

**Small Steps Nurturing Center**

Financial Statements  
and Independent Auditors' Report  
for the years ended December 31, 2011 and 2010

**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, 2011 and 2010 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, 2011 and 2010 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 14, 2012

## Small Steps Nurturing Center

Statements of Financial Position as of December 31, 2011 and 2010

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	<u>2011</u>	<u>2010</u>
ASSETS		
Cash	\$ 420,381	\$ 363,894
Pledges receivable ( <i>Note 2</i> )	551,784	
Prepaid expenses and other assets	21,299	17,319
Cash designated or restricted for long-term purposes	1,174,533	1,100,329
Investments ( <i>Note 3</i> )	466,996	
Property, net ( <i>Note 4</i> )	<u>2,178,801</u>	<u>2,188,122</u>
 TOTAL ASSETS	 <u>\$ 4,813,794</u>	 <u>\$ 3,669,664</u>
 LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	<u>\$ 33,592</u>	<u>\$ 50,706</u>
Net assets:		
Unrestricted:		
Operating	2,455,199	2,501,609
Board-designated reserve funds	<u>379,115</u>	<u>378,244</u>
Total unrestricted net assets	2,834,314	2,879,853
Temporarily restricted ( <i>Notes 5 and 6</i> )	<u>1,945,888</u>	<u>739,105</u>
Total net assets	<u>4,780,202</u>	<u>3,618,958</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 4,813,794</u>	 <u>\$ 3,669,664</u>

*See accompanying notes to financial statements.*

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## Small Steps Nurturing Center

Statement of Activities for the year ended December 31, 2011

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	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Contributions	\$ 389,783	\$ 1,421,369	\$ 1,811,152
Golf tournament	778,150		778,150
Sporting clay tournament	424,130		424,130
Wine Classic event	368,458		368,458
Luncheon event	313,446		313,446
Cost of direct donor benefits	(357,109)		(357,109)
Investment return ( <i>Note 3</i> )	<u>3,068</u>	<u>2,550</u>	<u>5,618</u>
Total revenue	1,919,926	1,423,919	3,343,845
Net assets released from restrictions:			
Program expenditures	212,136	(212,136)	
Expiration of time restrictions	<u>5,000</u>	<u>(5,000)</u>	
Total	<u>2,137,062</u>	<u>1,206,783</u>	<u>3,343,845</u>
EXPENSES:			
Program services	1,798,723		1,798,723
Management and general	94,944		94,944
Fundraising	<u>288,934</u>		<u>288,934</u>
Total expenses	<u>2,182,601</u>		<u>2,182,601</u>
CHANGES IN NET ASSETS	(45,539)	1,206,783	1,161,244
Net assets, beginning of year	<u>2,879,853</u>	<u>739,105</u>	<u>3,618,958</u>
Net assets, end of year	<u>\$ 2,834,314</u>	<u>\$ 1,945,888</u>	<u>\$ 4,780,202</u>

*See accompanying notes to financial statements.*

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## Small Steps Nurturing Center

Statement of Activities for the year ended December 31, 2010

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	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Contributions	\$ 505,818	\$ 209,546	\$ 715,364
Golf tournament	752,650		752,650
Sporting clay tournament	523,874		523,874
Wine Classic event	318,882		318,882
Cost of direct donor benefits	(357,359)		(357,359)
Investment return	<u>4,045</u>	<u>                    </u>	<u>4,045</u>
Total revenue	1,747,910	209,546	1,957,456
Net assets released from restrictions:			
Program expenditures	174,587	(174,587)	
Expiration of time restrictions	20,000	(20,000)	
Property expenditures	<u>28,747</u>	<u>(28,747)</u>	<u>                    </u>
Total	<u>1,971,244</u>	<u>(13,788)</u>	<u>1,957,456</u>
EXPENSES:			
Program services	1,719,362		1,719,362
Management and general	93,579		93,579
Fundraising	<u>231,183</u>	<u>                    </u>	<u>231,183</u>
Total expenses	<u>2,044,124</u>	<u>                    </u>	<u>2,044,124</u>
CHANGES IN NET ASSETS	(72,880)	(13,788)	(86,668)
Net assets, beginning of year	<u>2,952,733</u>	<u>752,893</u>	<u>3,705,626</u>
Net assets, end of year	<u>\$ 2,879,853</u>	<u>\$ 739,105</u>	<u>\$ 3,618,958</u>

*See accompanying notes to financial statements.*

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## Small Steps Nurturing Center

### Statement of Functional Expenses for the year ended December 31, 2011

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	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
Salaries	\$ 1,189,959	\$ 53,018	\$ 121,371	\$ 1,364,348
Employee benefits	116,453	2,450	11,401	130,304
Depreciation	109,613	1,815	2,722	114,150
Employer payroll taxes	89,281	3,615	8,735	101,631
Professional services	32,576	22,205	18,765	73,546
Utilities	45,232	3,420	5,192	53,844
Printing, publications and postage	1,291	942	44,163	46,396
Food	41,737			41,737
Repairs and maintenance	36,520	1,503	1,340	39,363
Supplies	24,568	450	8,023	33,041
Equipment rental	3,095		25,633	28,728
Insurance	22,679	2,966	2,729	28,374
Transportation	25,802			25,802
Extended day program	20,000			20,000
Continuing education	16,490		342	16,832
Bank and credit card fees		1,005	15,156	16,161
Software and website	2,197		10,879	13,076
Clothing and toys	9,000			9,000
Other	<u>12,230</u>	<u>1,555</u>	<u>12,483</u>	<u>26,268</u>
Total expenses	<u>\$ 1,798,723</u>	<u>\$ 94,944</u>	<u>\$ 288,934</u>	<u>\$ 2,182,601</u>

*See accompanying notes to financial statements.*

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## Small Steps Nurturing Center

### Statement of Functional Expenses for the year ended December 31, 2010

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	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
Salaries	\$ 1,124,980	\$ 50,697	\$ 106,243	\$ 1,281,920
Employee benefits	127,219	700	5,427	133,346
Depreciation	107,294	1,759	2,639	111,692
Employer payroll taxes	83,174	4,679	7,650	95,503
Professional services	40,003	21,536	19,154	80,693
Utilities	41,532	2,964	3,321	47,817
Printing, publications and postage	787	391	31,257	32,435
Food	35,299			35,299
Repairs and maintenance	30,069	1,692	2,017	33,778
Supplies	21,809	439	3,198	25,446
Equipment rental	3,031		16,180	19,211
Insurance	22,887	2,954	2,782	28,623
Transportation	21,262		4,656	25,918
Extended day program	20,000			20,000
Continuing education	20,245			20,245
Bank and credit card fees		2,046	13,458	15,504
Software and website	1,502		8,187	9,689
Clothing and toys	9,132			9,132
Other	9,137	3,722	5,014	17,873
Total expenses	<u>\$ 1,719,362</u>	<u>\$ 93,579</u>	<u>\$ 231,183</u>	<u>\$ 2,044,124</u>

*See accompanying notes to financial statements.*

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## Small Steps Nurturing Center

### Statements of Cash Flows for the years ended December 31, 2011 and 2010

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	<u>2011</u>	<u>2010</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Changes in net assets	\$ 1,161,244	\$ (86,668)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Contributions restricted for long-term purposes	(938,600)	
Depreciation	114,149	111,692
Net realized and unrealized loss on investments	1,924	
Change in operating assets and liabilities:		
Pledges receivable	(20,000)	20,000
Prepaid expenses and other assets	(3,980)	(155)
Accounts payable	<u>(17,114)</u>	<u>8,867</u>
Net cash provided by operating activities	<u>297,623</u>	<u>53,736</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of investments	(468,920)	
Purchases of property	(104,828)	(54,429)
Net change in cash held for long-term purposes	<u>(74,204)</u>	<u>3,932</u>
Net cash used by investing activities	<u>(647,952)</u>	<u>(50,497)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from contributions restricted for long-term purposes	<u>406,816</u>	
Net cash provided by financing activities	<u>406,816</u>	
<b>NET CHANGE IN CASH</b>	56,487	3,239
Cash, beginning of year	<u>363,894</u>	<u>360,655</u>
Cash, end of year	<u>\$ 420,381</u>	<u>\$ 363,894</u>

*See accompanying notes to financial statements.*

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## Small Steps Nurturing Center

Notes to Financial Statements for the years ended December 31, 2011 and 2010

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### 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 serves approximately 120 students at its Jensen and DePelchin campuses. 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 tax under §501(c)(3) of the Internal Revenue Code and is classified as a public charity under §509(a)(1). Small Steps files annual federal information returns. Small Steps is subject to routine examinations of its returns; however, there are no examinations for any tax periods currently in progress. Small Steps believes it is no longer subject to examinations of returns for tax years ending before December 31, 2008.

Cash concentration – Interest-bearing bank deposits exceed the federally insured limit per depositor per institution.

Pledges receivable that are expected to be collected within one year are reported at net realizable value. Pledges receivable that are expected to be collected in future years are discounted, if material, to estimate the present value of future cash flows.

Investments are reported at fair value. Investment return is reported in the statement of activities as an increase in unrestricted net assets unless the use of the income is limited by donor-imposed restrictions. Investment return whose use is restricted by the donor is reported as an increase in temporarily restricted net assets until expended in accordance with donor-imposed restrictions.

Property with an original value of at least \$1,000 is reported at cost if purchased and at fair value at the date of gift if donated. Property is depreciated using the straight-line method over estimated useful lives of 3 to 7 years for furniture, equipment and supplies, and 10 to 30 years for buildings and improvements.

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 recognized as revenue at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are classified 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 recognized at fair value as contributions when an unconditional commitment is received from the donor. The related expense is recognized 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 provided by donation.

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 amounts of reported revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

Reclassifications – As of January 1, 2010, \$378,244 of temporarily restricted net assets have been reclassified as board-designated unrestricted net assets. There was no effect on changes in net assets.

## **NOTE 2 – PLEDGES RECEIVABLE**

Pledges receivable at December 31, 2011 consist of the following:

Capital campaign	\$ 531,784
Operating	<u>20,000</u>
Pledges receivable, net	<u>\$ 551,784</u>

Pledges receivable at December 31, 2011 are expected to be collected as follows:

Due within one year	\$ 224,375
Due in one to five years	<u>327,409</u>
Total pledges receivable	<u>\$ 551,784</u>

## **NOTE 3 – INVESTMENTS AND FAIR VALUE MEASUREMENTS**

Generally accepted accounting principles require that certain assets and liabilities be reported at fair value and establish a hierarchy that prioritizes inputs used to measure fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The three levels of the fair value hierarchy are as follows:

- *Level 1* – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the reporting date.

- *Level 2* – Inputs are other than quoted prices included in Level 1, which are either directly observable or can be derived from or corroborated by observable market data at the reporting date.
- *Level 3* – Inputs are not observable and are based on the reporting entity’s assumptions about the inputs market participants would use in pricing the asset or liability.

Assets measured at fair value at December 31, 2011 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Open-ended mutual funds:				
Moderate growth	\$ 227,785			\$ 227,785
Balanced index	<u>239,211</u>			<u>239,211</u>
Total assets measured at fair value	<u>\$ 466,996</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 466,996</u>

Open-ended mutual funds are valued at the closing price reported on the active market in which the individual securities are traded. This valuation method may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while Small Steps believes its valuation method is appropriate, the use of different methods or assumptions could result in a different fair value measurement at the reporting date.

Investments are exposed to various risks such as interest rate, market, and credit risks. Because of these risks, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the statement of financial position and statement of activities.

Investment return at December 31, 2011 includes interest on cash balances and consists of the following:

Interest and dividend income	\$ 7,542
Net realized and unrealized loss on investments	<u>(1,924)</u>
Total investment return	<u>\$ 5,618</u>

#### **NOTE 4 – PROPERTY**

Property consists of the following:

	<u>2011</u>	<u>2010</u>
Land	\$ 307,978	\$ 307,978
Buildings and improvements	2,398,646	2,376,675
Office furniture and equipment	82,562	111,024
Classroom equipment and supplies	149,553	162,519
Vans	139,537	139,537
Construction in progress	<u>85,837</u>	<u>6,545</u>
Property, at cost	3,164,113	3,104,278
Accumulated depreciation	<u>(985,312)</u>	<u>(916,156)</u>
Property, net	<u>\$ 2,178,801</u>	<u>\$ 2,188,122</u>

## NOTE 5 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2011</u>	<u>2010</u>
Capital improvements	\$ 1,489,600	\$ 571,000
Term endowment to support school operations	239,211	
Higher education	151,085	151,085
For use in future years	20,000	
Other	<u>45,992</u>	<u>17,020</u>
Total temporarily restricted net assets	<u>\$ 1,945,888</u>	<u>\$ 739,105</u>

## NOTE 6 – ENDOWMENT FUND

Small Steps maintains a term endowment fund that is restricted by the donor until 2020 to provide consistent, long-term funding for educational operations by annually distributing 4% to 5% of the fund's average quarterly value. This fund has no permanently restricted component, but was established to function similar to an endowment. At the end of the term of the endowment, any remaining unspent funds may be allocated at the discretion of the Small Steps' Board of Directors.

The Board of Directors of Small Steps has interpreted the Texas Uniform Prudent Management of Institutional Funds Act (TUPMIFA) as requiring the classification of the entire market value of the term endowment fund, as of the date of the financial statements, as temporarily restricted net assets. Annually, in accordance with the donor's wish as expressed in the gift instrument, Small Steps appropriates for expenditure an amount of money determined by a formula based on average net assets over a period of twelve quarters. In determining the specific amount of money to be appropriated for expenditure, the Small Steps Board of Directors considers the following factors:

- The intended duration and preservation of the funds
- The educational purposes of Small Steps and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of Small Steps
- The investment policies of Small Steps

Changes in net assets of the term endowment fund are as follows:

	<u>UNRESTRICTED</u>	TEMPORARILY <u>RESTRICTED</u>	PERMANENTLY <u>RESTRICTED</u>	<u>TOTAL</u>
Net assets, December 31, 2010	\$ 0	\$ 0	\$ 0	\$ 0
Contributions		<u>250,000</u>		<u>250,000</u>
Investment return:				
Interest and dividends		951		951
Net realized and unrealized gain		<u>760</u>		<u>760</u>
Net investment return		<u>1,711</u>		<u>1,711</u>
Distributions		<u>(12,500)</u>		<u>(12,500)</u>
Net assets, December 31, 2011	<u>\$ 0</u>	<u>\$ 239,211</u>	<u>\$ 0</u>	<u>\$ 239,211</u>

### **Investment Policy**

Small Steps has adopted an investment policy for term endowment investments and other invested funds of Small Steps. The general purpose of the policy is to preserve and enhance the real value of the principal and to provide Small Steps with a dependable source of revenue to support its facilities and programs. More specifically, with respect to the donor-restricted term endowment fund, the purpose of the policy is to provide a relatively stable annual income whose real value will remain consistent over the next ten years.

### **Strategies Employed for Achieving Objectives**

To satisfy its long-term rate-of-return objectives, Small Steps relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Small Steps targets a diversified asset allocation that varies based on the objectives of the specific fund. Asset allocation targets are determined by the Board of Directors based on the recommendations of the Finance Committee of the Board.

### **NOTE 7 – CONCENTRATION OF CONTRIBUTIONS**

During the year ended December 31, 2011, contributions from five donors comprised approximately \$625,000 or 35% of total contributions.

### **NOTE 8 – IN-KIND CONTRIBUTIONS**

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

	<u>2011</u>	<u>2010</u>
Program supplies and food	\$ 16,300	\$ 15,800
Printing and publications	4,000	4,000
Other	<u>4,000</u>	<u>3,500</u>
Total in-kind contributions	<u>\$ 24,300</u>	<u>\$ 23,300</u>

## **NOTE 9 – SUBSEQUENT EVENTS**

Subsequent to December 31, 2011, Small Steps entered into a construction management agreement to coordinate and facilitate the construction of an addition to the school. This agreement provides for payments equal to the actual cost of construction plus a management fee of 10%. The estimated cost of construction is approximately \$950,000.

During April 2012, Small Steps purchased land contiguous to its Jensen campus in two transactions totaling approximately \$36,000. The land will be used for additional parking.

Management has evaluated subsequent events through May 14, 2012, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events other than those noted above, were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.

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