

Small Steps Nurturing Center

Financial Statements
and Independent Auditors' Report
for the eighteen months ended June 30, 2016

Small Steps Nurturing Center

Table of Contents

	Page
Independent Auditors' Report	1
Financial Statements:	
Statement of Financial Position as of June 30, 2016	2
Statement of Activities for the eighteen months ended June 30, 2016	3
Statement of Functional Expenses for the eighteen months ended June 30, 2016	4
Statement of Cash Flows for the eighteen months ended June 30, 2016	5
Notes to Financial Statements for the eighteen months ended June 30, 2016	6

Independent Auditors' Report

To the Board of Directors of
Small Steps Nurturing Center:

We have audited the accompanying financial statements of Small Steps Nurturing Center, which comprise the statement of financial position as of June 30, 2016 and the related statements of activities, of functional expenses, and of cash flows for the eighteen months then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements – Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility – Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 June 30, 2016 and the changes in its net assets and its cash flows for the eighteen months then ended in accordance with accounting principles generally accepted in the United States of America.

Blazek & Vetterling

March 3, 2017

Small Steps Nurturing Center

Statement of Financial Position as of June 30, 2016

ASSETS

Cash	\$ 580,589
Prepaid expenses and other assets	46,973
Pledges receivable, net (<i>Note 2</i>)	345,239
Cash designated or restricted for long-term purposes (<i>Note 3</i>)	267,515
Investments (<i>Note 4</i>)	1,681,229
Property, net (<i>Note 5</i>)	<u>3,079,018</u>
TOTAL ASSETS	<u>\$ 6,000,563</u>

LIABILITIES AND NET ASSETS

Liabilities:	
Accounts payable	\$ 32,405
Funds held for others	<u>24,199</u>
Total liabilities	<u>56,604</u>
Net assets (<i>Note 8</i>):	
Unrestricted (<i>Note 6</i>)	4,640,812
Temporarily restricted (<i>Note 7</i>)	1,283,147
Permanently restricted	<u>20,000</u>
Total net assets	<u>5,943,959</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 6,000,563</u>

See accompanying notes to financial statements.

Small Steps Nurturing Center

Statement of Activities for the eighteen months ended June 30, 2016

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:				
Contributions <i>(Note 9)</i>	\$ 1,450,938	\$ 644,559	\$ 20,000	\$ 2,115,497
Golf tournament	1,177,550	87,083		1,264,633
Sporting clay tournament	656,946			656,946
Wine Classic event	1,154,057			1,154,057
Luncheon event	304,149	39,888		344,037
Cost of direct donor benefits	(762,101)			(762,101)
Investment return <i>(Note 4)</i>	73,468	26,014		99,482
Other revenue	2,489			2,489
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenue	4,057,496	797,544	20,000	4,875,040
Net assets released from restrictions:				
Program expenditures	1,073,574	(1,073,574)		
Expiration of time restrictions	111,100	(111,100)		
Capital expenditures	73,856	(73,856)		
	<hr/>	<hr/>	<hr/>	<hr/>
Total	5,316,026	(460,986)	20,000	4,875,040
EXPENSES:				
Program services	4,091,237			4,091,237
Management and general	334,367			334,367
Fundraising	532,106			532,106
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenses	4,957,710			4,957,710
CHANGES IN NET ASSETS	358,316	(460,986)	20,000	(82,670)
Net assets, beginning of period	<hr/>	<hr/>	<hr/>	<hr/>
	4,282,496	1,744,133	0	6,026,629
Net assets, end of period	<u>\$ 4,640,812</u>	<u>\$ 1,283,147</u>	<u>\$ 20,000</u>	<u>\$ 5,943,959</u>

See accompanying notes to financial statements.

Small Steps Nurturing Center

Statement of Functional Expenses for the eighteen months ended June 30, 2016

	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Salaries	\$ 2,717,955	\$ 177,786	\$ 282,185	\$ 3,177,926
Employer payroll taxes	203,564	12,999	20,729	237,292
Employee benefits	<u>247,729</u>	<u>14,420</u>	<u>20,521</u>	<u>282,670</u>
Total salaries and related expenses	3,169,248	205,205	323,435	3,697,888
Depreciation	233,131	5,014	7,379	245,524
Professional services	52,157	78,915	36,451	167,523
Supplies	101,708	4,459	6,998	113,165
Extended day program provider	110,000			110,000
Insurance	83,158	10,601	2,663	96,422
Utilities	79,879	1,657	2,484	84,020
Repairs and maintenance	68,443	1,613	1,976	72,032
Food	71,397			71,397
Printing, publications and postage	446	1,581	60,146	62,173
Transportation	43,559		4,500	48,059
Bank and credit card fees		1,203	33,002	34,205
Software and website	4,221	29	25,092	29,342
Equipment rental	24,007	239	358	24,604
Continuing education	17,826	815	1,240	19,881
Other	<u>32,057</u>	<u>23,036</u>	<u>26,382</u>	<u>81,475</u>
Total expenses	<u>\$ 4,091,237</u>	<u>\$ 334,367</u>	<u>\$ 532,106</u>	4,957,710
Cost of direct donor benefits				<u>762,101</u>
Total				<u>\$ 5,719,811</u>

See accompanying notes to financial statements.

Small Steps Nurturing Center

Statement of Cash Flows for the eighteen months ended June 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES:

Changes in net assets	\$ (82,670)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Depreciation	245,525
Net realized and unrealized gain on investments	(24,408)
Changes in operating assets and liabilities:	
Prepaid expenses and other assets	(3,842)
Pledges receivable	38,776
Accounts payable	(7,491)
Funds held for others	<u>(1,955)</u>
Net cash provided by operating activities	<u>163,935</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchases of investments	(602,882)
Proceeds from sale of investments	33,685
Net change in cash held for investment	(26,557)
Net change in cash designated or restricted for long-term purposes	915,347
Purchases of property	<u>(102,443)</u>
Net cash provided by investing activities	<u>217,150</u>

NET CHANGE IN CASH	381,085
Cash, beginning of period	<u>199,504</u>
Cash, end of period	<u>\$ 580,589</u>

See accompanying notes to financial statements.

Small Steps Nurturing Center

Notes to Financial Statements for the eighteen months ended June 30, 2016

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 180 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).

Cash concentration – 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. An allowance for uncollectible pledges receivable is provided when it is believed balances may not be collected in full. Small Steps' policy is to write off receivables against the allowance when management determines the receivable will not be collected. The loss on pledges recognized each period and the resulting adequacy of the allowance at the end of each period are determined using a combination of historical loss experience and analysis of individual pledge balances. It is possible that management's estimate regarding the collectability of the balances will change in the near term resulting in a change in the carrying value of these receivables.

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, investment return, 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 and related investment return 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.
- *Permanently restricted net assets* include contributions that donors have restricted in perpetuity. Investment return is temporarily restricted to support specific purposes as restricted by the donor.

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. Small Steps recognizes gifts of long-lived assets as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are classified as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, Small Steps reports releases of donor restrictions when the assets are placed in service.

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.

NOTE 2 – PLEDGES RECEIVABLE

At June 30, 2016, pledges are expected to be collected as follows:

Less than one year	\$ 380,239
One to five years	<u>15,000</u>
Total	395,239
Allowance for uncollectible pledges	<u>(50,000)</u>
Pledges receivable, net	<u>\$ 345,239</u>

Pledges from three donors, two of which are foundations, comprised 51% of pledges receivable as of June 30, 2016.

NOTE 3 – CASH DESIGNATED OR RESTRICTED FOR LONG-TERM PURPOSES

Cash whose use has been designated or restricted for long-term purposes at June 30, 2016 consist of the following:

Donor-restricted from capital campaign	\$ 115,517
Board-designated for future operations	<u>151,998</u>
Total	<u>\$ 267,515</u>

NOTE 4 – 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 June 30, 2016 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Mutual funds:				
Balanced income	\$ 1,211,110	_____	_____	\$ 1,211,110
Total assets measured at fair value	<u>\$ 1,211,110</u>	<u>\$ _____</u>	<u>\$ _____</u>	1,211,110
Cash held for investment				<u>470,119</u>
Total investments				<u>\$ 1,681,229</u>

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 that such changes could materially affect the amounts reported in the statement of financial position and statement of activities.

Investment return at June 30, 2016 includes earnings on cash and consists of the following:

Interest and dividends	\$ 75,074
Net realized and unrealized gain	<u>24,408</u>
Total investment return	<u>\$ 99,482</u>

NOTE 5 – PROPERTY

Property consists of the following at June 30, 2016:

Land	\$ 367,748
Buildings and improvements	3,734,317
Classroom equipment and supplies	204,623
Vans	214,407
Office furniture and equipment	<u>145,679</u>
Property, at cost	4,666,774
Accumulated depreciation	<u>(1,587,756)</u>
Property, net	<u>\$ 3,079,018</u>

NOTE 6 – UNRESTRICTED NET ASSETS

Unrestricted net assets at June 30, 2016 are comprised of the following:

Property, net	\$ 3,079,018
Board-designated reserve funds	825,573
Undesignated	<u>736,221</u>
Total unrestricted net assets	<u>\$ 4,640,812</u>

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at June 30, 2016:

Future operations	\$ 667,159
Term endowment to support school operations	301,374
Higher education	139,610
For use in future years	136,971
Outcomes measurement	33,777
Other	<u>4,256</u>
Total temporarily restricted net assets	<u>\$ 1,283,147</u>

NOTE 8 – ENDOWMENT FUNDS

Small Steps maintains a permanently restricted endowment fund for continuity and 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 term endowment 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 used at the discretion of Small Steps’ Board of Directors.

Changes in net assets of the endowment funds are as follows:

	<u>UNRESTRICTED</u>	TEMPORARILY <u>RESTRICTED</u>	PERMANENTLY <u>RESTRICTED</u>	<u>TOTAL</u>
Net assets, January 1, 2015	\$ 0	\$ 305,330	\$ 0	\$ 305,330
Contribution			20,000	20,000
Investment return:				
Interest and dividends		20,722		20,722
Net realized and unrealized gain		<u>5,292</u>		<u>5,292</u>
Net investment return		<u>26,014</u>		<u>26,014</u>
Distributions		<u>(29,523)</u>		<u>(29,523)</u>
Net assets, June 30, 2016	<u>\$ 0</u>	<u>\$ 301,821</u>	<u>\$ 20,000</u>	<u>\$ 321,821</u>

Investment Policy

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 endowment funds, the purpose of the policy is to provide a relatively stable annual income whose real value will be maintained.

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 Investment Committee of the Board of Directors.

NOTE 9 – CONCENTRATION OF CONTRIBUTIONS

During the eighteen months ended June 30, 2016, contributions from eight donors, four of which were foundations, comprised approximately \$630,000 or 30% of total contributions.

NOTE 10 – IN-KIND CONTRIBUTIONS

The following in-kind contributions are included in revenue as unrestricted contributions and in expenses in their respective functional categories at June 30, 2016:

After school program	\$ 70,000
Program supplies and food	13,277
Special event food and beverage	9,175
Building fire system maintenance	7,700
Printing and publications	7,400
Other	<u>18,315</u>
Total in-kind contributions	<u>\$ 125,867</u>

NOTE 11 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 3, 2017, 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.
