

Small Steps Nurturing Center

Financial Statements
and Independent Auditors' Report
for the years ended June 30, 2020 and 2019

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 statements of financial position as of June 30, 2020 and 2019 and the related statements of activities, of functional expenses, and of cash flows for the years 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 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 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, 2020 and 2019 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Blazek & Vetterling

November 30, 2020

Small Steps Nurturing Center

Statements of Financial Position as of June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash	\$ 2,274,443	\$ 708,826
Prepaid expenses and other assets	37,917	38,998
Contributions receivable (Note 4)	826,585	521,029
Investments (Note 5)	2,065,840	1,981,509
Property, net (Note 6)	<u>2,538,323</u>	<u>2,672,439</u>
TOTAL ASSETS	<u>\$ 7,743,108</u>	<u>\$ 5,922,801</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accrued salaries and benefits	\$ 25,124	\$ 147,423
Accounts payable	34,477	12,392
Funds held for others	40,143	36,308
Deferred special event revenue	108,025	
Paycheck Protection Program refundable advance (Note 3)	<u>535,440</u>	<u> </u>
Total liabilities	<u>743,209</u>	<u>196,123</u>
Net assets:		
Without donor restrictions	3,852,001	3,864,938
With donor restrictions (Notes 7 and 8)	<u>3,147,898</u>	<u>1,861,740</u>
Total net assets	<u>6,999,899</u>	<u>5,726,678</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 7,743,108</u>	<u>\$ 5,922,801</u>

See accompanying notes to financial statements.

Small Steps Nurturing Center

Statement of Activities for the year ended June 30, 2020

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions <i>(Note 9)</i>	\$ 1,482,787	\$ 2,449,932	\$ 3,932,719
Special events	1,105,011	141,311	1,246,322
Cost of direct donor benefits	(341,641)		(341,641)
Net investment return	58,487	23,270	81,757
Other revenue	<u>4,046</u>	<u></u>	<u>4,046</u>
Total revenue	2,308,690	2,614,513	4,923,203
Net assets released from restrictions:			
Program expenditures	811,755	(811,755)	
Expiration of time restrictions	<u>516,600</u>	<u>(516,600)</u>	<u></u>
Total	<u>3,637,045</u>	<u>1,286,158</u>	<u>4,923,203</u>
EXPENSES:			
Program services	2,945,632		2,945,632
Management and general	296,132		296,132
Fundraising	<u>408,218</u>		<u>408,218</u>
Total expenses	<u>3,649,982</u>		<u>3,649,982</u>
CHANGES IN NET ASSETS	(12,937)	1,286,158	1,273,221
Net assets, beginning of year	<u>3,864,938</u>	<u>1,861,740</u>	<u>5,726,678</u>
Net assets, end of year	<u>\$ 3,852,001</u>	<u>\$ 3,147,898</u>	<u>\$ 6,999,899</u>

See accompanying notes to financial statements.

Small Steps Nurturing Center

Statement of Activities for the year ended June 30, 2019

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions <i>(Note 9)</i>	\$ 720,924	\$ 957,355	\$ 1,678,279
Special events	1,966,175	456,600	2,422,775
Cost of direct donor benefits	(542,816)		(542,816)
Net investment return	95,837	35,253	131,090
Other revenue	<u>6,131</u>	<u></u>	<u>6,131</u>
Total revenue	2,246,251	1,449,208	3,695,459
Net assets released from restrictions:			
Program expenditures	906,840	(906,840)	
Expiration of time restrictions	<u>649,849</u>	<u>(649,849)</u>	<u></u>
Total	<u>3,802,940</u>	<u>(107,481)</u>	<u>3,695,459</u>
EXPENSES:			
Program services	2,933,964		2,933,964
Management and general	291,016		291,016
Fundraising	<u>406,345</u>	<u></u>	<u>406,345</u>
Total expenses	<u>3,631,325</u>	<u></u>	<u>3,631,325</u>
CHANGES IN NET ASSETS	171,615	(107,481)	64,134
Net assets, beginning of year	<u>3,693,323</u>	<u>1,969,221</u>	<u>5,662,544</u>
Net assets, end of year	<u>\$ 3,864,938</u>	<u>\$ 1,861,740</u>	<u>\$ 5,726,678</u>

See accompanying notes to financial statements.

Small Steps Nurturing Center

Statements of Functional Expenses for the years ended June 30, 2020 and 2019

	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>2020 TOTAL</u>
Salaries and related expenses	\$ 2,288,129	\$ 165,919	\$ 333,383	\$ 2,787,431
Professional services	155,822	93,263	14,910	263,995
Depreciation	155,571	2,917	4,376	162,864
Food and supplies	112,943	1,951	4,916	119,810
Occupancy	83,308	1,142	2,984	87,434
Insurance	62,327	7,038	1,968	71,333
Transportation	30,221			30,221
Printing, publications and postage	641	203	24,948	25,792
Other	<u>56,670</u>	<u>23,699</u>	<u>20,733</u>	<u>101,102</u>
Total expenses	<u>\$ 2,945,632</u>	<u>\$ 296,132</u>	<u>\$ 408,218</u>	3,649,982
Cost of direct donor benefits				<u>341,641</u>
Total				<u>\$ 3,991,623</u>

	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>2019 TOTAL</u>
Salaries and related expenses	\$ 2,192,999	\$ 169,650	\$ 310,314	\$ 2,672,963
Professional services	203,434	100,362	5,504	309,300
Depreciation	154,997	2,897	4,346	162,240
Food and supplies	138,854	1,486	4,869	145,209
Occupancy	89,985	1,427	3,029	94,441
Insurance	57,769	6,941	1,824	66,534
Transportation	34,115			34,115
Printing, publications and postage	524	417	31,376	32,317
Bank and credit card fees		413	23,128	23,541
Other	<u>61,287</u>	<u>7,423</u>	<u>21,955</u>	<u>90,665</u>
Total expenses	<u>\$ 2,933,964</u>	<u>\$ 291,016</u>	<u>\$ 406,345</u>	3,631,325
Cost of direct donor benefits				<u>542,816</u>
Total				<u>\$ 4,174,141</u>

See accompanying notes to financial statements.

Small Steps Nurturing Center

Statements of Cash Flows for the years ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 1,273,221	\$ 64,134
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Contributions restricted for endowment	(25,000)	(25,000)
Depreciation	162,864	162,240
Net realized and unrealized gain on investments	(22,062)	(35,540)
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	1,081	11,552
Contributions receivable	(305,556)	176,748
Accrued salaries and benefits	(122,299)	113,975
Accounts payable	22,085	(15,666)
Funds held for others	3,835	(38,397)
Deferred special event revenue	108,025	
Refundable advance	<u>535,440</u>	<u> </u>
Net cash provided by operating activities	<u>1,631,634</u>	<u>414,046</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(59,693)	(95,548)
Proceeds from sale of investments	23,347	20,743
Net change in cash held for investments	(25,923)	(64,423)
Purchases of property	<u>(28,748)</u>	<u>(18,443)</u>
Net cash used by investing activities	<u>(91,017)</u>	<u>(157,671)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for endowment	<u>25,000</u>	<u>25,000</u>
NET CHANGE IN CASH	1,565,617	281,375
Cash, beginning of year	<u>708,826</u>	<u>427,451</u>
Cash, end of year	<u>\$ 2,274,443</u>	<u>\$ 708,826</u>

See accompanying notes to financial statements.

Small Steps Nurturing Center

Notes to Financial Statements for the years ended June 30, 2020 and 2019

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 173 students at its Jensen and DePelchin campuses. Small Steps relies on charitable contributions for support of its program.

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 includes demand deposits except that cash held for long-term investment is grouped with investments and excluded from cash in the statement of cash flows. Bank deposits exceed the federally insured limit per depositor per institution.

Contributions receivable that are expected to be collected within one year are reported at net realizable value. Contributions 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 contributions receivable is provided when it is believed balances may not be collected in full.

Investments are reported at fair value. Net investment return consists of interest and dividends, realized and unrealized gains and losses, net of external and direct internal investment expenses.

Property with an original value of at least \$1,000 is reported at cost if purchased or 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, 5 years for vans, and 10 to 30 years for buildings and improvements.

Net asset classification – Net assets, revenue, gains, and losses are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Net assets without donor restrictions* are not subject to donor-imposed restrictions even though their use may be limited in other respects such as by contract or board designation.
- *Net assets with donor restrictions* are subject to donor-imposed restrictions. Restrictions may be temporary in nature, such as those that will be met by the passage of time or use for a purpose specified by the donor, or may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Net assets are released from restrictions when the stipulated time has elapsed, or purpose has been fulfilled, or both. Contributions of long-lived assets and of assets restricted for acquisition of long-lived assets are released when those assets are placed in service unless the donor also has placed a time restriction on the use of the long-lived asset, in which case the release occurs over the term of the time restriction. Donor-restricted endowment earnings are released when those earnings are appropriated in accordance with spending policies and are used for the stipulated purpose.

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 *with donor restrictions*. Conditional contributions are subject to one or more barriers that must be overcome before Small Steps is entitled to receive or retain funding. Conditional contributions are recognized in the same manner when the conditions have been met. Funding received before conditions are met is reported as deferred revenue.

Special events revenue includes elements of both contributions and exchange transactions and are recognized when an event occurs. Cost of direct donor benefits represents the costs of goods and services provided in exchange for the amount paid by event attendees. Amounts received in advance are reported as deferred revenue.

Functional allocation of expenses – Expenses are reported by their functional classification. Program services are the direct conduct or supervision of activities that fulfill the purposes for which the organization exists. Fundraising activities include the solicitation of contributions of money, securities, materials, facilities, other assets, and time. Management and general activities are not directly identifiable with specific program or fundraising activities. Expenses that are attributable to more than one activity are allocated among the activities benefitted. Salaries and related costs are allocated on the basis of estimated time and effort expended. Occupancy costs are allocated based on square footage.

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 – ADOPTION OF NEW ACCOUNTING STANDARD

Small Steps adopted the amendments of Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, effective January 1, 2019. The amendments in this ASU clarify and improve guidance about whether an agreement is a contribution or an exchange transaction and provide additional guidance on determining whether a contribution is conditional or unconditional. These amendments have been applied on a modified prospective basis to agreements that were not completed as of the effective date or were entered into after the effective date. No changes were made to the 2019 financial statements as a result of adoption and there is no cumulative effect on net assets at the effective date. Guidance in this ASU resulted in the deferral of approximately \$108,000 of special event revenue collected that would have otherwise been recognized during 2020.

NOTE 3 – LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of June 30 comprise the following:

	<u>2020</u>	<u>2019</u>
Financial assets:		
Cash	\$ 2,274,443	\$ 708,826
Contributions receivable	826,585	521,029
Investments	<u>2,065,840</u>	<u>1,981,509</u>
Total financial assets	5,166,868	3,211,364
Less financial assets not available for general expenditure:		
Board-designated continuity funds	(866,659)	(818,999)
Donor-restricted term endowment investment less appropriation	(312,615)	(310,414)
Endowment investments	(151,671)	(126,671)
Donor-restricted assets subject to satisfaction of restrictions	(2,395,700)	(786,756)
Funds held for others	<u>(40,143)</u>	<u>(36,308)</u>
Total financial assets available for general expenditure	<u>\$ 1,400,080</u>	<u>\$ 1,132,216</u>

For purposes of analyzing resources available to meet general expenditures over a 12-month period, Small Steps considers all expenditures related to its ongoing activities of providing a comprehensive early childhood development program, as well as the conduct of services undertaken to support those activities, to be general expenditures.

Additionally, the Board of Directors has designated \$866,659 in 2020 and \$818,999 in 2019 to a continuity fund. The board-designated fund is invested for long-term growth and income but may be spent at the discretion of the Board of Directors. Small Steps regularly monitors liquidity required to meet its operating needs while striving to maximize the investment of available funds.

Small Steps received a \$535,440 Paycheck Protection Program (PPP) loan in April 2020. PPP loan principal and interest (1% annual interest rate) may be forgiven, in whole or in part, if funds are used within a specified period for the intended purposes. The loan is considered to be a conditional contribution that has not been recognized as revenue because lender forgiveness has not yet been requested and received at June 30, 2020. Small Steps expects to have its loan forgiven. However, there is no assurance that the loan will be forgiven.

NOTE 4 – CONTRIBUTIONS RECEIVABLE

At June 30, 2020, contributions are expected to be collected as follows:

Less than one year	\$ 573,858
One to five years	<u>253,000</u>
Total contributions receivable	<u>\$ 826,858</u>

Conditional contributions – During 2020, Small Steps received conditional contributions of \$237,925 for special events to be held in future years, conditioned upon the occurrence of the events. Cash of \$108,025 received during the year for events to be held in the future is reported as deferred special event revenue in the statement of financial position.

NOTE 5 – 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, 2020 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Balanced income mutual fund	\$ 1,459,931	_____	_____	\$ 1,459,931
Total assets measured at fair value	<u>\$ 1,459,931</u>	<u>\$ _____</u>	<u>\$ _____</u>	1,459,931
Cash held for investment				<u>605,909</u>
Total investments				<u>\$ 2,065,840</u>

Assets measured at fair value at June 30, 2019 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Balanced income mutual fund	\$ 1,401,523	_____	_____	\$ 1,401,523
Total assets measured at fair value	<u>\$ 1,401,523</u>	<u>\$ _____</u>	<u>\$ _____</u>	1,401,523
Cash held for investment				<u>579,986</u>
Total investments				<u>\$ 1,981,509</u>

Mutual funds are valued at the reported net asset value of the shares held. 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.

NOTE 6 – PROPERTY

Property consists of the following:

	<u>2020</u>	<u>2019</u>
Land	\$ 367,748	\$ 367,748
Buildings and improvements	3,825,266	3,814,923
Classroom equipment and supplies	212,029	204,479
Office furniture and equipment	166,474	155,619
Vans	<u>159,721</u>	<u>188,899</u>
Property, at cost	4,731,238	4,731,668
Accumulated depreciation	<u>(2,192,915)</u>	<u>(2,059,229)</u>
Property, net	<u>\$ 2,538,323</u>	<u>\$ 2,672,439</u>

NOTE 7 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2020</u>	<u>2019</u>
Subject to passage of time or expenditure for specific purpose:		
Campus expansion	\$ 1,839,585	
Future operations and continuity fund	535,000	\$ 535,000
Higher education	123,037	129,465
Strategic core commitments	100,000	200,000
Speech therapy	30,000	
For use in future years	8,000	516,600
Other	<u>18,668</u>	<u>19,573</u>
Total subject to passage of time or expenditure for specific purpose	2,654,290	1,400,638
Endowment subject to spending policy and appropriation:		
Continuity fund	165,053	134,924
Term endowment to support school operations	<u>328,555</u>	<u>326,178</u>
Total net assets with donor restrictions	<u>\$ 3,147,898</u>	<u>\$ 1,861,740</u>

NOTE 8 – ENDOWMENT FUND

Small Steps maintains an endowment fund restricted in perpetuity for continuity and a term endowment fund that is restricted by the donor until October 2021 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 restricted in perpetuity 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.

Donor-restricted endowment funds are maintained in accordance with explicit donor stipulations and are subject to the Texas Uniform Prudent Management of Institutional Funds Act (TUPMIFA). TUPMIFA provides guidelines about what constitutes prudent spending and explicitly requires consideration of preservation of the fund. The Board of Directors has interpreted TUPMIFA as requiring a focus on the entirety of donor-restricted endowment funds, including original gift amounts and net appreciation, allowing Small Steps to appropriate for expenditure or accumulate as much of an endowment fund as considered prudent for the uses, benefits, purposes, and duration for which the fund was established, subject to explicit donor stipulations.

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

	WITH DONOR RESTRICTIONS			TOTAL
	TERM ENDOWMENT	INVESTMENT EARNINGS	ORIGINAL GIFT AMOUNT	
Endowment net assets, June 30, 2018	\$ 311,606	\$ 3,064	\$ 65,000	\$ 379,670
Contributions			25,000	25,000
Transfers from donor designations			36,671	36,671
Net investment return	30,064	5,189		35,253
Distributions	(15,492)			(15,492)
Endowment net assets, June 30, 2019	<u>326,178</u>	<u>8,253</u>	<u>126,671</u>	<u>461,102</u>
Contributions			25,000	25,000
Net investment return	18,141	5,129		23,270
Distributions	(15,764)			(15,764)
Endowment net assets, June 30, 2020	<u>\$ 328,555</u>	<u>\$ 13,382</u>	<u>\$ 151,671</u>	<u>\$ 493,608</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).

NOTE 9 – CONCENTRATION OF CONTRIBUTIONS

At June 30, 2020, approximately 57% of contributions receivable were due from three donors, two of which are foundations. At June 30, 2019, approximately 38% of contributions receivable were due from one foundation.

During the year ended June 30, 2020, contributions from eleven donor organizations comprised approximately \$2.0 million or 51% of contributions. During the year ended June 30, 2019, contributions from four donor organizations comprised approximately \$479,000 or 29% of contributions.

NOTE 10 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 30, 2020, 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.