

Small Steps Nurturing Center

Financial Statements
and Independent Auditors' Report
for the years ended December 31, 2009 and 2008

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, 2009 and 2008 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 Nurturing Center'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. 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, 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.

Blazek & Vetterling

May 18, 2010

Small Steps Nurturing Center

Statements of Financial Position as of December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
ASSETS		
Cash	\$ 483,065	\$ 578,654
Pledges receivable	20,000	54,500
Prepaid expenses	17,164	24,984
Cash restricted for higher education	151,085	149,827
Cash designated or restricted for endowment	251,019	248,955
Assets restricted for capital improvements	579,747	321,000
Property, net (<i>Note 2</i>)	<u>2,245,385</u>	<u>2,343,828</u>
 TOTAL ASSETS	 <u>\$ 3,747,465</u>	 <u>\$ 3,721,748</u>
 LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ <u>41,839</u>	\$ <u>37,013</u>
Net assets:		
Unrestricted	2,579,304	2,957,880
Temporarily restricted (<i>Note 3</i>)	<u>1,126,322</u>	<u>726,855</u>
Total net assets	<u>3,705,626</u>	<u>3,684,735</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 3,747,465</u>	 <u>\$ 3,721,748</u>

See accompanying notes to financial statements.

Small Steps Nurturing Center

Statement of Activities for the year ended December 31, 2009

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Contributions (<i>Notes 4 and 5</i>)	\$ 442,602	\$ 598,477	\$ 1,041,079
Golf tournament	719,200	5,000	724,200
Sporting clay tournament	421,492		421,492
Wine Classic event	26,450		26,450
Cost of direct donor benefits	(241,211)		(241,211)
Interest and dividends	<u>8,047</u>		<u>8,047</u>
Total revenue	1,376,580	603,477	1,980,057
Net assets released from restrictions:			
Program expenditures	143,257	(143,257)	
Property expenditures	11,253	(11,253)	
Expiration of time restrictions	<u>49,500</u>	<u>(49,500)</u>	
Total	<u>1,580,590</u>	<u>399,467</u>	<u>1,980,057</u>
EXPENSES:			
Program services	1,657,865		1,657,865
Management and general	114,353		114,353
Fundraising	<u>186,948</u>		<u>186,948</u>
Total expenses	<u>1,959,166</u>		<u>1,959,166</u>
CHANGES IN NET ASSETS	(378,576)	399,467	20,891
Net assets, beginning of year	<u>2,957,880</u>	<u>726,855</u>	<u>3,684,735</u>
Net assets, end of year	<u>\$ 2,579,304</u>	<u>\$ 1,126,322</u>	<u>\$ 3,705,626</u>

See accompanying notes to financial statements.

Small Steps Nurturing Center

Statement of Activities for the year ended December 31, 2008

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Contributions (<i>Notes 4 and 5</i>)	\$ 210,430	\$ 472,096	\$ 682,526
Golf tournament	790,150		790,150
Sporting clay tournament	409,998		409,998
Cost of direct donor benefits	(257,040)		(257,040)
Interest and dividends	<u>19,314</u>	<u>2,330</u>	<u>21,644</u>
Total revenue	1,172,852	474,426	1,647,278
Net assets released from restrictions:			
Program expenditures	102,939	(102,939)	
Property expenditures	10,000	(10,000)	
Expiration of time restrictions	<u>35,000</u>	<u>(35,000)</u>	
Total	<u>1,320,791</u>	<u>326,487</u>	<u>1,647,278</u>
EXPENSES:			
Program services	1,508,928		1,508,928
Management and general	84,636		84,636
Fundraising	<u>177,140</u>		<u>177,140</u>
Total expenses	<u>1,770,704</u>		<u>1,770,704</u>
CHANGES IN NET ASSETS	(449,913)	326,487	(123,426)
Net assets, beginning of year	<u>3,407,793</u>	<u>400,368</u>	<u>3,808,161</u>
Net assets, end of year	<u>\$ 2,957,880</u>	<u>\$ 726,855</u>	<u>\$ 3,684,735</u>

See accompanying notes to financial statements.

Small Steps Nurturing Center

Statement of Functional Expenses for the year ended December 31, 2009

	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
Salaries	\$ 1,064,459	\$ 47,970	\$ 94,376	\$ 1,206,805
Employer payroll taxes	79,481	3,209	6,725	89,415
Employee benefits	97,604	3,487	7,504	108,595
Professional services	77,279	27,727	31,392	136,398
Depreciation	110,462	2,063	2,986	115,511
Utilities	48,531	1,413	2,714	52,658
Insurance	27,064	3,735	3,600	34,399
Food	34,357			34,357
Supplies	24,221	2,151	1,415	27,787
Repairs and maintenance	22,430	2,385	1,578	26,393
Transportation	22,541			22,541
Extended day program	20,000			20,000
Printing and publications	210		14,680	14,890
Continuing education	12,543			12,543
Equipment rental	2,749		6,896	9,645
Advertising			5,686	5,686
Clothing	4,500			4,500
Toys	4,500			4,500
Software			3,673	3,673
Meals and entertainment	1,604	632	120	2,356
Postage and shipping	53	167	1,566	1,786
Other	3,277	19,414	2,037	24,728
Total expenses	<u>\$ 1,657,865</u>	<u>\$ 114,353</u>	<u>\$ 186,948</u>	<u>\$ 1,959,166</u>

See accompanying notes to financial statements.

Small Steps Nurturing Center

Statement of Functional Expenses for the year ended December 31, 2008

	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
Salaries	\$ 936,311	\$ 42,480	\$ 81,924	\$ 1,060,715
Employer payroll taxes	70,236	2,840	5,841	78,917
Employee benefits	63,286	3,766	6,389	73,441
Professional services	70,718	16,269	32,022	119,009
Depreciation	112,170	2,255	3,218	117,643
Utilities	46,992	2,532	2,913	52,437
Insurance	19,276	3,182	2,760	25,218
Food	42,442			42,442
Supplies	39,714	1,987	1,477	43,178
Repairs and maintenance	26,801	6,607	1,180	34,588
Transportation	24,214			24,214
Extended day program	20,000			20,000
Printing and publications	1,240	317	13,744	15,301
Continuing education	18,366		70	18,436
Equipment rental	2,604		6,441	9,045
Advertising			8,966	8,966
Clothing	4,500			4,500
Toys	4,500			4,500
Software		450	1,382	1,832
Meals and entertainment	3,096	602	167	3,865
Postage and shipping	133	531	1,777	2,441
Other	2,329	818	6,869	10,016
Total expenses	<u>\$ 1,508,928</u>	<u>\$ 84,636</u>	<u>\$ 177,140</u>	<u>\$ 1,770,704</u>

See accompanying notes to financial statements.

Small Steps Nurturing Center

Statements of Cash Flows for the years ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 20,891	\$ (123,426)
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Depreciation	115,511	117,643
Contributions restricted for capital projects	(250,000)	(321,000)
Change in operating assets and liabilities:		
Pledges receivable (operating)	34,500	(19,500)
Prepaid expenses	7,820	(12,483)
Accounts payable	<u>4,826</u>	<u>11,281</u>
Net cash used by operating activities	<u>(66,452)</u>	<u>(347,485)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property	(17,068)	(30,811)
Net change in cash held for long-term purposes	<u>(3,322)</u>	<u>(38,111)</u>
Net cash used by investing activities	<u>(20,390)</u>	<u>(68,922)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change in cash restricted for capital expenditure	(358,747)	(121,000)
Proceeds from contributions restricted for capital projects	<u>350,000</u>	<u>121,000</u>
Net cash used by financing activities	<u>(8,747)</u>	<u>0</u>
NET CHANGE IN CASH	(95,589)	(416,407)
Cash, beginning of year	<u>578,654</u>	<u>995,061</u>
Cash, end of year	<u>\$ 483,065</u>	<u>\$ 578,654</u>

See accompanying notes to financial statements.

Small Steps Nurturing Center

Notes to Financial Statements for the years ended December 31, 2009 and 2008

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – Small Steps Nurturing Center (Small Steps) is a Texas nonprofit corporation, located in Houston, Texas, 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.

Federal 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).

Cash concentration – Bank deposits exceed the federally insured limit per depositor per institution.

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. At December 31, 2009, 83% of pledges receivable are receivable from one donor and are expected to be collected within one year.

Assets restricted for capital improvements includes cash of \$479,747 and \$121,000 and pledges receivable of \$100,000 and \$200,000 as of December 31, 2009 and 2008, respectively.

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.

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.

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 revenue 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 the prior year financial statements to conform with the current presentation.

NOTE 2 – PROPERTY

Property consists of the following:

	<u>2009</u>	<u>2008</u>
Land	\$ 307,978	\$ 307,978
Buildings and improvements	2,346,580	2,330,927
Office furniture and equipment	101,923	101,923
Classroom equipment and supplies	153,831	152,416
Vans	<u>139,537</u>	<u>139,537</u>
Total property, at cost	3,049,849	3,032,781
Accumulated depreciation	<u>(804,464)</u>	<u>(688,953)</u>
Property, net	<u>\$ 2,245,385</u>	<u>\$ 2,343,828</u>

NOTE 3 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2009</u>	<u>2008</u>
Capital improvements	\$ 579,747	\$ 321,000
Term endowment to support school operations	373,429	223,429
Higher education	151,085	149,827
Future operations – pledge receivable		30,000
Time restricted	20,000	
Other	<u>2,061</u>	<u>2,599</u>
Total temporarily restricted net assets	<u>\$ 1,126,322</u>	<u>\$ 726,855</u>

NOTE 4 – CONCENTRATION OF CONTRIBUTIONS

In 2009, contributions from one donor were \$500,000 or 49% of total contributions. In 2008, contributions from one donor were \$300,000 or 45% of total contributions.

NOTE 5 – IN-KIND CONTRIBUTIONS

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

	<u>2009</u>	<u>2008</u>
Program supplies and food	\$ 14,400	\$ 17,225
Printing and publications	4,000	4,000
Advertising	2,000	2,000
Other	<u>3,500</u>	<u> </u>
Total in-kind contributions	<u>\$ 23,900</u>	<u>\$ 23,225</u>

NOTE 6 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 18, 2010, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.
