Small Steps Nurturing Center

Financial Statements
and Independent Auditors' Report
for the year ended June 30, 2017

Small Steps Nurturing Center

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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, 2017 and the related statements of activities, of functional expenses, and of cash flows for the year 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, 2017 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Blazek & Vetterling

November 29, 2017

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Small Steps Nurturing Center

Statement of Financial Position as of June 30, 2017

ASSETS	
Cash	$ 396,175
Prepaid expenses	83,154
Pledges receivable, net *(Note 2)*	776,837
Cash designated or restricted for long-term purposes *(Note 3)*	161,308
Investments *(Note 4)*	1,758,680
Property, net *(Note 5)*	2,916,351
TOTAL ASSETS	$ 6,092,505
LIABILITIES AND NET ASSETS	
Liabilities:	
Accounts payable	$ 60,102
Funds held for others	23,951
Total liabilities	84,053
Net assets *(Note 8)*:	
Unrestricted *(Note 6)*	4,039,193
Temporarily restricted *(Note 7)*	1,929,259
Permanently restricted	40,000
Total net assets	6,008,452
TOTAL LIABILITIES AND NET ASSETS	$ 6,092,505

See accompanying notes to financial statements.

Small Steps Nurturing Center

Statement of Activities for the year ended June 30, 2017

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
REVENUE:				
Contributions *(Note 9)*	$ 1,085,943	$ 927,162	$ 20,000	$ 2,033,105
Golf tournament	390,383	384,408		774,791
Sporting clay tournament	363,874	12,825		376,699
Wine Classic event	525,080	90,750		615,830
Luncheon event	73,933	151,500		225,433
Cost of direct donor benefits	(495,980)			(495,980)
Investment return *(Note 4)*	44,520	16,619		61,139
Other revenue	2,561			2,561
Total revenue	1,990,314	1,583,264	20,000	3,593,578
Net assets released from restrictions:				
Program expenditures	810,181	(810,181)		
Expiration of time restrictions	126,971	(126,971)		
Total	2,927,466	646,112	20,000	3,593,578
EXPENSES:				
Program services	2,895,505			2,895,505
Management and general	242,312			242,312
Fundraising	391,268			391,268
Total expenses	3,529,085			3,529,085
CHANGES IN NET ASSETS	(601,619)	646,112	20,000	64,493
Net assets, beginning of period	4,640,812	1,283,147	20,000	5,943,959
Net assets, end of period	$ 4,039,193	$ 1,929,259	$ 40,000	$ 6,008,452

See accompanying notes to financial statements.

Small Steps Nurturing Center

Statement of Functional Expenses for the year ended June 30, 2017

	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Salaries	$ 1,883,111	$ 114,199	$ 204,387	$ 2,201,697
Employer payroll taxes	137,042	8,578	15,394	161,014
Employee benefits	220,854	7,887	13,680	242,421
Total salaries and related expenses	2,241,007	130,664	233,461	2,605,132
Professional services	55,786	84,257	60,809	200,852
Depreciation	165,330	2,931	4,514	172,775
Supplies	65,497	2,421	3,775	71,693
Repairs and maintenance	59,639	1,210	1,815	62,664
Utilities	53,748	1,131	1,697	56,576
Extended day program provider	55,000			55,000
Insurance	46,776	6,649	1,407	54,832
Food	49,840			49,840
Transportation	35,286		204	35,490
Printing, publications and postage	413	686	29,228	30,327
Continuing education	23,594	918	490	25,002
Bank and credit card fees		614	21,860	22,474
Software and website	1,447	126	20,000	21,573
Outcome measuring	12,902			12,902
Equipment rental	11,375	131	196	11,702
Other	17,865	10,574	11,812	40,251
Total expenses	$ 2,895,505	$ 242,312	$ 391,268	3,529,085
Cost of direct donor benefits				495,980
Total				$ 4,025,065

See accompanying notes to financial statements.

Small Steps Nurturing Center

Statement of Cash Flows for the year ended June 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES:	
Changes in net assets	$ 64,493
Adjustments to reconcile changes in net assets to net cash used by operating activities:	
Depreciation	172,775
Net realized and unrealized gain on investments	(11,344)
Changes in operating assets and liabilities:	
Prepaid expenses	(36,181)
Pledges receivable	(431,598)
Accounts payable	27,697
Funds held for others	(248)
Net cash used by operating activities	(214,406)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchases of investments	(49,503)
Proceeds from sale of investments	3,958
Net change in cash held for investment	(20,562)
Net change in cash designated or restricted for long-term purposes	106,207
Purchases of property	(10,108)
Net cash provided by investing activities	29,992
NET CHANGE IN CASH	(184,414)
Cash, beginning of year	580,589
Cash, end of year	$ 396,175

See accompanying notes to financial statements.

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 176 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.

Recent financial accounting pronouncement – In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* The amendments in this ASU are the first phase of changes aimed at providing more useful information to users of not-for-profit financial statements. Under this ASU, net assets will be presented in two classes: *net assets with donor restrictions* and *net assets without donor restrictions.* New or enhanced disclosures will be required about the nature and composition of net assets, and the liquidity and availability of resources for general operating expenditures within one year of the balance sheet date. Expenses will be required to be presented by both nature and function and investment return will be presented net of external and direct internal investment expenses. Absent explicit donor stipulations, restrictions on long-lived assets will expire when assets are placed in service. The ASU is effective for fiscal periods beginning after December 15, 2017, but early adoption is permitted. Adoption of this ASU will impact the presentation and disclosures of the financial statements.

NOTE 2 – PLEDGES RECEIVABLE

At June 30, 2017, pledges are expected to be collected as follows:

Less than one year	$ 471,837
One to five years	355,000
Total	826,837
Allowance for uncollectible pledges	(50,000)
Pledges receivable, net	$ 776,837

Pledges from four donors, two of which are foundations and two of which are corporations, comprised 68% of pledges receivable as of June 30, 2017.

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, 2017 consists of the following:

Board-designated for future operations	$ 152,150
Donor-restricted from capital campaign	9,158
Total	$ 161,308

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, 2017 are as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Mutual funds:				
Balanced income	$ 1,267,999			$ 1,267,999
Total assets measured at fair value	$ 1,267,999	$ 0	$ 0	1,267,999
Cash held for investment				490,681
Total investments				$ 1,758,680

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, 2017 includes earnings on cash and consists of the following:

Interest and dividends	$ 49,795
Net realized and unrealized gain	11,344
Total investment return	$ 61,139

NOTE 5 – PROPERTY

Property at June 30, 2017 consists of the following:

Land	$ 367,748
Buildings and improvements	3,740,424
Classroom equipment and supplies	204,479
Vans	214,407
Office furniture and equipment	145,679
Property, at cost	4,672,737
Accumulated depreciation	(1,756,386)
Property, net	$ 2,916,351

NOTE 6 – UNRESTRICTED NET ASSETS

Unrestricted net assets at June 30, 2017 are comprised of the following:

Property, net	$ 2,916,351
Board-designated reserve funds	862,680
Undesignated	260,162
Total unrestricted net assets	$ 4,039,193

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2017 are available for the following purposes:

Future operations	$ 547,955
For use in future years	501,580
Strategic core commitments	400,000
Term endowment to support school operations	316,557
Higher education	136,160
Outcomes measurement	20,875
Other	6,132
Total temporarily restricted net assets	$ 1,929,259

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 fund are as follows:

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Endowment net assets, June 30, 2016	$ 0	$ 301,821	$ 20,000	$ 321,821
Contribution			20,000	20,000
Investment return:				
Interest and dividends		13,295		13,295
Net realized and unrealized gain		3,238		3,238
Net investment return		16,533		16,533
Endowment net assets, June 30, 2017	$ 0	$ 318,354	$ 40,000	$ 358,354

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 year ended June 30, 2017, contributions from four donors, two of which were foundations, comprised approximately $969,000 or 48% 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, 2017:

After school program	$ 35,000
Information technology services	26,000
Special event food and beverage	20,405
Building fire system maintenance	6,866
Other	9,918
Total in-kind contributions	$ 98,189

NOTE 11 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 29, 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.