

Small Steps Nurturing Center

Financial Statements and
Independent Auditors' Report
for the years ended December 31, 2006 and 2005

Independent Auditors' Report

To the Board of Directors of
Small Steps Nurturing Center:

We have audited the accompanying statements of financial position of Small Steps Nurturing Center as of December 31, 2006 and 2005 and the related statements of activities, of functional expenses, and of cash flows for the years then ended. These financial statements are the responsibility of Small Steps' 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. Those standards require that we plan and perform our audits 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 Small Steps Nurturing Center as of December 31, 2006 and 2005 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.

Blazek & Vetterling

May 1, 2007

Small Steps Nurturing Center

Statements of Financial Position as of December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
Cash and cash equivalents (<i>Note 2</i>)	\$ 844,726	\$ 471,517
Pledges receivable, due within one year	279,529	32,300
Prepaid expenses and deposits	19,168	7,955
Money market funds restricted for higher education	142,517	137,613
Money market funds restricted or designated for building projects		1,382,713
Property, net (<i>Note 3</i>)	<u>2,474,589</u>	<u>1,369,391</u>
 TOTAL ASSETS	 <u>\$3,760,529</u>	 <u>\$3,401,489</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 20,540	\$ 19,795
Deferred revenue – sporting clay tournament	<u>5,000</u>	<u>64,283</u>
Total liabilities	<u>25,540</u>	<u>84,078</u>
Net assets:		
Unrestricted (<i>Note 5</i>)	3,483,473	2,046,134
Temporarily restricted (<i>Note 6</i>)	<u>251,516</u>	<u>1,271,277</u>
Total net assets	<u>3,734,989</u>	<u>3,317,411</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$3,760,529</u>	 <u>\$3,401,489</u>

See accompanying notes to financial statements.

Small Steps Nurturing Center

Statement of Activities for the year ended December 31, 2006

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Contributions	\$ 489,756	\$ 107,733	\$ 597,489
Golf tournament	755,034		755,034
Sporting clay tournament	377,473		377,473
Cost of direct donor benefits	(240,786)		(240,786)
Interest and dividends	<u>65,445</u>	<u>4,905</u>	<u>70,350</u>
Total revenue	1,446,922	112,638	1,559,560
Net assets released from restrictions:			
Property expenditures	1,079,310	(1,079,310)	
Program expenditures	<u>53,089</u>	<u>(53,089)</u>	
Total	<u>2,579,321</u>	<u>(1,019,761)</u>	<u>1,559,560</u>
EXPENSES:			
Program services	945,976		945,976
Management and general	45,595		45,595
Fundraising	<u>150,411</u>		<u>150,411</u>
Total expenses	<u>1,141,982</u>		<u>1,141,982</u>
CHANGES IN NET ASSETS	1,437,339	(1,019,761)	417,578
Net assets, beginning of year	<u>2,046,134</u>	<u>1,271,277</u>	<u>3,317,411</u>
Net assets, end of year	<u>\$3,483,473</u>	<u>\$ 251,516</u>	<u>\$3,734,989</u>

See accompanying notes to financial statements.

Small Steps Nurturing Center

Statement of Activities for the year ended December 31, 2005

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Contributions	\$ 332,052	\$ 367,291	\$ 699,343
Golf tournament	725,600		725,600
Sporting clay tournament	360,450		360,450
Cost of direct donor benefits	(213,613)		(213,613)
Interest and dividends	<u>31,268</u>	<u>4,354</u>	<u>35,622</u>
Total revenue	1,235,757	371,645	1,607,402
Net assets released from restrictions:			
Program expenditures	<u>41,072</u>	<u>(41,072)</u>	<u> </u>
Total	<u>1,276,829</u>	<u>330,573</u>	<u>1,607,402</u>
EXPENSES:			
Program services	692,960		692,960
Management and general	46,345		46,345
Fundraising	<u>114,925</u>		<u>114,925</u>
Total expenses	<u>854,230</u>		<u>854,230</u>
CHANGES IN NET ASSETS	422,599	330,573	753,172
Net assets, beginning of year	<u>1,623,535</u>	<u>940,704</u>	<u>2,564,239</u>
Net assets, end of year	<u>\$2,046,134</u>	<u>\$1,271,277</u>	<u>\$3,317,411</u>

See accompanying notes to financial statements.

Small Steps Nurturing Center

Statement of Functional Expenses for the year ended December 31, 2006

	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
Salaries	\$ 577,936	\$ 21,392	\$ 62,401	\$ 661,729
Employee benefits	62,489	1,099	2,640	66,228
Employer payroll taxes	42,703	1,398	4,442	48,543
Professional services	50,958	11,150	38,250	100,358
Depreciation	73,525	1,427	2,102	77,054
Utilities	38,778	2,355	2,701	43,834
Food	22,416			22,416
Insurance	17,084	2,647	2,267	21,998
Supplies	17,826	1,792	751	20,369
Transportation	14,995			14,995
Repairs and maintenance	12,969	586	787	14,342
Printing and publications	387	43	12,092	12,522
Meals and entertainment	1,694	529	8,530	10,753
Equipment rental	1,965		4,686	6,651
Continuing education	2,575		35	2,610
Clothing	2,350			2,350
Toys	2,350			2,350
Postage and shipping	120	155	1,875	2,150
Other	<u>2,856</u>	<u>1,022</u>	<u>6,852</u>	<u>10,730</u>
Total expenses	<u>\$ 945,976</u>	<u>\$ 45,595</u>	<u>\$ 150,411</u>	<u>\$1,141,982</u>

See accompanying notes to financial statements.

Small Steps Nurturing Center

Statement of Functional Expenses for the year ended December 31, 2005

	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
Salaries	\$ 425,557	\$ 19,537	\$ 60,194	\$ 505,288
Employee benefits	49,957	3,241	3,612	56,810
Employer payroll taxes	31,505	1,252	4,281	37,038
Professional services	34,799	10,364	17,884	63,047
Depreciation	53,173	1,169	1,708	56,050
Utilities	20,727	1,479	1,697	23,903
Food	15,594			15,594
Insurance	11,535	2,391	1,070	14,996
Supplies	14,161	1,274	2,085	17,520
Transportation	16,060			16,060
Repairs and maintenance	9,521	304	625	10,450
Printing and publications			7,254	7,254
Meals and entertainment	1,532	806	117	2,455
Equipment rental	1,350		5,008	6,358
Continuing education	1,654		100	1,754
Clothing	1,536			1,536
Toys	2,965			2,965
Advertising			4,045	4,045
Other	<u>1,334</u>	<u>4,528</u>	<u>5,245</u>	<u>11,107</u>
Total expenses	<u>\$ 692,960</u>	<u>\$ 46,345</u>	<u>\$ 114,925</u>	<u>\$ 854,230</u>

See accompanying notes to financial statements.

Small Steps Nurturing Center

Statements of Cash Flows for the years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 417,578	\$ 753,172
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Contributions restricted for building projects		(331,500)
Depreciation	77,054	56,050
Change in operating assets and liabilities:		
Pledges receivable	(257,229)	64,000
Prepaid expenses and deposits	(11,213)	3,151
Accounts payable	745	(20,078)
Deferred revenue – sporting clay tournament	<u>(59,283)</u>	<u>(6,890)</u>
Net cash provided by operating activities	<u>167,652</u>	<u>517,905</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net change in investment in money market funds	1,377,809	(680,957)
Purchases of property and equipment	<u>(1,182,252)</u>	<u>(266,154)</u>
Net cash used by investing activities	<u>195,557</u>	<u>(947,111)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for building projects	<u>10,000</u>	<u>331,500</u>
Net cash provided by financing activities	<u>10,000</u>	<u>331,500</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	373,209	(97,706)
Cash and cash equivalents, beginning of year	<u>471,517</u>	<u>569,223</u>
Cash and cash equivalents, end of year	<u>\$ 844,726</u>	<u>\$ 471,517</u>

See accompanying notes to financial statements.

Small Steps Nurturing Center

Notes to Financial Statements for the years ended December 31, 2006 and 2005

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – Small Steps Nurturing Center (Small Steps) is a Texas nonprofit corporation, located in Houston, providing a comprehensive early childhood development program aimed at giving at-risk, pre-school age children and their parents the opportunity to grow socially, emotionally, physically, intellectually, and spiritually. Small Steps relies on charitable contributions for support of its program and does not solicit or accept governmental funding.

Income tax status – Small Steps is exempt from federal income taxes under §501(c)(3) of the Internal Revenue Code and is classified as a public charity under §509(a)(1).

Net asset classification – Contributions and the related net assets are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* include those net assets whose use is not restricted by donor-imposed stipulations, even though their use may be limited in other respects, such as by contract or board designation.
- *Temporarily restricted net assets* include contributions restricted by the donor for specific purposes or time periods. When a purpose restriction is accomplished or a time restriction ends, temporarily restricted net assets are released to unrestricted net assets.

Cash equivalents include highly liquid financial instruments with original maturities of less than three months that are not restricted or designated for long term purposes.

Pledges receivable due within one year are recorded at net realizable value. Amounts due in more than one year are discounted, if material, to estimate the present value of future cash flows.

Property is recorded at cost if purchased or at fair value at the date of gift if contributed. Property is depreciated using the straight-line method over estimated useful lives ranging from 3 to 30 years.

Contributions are recorded at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are recorded as restricted support. Conditional contributions are recognized in the same manner when the conditions are substantially met.

In-kind contributions – Donated materials, use of facilities and services are recorded at fair value as contributions when an unconditional commitment is received from the donor. The related expense is recorded as the item is used. Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not donated.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the reported revenues and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

Reclassifications – Certain reclassifications have been made to prior year financial statements to conform to the current presentation.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	<u>2006</u>	<u>2005</u>
Demand deposits	\$ 47,038	\$ 363,138
Money market funds	<u>797,688</u>	<u>108,379</u>
Total cash and cash equivalents	<u>\$ 844,726</u>	<u>\$ 471,517</u>

At times, bank deposits exceed the federally insured limit of \$100,000 per depositor per institution.

NOTE 3 – PROPERTY

Property consists of the following:

	<u>2006</u>	<u>2005</u>
Land	\$ 307,978	\$ 291,683
Buildings and improvements	2,302,774	890,657
Office furniture and equipment	92,348	74,311
Classroom equipment and supplies	162,972	69,092
Vans	88,958	88,958
Construction in progress	<u> </u>	<u>358,076</u>
Total property, at cost	2,955,030	1,772,777
Accumulated depreciation	<u>(480,441)</u>	<u>(403,386)</u>
Property, net	<u>\$2,474,589</u>	<u>\$1,369,391</u>

NOTE 4 – LINE OF CREDIT

Small Steps maintains a \$300,000 revolving line of credit with a bank, which expires on October 1, 2007. Outstanding balances bear interest at lender's prime rate plus 1%. As of December 31, 2006, there were no outstanding amounts due on the line of credit.

NOTE 5 – UNRESTRICTED NET ASSETS

Unrestricted net assets consist of the following:

	<u>2006</u>	<u>2005</u>
Undesignated	\$ 988,020	\$ 32,953
Board designated for construction and operation of new facility		623,790
Board designated for endowment	20,864	20,000
Invested in property and equipment	<u>2,474,589</u>	<u>1,369,391</u>
Total unrestricted net assets	<u>\$3,483,473</u>	<u>\$2,046,134</u>

NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2006</u>	<u>2005</u>
Capital campaign		\$1,078,610
Higher education	\$ 142,517	137,613
Future operations – pledge receivable	49,800	34,500
Term endowment to support school operations	37,558	
Nutrition program	15,000	
Classroom materials		18,046
Other	<u>6,641</u>	<u>2,508</u>
Total temporarily restricted net assets	<u>\$ 251,516</u>	<u>\$1,271,277</u>

NOTE 7 – IN-KIND CONTRIBUTIONS

The following in-kind contributions are included in revenue as unrestricted contributions and in expenses in their respective functional categories:

	<u>2006</u>	<u>2005</u>
Program supplies and food	\$ 15,673	\$ 12,985
Advertising	4,000	4,000
Drama program		2,700
Printing and publications	2,000	2,000
Accounting services	<u>1,200</u>	
Total in-kind contributions	<u>\$ 22,873</u>	<u>\$ 21,685</u>

NOTE 8 – CONDITIONAL CONTRIBUTION

Small Steps received a matching grant that provides for contributions of \$10,000 per year through 2008 if an equal amount is raised from other sources each year for the term endowment fund.