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, 2010 and 2009, 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 8, 2010 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 should be considered in 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 a required part of the 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 8, 2010

DHHR - Finance

DEC 12 2011

Date Received

STEPPING STONES, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 175,051	\$ 257,138
Accounts receivable (less allowance for doubtful accounts of \$27,839 as of June 30, 2010 and \$19,317 as of June 30, 2009.)	188,728	234,243
Prepaid expenses	<u>21,193</u>	<u>22,468</u>
TOTAL CURRENT ASSETS	384,972	513,849
PROPERTY AND EQUIPMENT, NET	262,231	257,901
OTHER ASSETS		
Other	<u>18,360</u>	<u>18,360</u>
TOTAL ASSETS	<u>\$ 665,563</u>	<u>\$ 790,110</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 125,413	\$ 144,098
Checking account - overdraft	17,353	-0-
Accrued vacation	25,348	26,853
Current portion of long-term debt	<u>15,536</u>	<u>19,527</u>
TOTAL CURRENT LIABILITIES	183,650	190,478
LONG-TERM DEBT , LESS CURRENT PORTION INCLUDED ABOVE	<u>26,582</u>	<u>20,686</u>
TOTAL LIABILITIES	210,232	211,164
NET ASSETS		
Unrestricted	<u>455,331</u>	<u>578,946</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 665,563</u>	<u>\$ 790,110</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS

STEPPING STONES, INC.
 STATEMENTS OF ACTIVITIES
 YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
UNRESTRICTED NET ASSETS		
SUPPORT AND REVENUE		
Medicaid	\$ 125,411	\$ 147,139
Residential child care	767,936	730,222
Transition to independence	277,059	308,009
Department of Education	3,063	10,938
Contributions	4,582	500
Interest	<u>4,503</u>	<u>7,894</u>
TOTAL UNRESTRICTED SUPPORT AND REVENUE	<u>1,182,554</u>	<u>1,204,702</u>
EXPENSES		
Program services		
Residential Child care	707,258	756,417
Transition to independence	<u>308,211</u>	<u>290,437</u>
TOTAL PROGRAM SERVICES	1,015,469	1,046,854
Supporting services		
Management and general	<u>290,700</u>	<u>309,123</u>
TOTAL EXPENSES	<u>1,306,169</u>	<u>1,355,977</u>
CHANGE IN UNRESTRICTED NET ASSETS	<u>(123,615)</u>	<u>(151,275)</u>
NET ASSETS AT BEGINNING OF YEAR:		
As previously reported	560,946	730,221
Adjustment for understatement of residential child care revenue	<u>18,000</u>	<u>-0-</u>
BALANCE AT BEGINNING OF YEAR, AS RESTATED	<u>578,946</u>	<u>730,221</u>
NET ASSETS AT END OF YEAR	\$ <u>455,331</u>	\$ <u>578,946</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS

STEPPING STONES, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (123,615)	\$ (151,275)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	64,178	64,079
Loss from disposition of fixed assets	961	1,138
(Increase) decrease in operating assets:		
Accounts receivable	45,515	89,537
Prepaid expenses	1,275	(5,653)
Increase (decrease) in operating liabilities:		
Accounts payable	(18,685)	8,572
Accrued and withheld payroll taxes	-0-	(10,562)
Accrued vacation	<u>(1,505)</u>	<u>7,954</u>
 NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	 <u>(31,876)</u>	 <u>3,790</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(69,469)	(17,082)
NET CASH (USED BY) INVESTING ACTIVITIES	<u>(69,469)</u>	<u>(17,082)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of short-term debt	-0-	(16,740)
Proceeds from long-term debt	24,511	-0-
Principal payments on long-term debt	(22,606)	(17,488)
 NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	 <u>1,905</u>	 <u>(34,228)</u>

Continued (next page)

STEPPING STONES, INC.
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ (99,440)	\$ (47,520)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>257,138</u>	<u>304,658</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ <u>157,698</u>	\$ <u>257,138</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year for:		
Interest	\$ <u>3,902</u>	\$ <u>4,652</u>
Net book value of vehicle trade-in	\$ <u>4,364</u>	\$ <u>-0-</u>

STEPPING STONES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

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, 2010 an allowance for doubtful accounts was established for certain medical billing prior to June 30, 2009. Substantial doubt exists as to the collectibility of these accounts, however, the Organization is continuing its efforts in this regard.

STEPPING STONES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

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, 2010 AND 2009

NOTE 2 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Land and improvements	\$ 80,085	\$ 55,085
Buildings and improvements	371,744	362,817
Furniture and equipment	171,302	183,852
Vehicles	<u>194,259</u>	<u>220,900</u>
	817,390	822,654
Less: Accumulated Depreciation	<u>(555,159)</u>	<u>(564,753)</u>
Property and equipment, net	\$ <u>262,231</u>	\$ <u>257,901</u>

Depreciation expense for the years ended June 30, 2010 and 2009 totaled \$64,178 and \$64,079, respectively

NOTE 3 - LONG-TERM DEBT

Notes payable at June 30, 2010 and 2009 are summarized as follows:

	<u>2010</u>	<u>2009</u>
Chase Bank - original loan \$20,834, payable in 60 monthly installments of \$422 including interest at a rate of 7.80%. The loan was paid in full in August, 2009 at the trade-in of the vehicle securing the loan.	\$ -0-	\$ 6,001
United Bank - original loan \$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 \$2,837 as of June 30, 2010, due September, 2010.	2,798	8,268
United Bank - original loan \$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 \$16,741 as of June 30, 200 due July, 2012.	18,572	25,944
Huntington Banks - original loan \$24,511, payable in 60 monthly installments of \$476 including interest at an annual rate of 6.02% secured by a vehicle with a book value of \$25,988 as of June 30, 2010, due October, 2014.	<u>21,248</u>	<u>-0-</u>
Total	\$ 42,118	\$ 40,213
Less: Current Portion	<u>15,536</u>	<u>19,527</u>
Long-term Portion	\$ <u>26,582</u>	\$ <u>20,686</u>

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

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, 2011		\$ 15,536
2012		14,115
2013		5,844
2014		5,490
2015		<u>1,133</u>
Total		\$ <u>42,118</u>

Interest expense for the years ended June 30, 2010 and 2009 amounted to \$3,902 and \$4,652, 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 \$11,500 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 \$4,174 and \$4,916 for the years ended June 30, 2010 and 2009.

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, 2010 and 2009 amounted to \$33,600 and \$29,150, respectively.

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

NOTE 7 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 8, 2010, the date on which the financial statements were available to be issued.

NOTE 8 - PRIOR PERIOD ADJUSTMENT

An adjustment was made to correct an error in the amount of residential child care revenues recognized for the year ended June 30, 2009. Revenues and accounts receivable were understated by \$18,000. As a result net assets, the change in net assets, and total assets were also understated by \$18,000 for the year ended June 30, 2009. Financial statements presented for the year ended June 30, 2009 have been restated to reflect the error correction.

ADDITIONAL INFORMATION

STIEPPING STONES, INC.
SCHEDULES OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2010 AND 2009

2010

	<u>Program Services</u>			<u>Supporting Services</u>	
	<u>Child Care</u>	<u>Youth Transition to Independence</u>	<u>Total Program</u>	<u>Management and General</u>	<u>Total</u>
Salaries and wages	\$ 338,624	\$ 120,337	\$ 458,961	\$ 133,236	\$ 592,197
Employee benefits	113,494	44,149	157,643	44,162	201,805
Medicaid tax	6,356	-0-	6,356	-0-	6,356
Professional fees	64,608	13,186	77,794	-0-	77,794
Dietary	47,889	3,677	51,566	-0-	51,566
Furnishings & Equipment	2,089	3,014	5,103	-0-	5,103
Educational materials	-0-	7,402	7,402	-0-	7,402
Youth personal expense	29,302	4,881	34,183	-0-	34,183
Supplies	1,950	884	2,834	-0-	2,834
Insurance	-0-	7,500	7,500	11,213	18,713
Utilities and telephone	32,525	19,988	52,513	6,758	59,271
Maintenance and repairs	27,052	2,792	29,844	-0-	29,844
Transportation	17,638	8,649	26,287	-0-	26,287
Staff travel	82	69	151	-0-	151
Conferences and training	8,732	5,318	14,050	-0-	14,050
Depreciation	14,221	16,776	30,997	33,181	64,178
Other	-0-	15,938	15,938	51,512	67,450
Interest	2,696	51	2,747	1,155	3,902
Rent	-0-	33,600	33,600	-0-	33,600
Bad debts	-0-	-0-	-0-	8,522	8,522
Disp of fixed assets	-0-	-0-	-0-	961	961
Total	\$ <u>707,258</u>	\$ <u>308,211</u>	\$ <u>1,015,469</u>	\$ <u>290,700</u>	\$ <u>1,306,169</u>

STEPPING STONES, INC.
SCHEDULES OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2010 AND 2009

2009

Program Services			Supporting Services	
Child Care	Youth Transition to Independence	Total Program	Management and General	Total
\$ 363,274	\$ 120,720	\$ 483,994	\$ 127,900	\$ 611,894
88,622	44,671	133,293	30,914	164,207
6,922	-0-	6,922	-0-	6,922
54,549	2,565	57,114	-0-	57,114
57,923	6,701	64,624	-0-	64,624
2,090	3,322	5,412	-0-	5,412
-0-	1,916	1,916	-0-	1,916
39,576	12,148	51,724	-0-	51,724
7,753	2,579	10,332	-0-	10,332
-0-	7,500	7,500	10,329	17,829
34,887	16,441	51,328	6,950	58,278
42,300	1,122	43,422	-0-	43,422
28,758	3,971	32,729	-0-	32,729
248	-0-	248	-0-	248
13,078	10,039	23,117	-0-	23,117
14,030	17,184	31,214	32,865	64,079
565	9,042	9,607	57,450	67,057
1,842	1,366	3,208	1,444	4,652
-0-	29,150	29,150	-0-	29,150
-0-	-0-	-0-	40,133	40,133
-0-	-0-	-0-	1,138	1,138
<u>\$ 756,417</u>	<u>\$ 290,437</u>	<u>\$ 1,046,854</u>	<u>\$ 309,123</u>	<u>\$ 1,355,977</u>

STIEPPING STONES, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
YEAR ENDED JUNE 30, 2010

<u>Federal Funds</u>		
Pass-Through Grantor	<u>CFDA</u>	Federal
<u>Program Title</u>	<u>Number</u>	Program Period
		<u>From</u> <u>To</u>
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	07/01/09 06/30/10
Department of Agriculture		
Pass Through-State of West Virginia, West Virginia Department of Education		
School Breakfast Program	10.553	07/01/09 06/30/10
National School Lunch Program	10.555	07/01/09 06/30/10
Total Federal Awards		
<u>State Funds</u>		
WV Department of Health & Human Resources		
Youth Transition to Independence	93.958	07/01/09 06/30/10
Total State Awards		

<u>Program or Award Amount</u>	<u>Receipts or Revenue Recognized</u>	<u>Disbursement/ Expenditures</u>
\$ 767,936	\$ 767,936	\$ 869,484
\$ 1,221	\$ 1,221	\$ 1,221
\$ 1,842	\$ <u>1,842</u>	\$ <u>1,842</u>
	\$ <u>770,999</u>	\$ <u>872,547</u>
\$ 418,000	\$ <u>277,059</u>	\$ <u>277,185</u> *
	\$ <u>277,059</u>	\$ <u>277,185</u>

* 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, 2010

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	\$ 308,211
Reconciling items:	
Depreciation	(16,776)
Prepaid expenses	<u>(14,250)</u>
Total expenditures per the accompanying schedule of expenditures	\$ <u>277,185</u>

**INDEPENDENT AUDITOR'S REPORTS ON COMPLIANCE
AND ON INTERNAL CONTROL**

Ware & Hall, PLLC

Certified Public Accountants

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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, 2010, and have issued our report thereon dated November 8, 2010. 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 10-1 to be a material weakness.

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*.

We noted certain matters that we reported to management of Stepping Stones, Inc. in a separate letter dated November 8, 2010.

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.

Warr & Hall PLLC

Huntington, West Virginia
November 8, 2010

Ware & Hall, PLLC

Certified Public Accountants

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON 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 Stepping Stones, Inc.'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Stepping Stones, Inc.'s major federal programs for the year ended June 30, 2010. 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 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, 2010.

Internal Control Over Compliance

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 the auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Stepping Stones, Inc.'s internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be 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 responses and, accordingly, we express no opinion on the responses.

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

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Huntington, West Virginia
November 8, 2010

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

STEPPING STONES, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2010

2009 FINDING NO: 09-1

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

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

Status: Management has not fully implemented the recommendation, although some improvement has been noted. The finding is repeated as 10-1.

2009 FINDING NO: 09-2

Condition: The accounting functions lack a proper segregation of duties between the recording of the transaction and the custody of the assets.

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

Status: Management has reassigned several tasks, implemented several compensating controls and has sufficiently complied with the recommendation. The comment was not repeated.

2009 FINDING: 09-3

Condition: Numerous exceptions were noted in documentation of accounts payable and payroll.

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

Status: Management has sufficiently complied with the recommendation. The comment was not repeated.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

STEPPING STONES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

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, 2010.
- 2) One significant deficiency was noted during the audit of the financial statements of Stepping Stones, Inc. for the year ended June 30, 2010. The significant deficiency, referred to as finding 10-1, 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, 2010 was 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, 2010.
- 5) The independent auditor's report on compliance for the major federal award programs for Stepping Stones, Inc. for the year ended June 30, 2010 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:

<u>Program</u>	<u>CFDA#</u>
Department of Health and Human Services Foster Care - Title IV-E	93.658

- 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, 2010.
- 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, 2010

STEPPING STONES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

B. FINDINGS - FINANCIAL STATEMENT AUDIT

■ **SIGNIFICANT DEFICIENCIES:**

10-1 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.

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

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM

Department of Health and Human Services

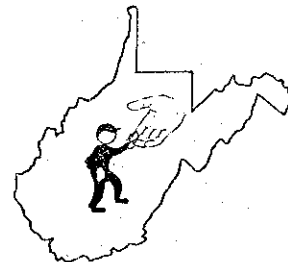
None

STEPPING STONES, INC.

Helping WV Kids ONE STEP AT A TIME

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Stepping Stones, Inc.

PLAN OF CORRECTION – Audit Year Ending June 30, 2010

10-1 Reconciliation of Accounting Records to Supporting Documentation

Corrective Action:

Stepping Stones, Inc. will be contracting with an independent qualified party to perform semi-annual monitoring of reconciliation of the general ledger. To further strengthen the general ledger, Stepping Stones, Inc. anticipates switching from OPEN Systems to a Quickbooks with corresponding cross-training of designated employees to monitor the general ledger.

Susan R. Fry, Executive Director

www.steppingstonesinc.org