

# **Small Steps Nurturing Center**

Financial Statements  
and Independent Auditors' Report  
for the years ended June 30, 2021 and 2020

# 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, 2021 and 2020 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.

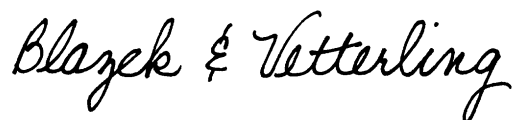
**Management's Responsibility for the Financial Statements** – Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance 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, 2021 and 2020 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.



December 6, 2021

## Small Steps Nurturing Center

Statements of Financial Position as of June 30, 2021 and 2020

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	<u>2021</u>	<u>2020</u>
ASSETS		
Cash	\$ 4,613,321	\$ 2,274,443
Prepaid expenses and other assets	52,426	37,917
Contributions receivable (Note 3)	1,170,673	826,585
Note receivable (Note 4)	233,714	
Investments (Note 5)	2,236,466	2,065,840
Property, net (Note 6)	<u>2,104,148</u>	<u>2,538,323</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 10,410,748</u></b>	<b><u>\$ 7,743,108</u></b>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accrued salaries and benefits	\$ 28,719	\$ 25,124
Accounts payable	24,994	34,477
Funds held for others	24,780	40,143
Deferred special event revenue	283,475	108,025
Paycheck Protection Program refundable advance (Note 2)	<u>                    </u>	<u>535,440</u>
Total liabilities	<u>361,968</u>	<u>743,209</u>
Net assets (Note 8):		
Without donor restrictions (Note 2)	4,832,120	3,852,001
With donor restrictions (Note 7)	<u>5,216,660</u>	<u>3,147,898</u>
Total net assets	<u>10,048,780</u>	<u>6,999,899</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 10,410,748</u></b>	<b><u>\$ 7,743,108</u></b>

*See accompanying notes to financial statements.*

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## Small Steps Nurturing Center

Statement of Activities for the year ended June 30, 2021

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	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions	\$ 1,059,954	\$ 3,287,149	\$ 4,347,103
Special events	1,026,278	144,500	1,170,778
Cost of direct donor benefits	(205,840)		(205,840)
Net investment return	137,930	54,589	192,519
Government grant contributions		615,652	615,652
Gain on sale of property	619,822		619,822
Other revenue	<u>3,492</u>		<u>3,492</u>
Total revenue	2,641,636	4,101,890	6,743,526
Net assets released from restrictions:			
Program expenditures	2,025,128	(2,025,128)	
Expiration of time restrictions	<u>8,000</u>	<u>(8,000)</u>	
Total	<u>4,674,764</u>	<u>2,068,762</u>	<u>6,743,526</u>
EXPENSES:			
Program services	3,022,855		3,022,855
Management and general	313,934		313,934
Fundraising	<u>357,856</u>		<u>357,856</u>
Total expenses	<u>3,694,645</u>		<u>3,694,645</u>
CHANGES IN NET ASSETS	980,119	2,068,762	3,048,881
Net assets, beginning of year	<u>3,852,001</u>	<u>3,147,898</u>	<u>6,999,899</u>
Net assets, end of year	<u>\$ 4,832,120</u>	<u>\$ 5,216,660</u>	<u>\$ 10,048,780</u>

*See accompanying notes to financial statements.*

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## Small Steps Nurturing Center

Statement of Activities for the year ended June 30, 2020

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	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions	\$ 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.*

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## Small Steps Nurturing Center

### Statements of Functional Expenses for the years ended June 30, 2021 and 2020

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	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>2021 TOTAL</u>
Salaries and related expenses	\$ 2,248,823	\$ 136,279	\$ 288,785	\$ 2,673,887
Professional services	158,803	140,526	20,610	319,939
Depreciation	160,555	2,833	7,082	170,470
Food and supplies	164,515	1,090	2,796	168,401
Occupancy	130,749	1,736	4,729	137,214
Insurance	61,342	7,394	3,377	72,113
Transportation	21,179			21,179
Printing, publications and postage	661	504	11,383	12,548
Other	<u>76,228</u>	<u>23,572</u>	<u>19,094</u>	<u>118,894</u>
Total expenses	<u>\$ 3,022,855</u>	<u>\$ 313,934</u>	<u>\$ 357,856</u>	3,694,645
Cost of direct donor benefits				<u>205,840</u>
Total				<u>\$ 3,900,485</u>

	<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>

*See accompanying notes to financial statements.*

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## Small Steps Nurturing Center

### Statements of Cash Flows for the years ended June 30, 2021 and 2020

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	<u>2021</u>	<u>2020</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Changes in net assets	\$ 3,048,881	\$ 1,273,221
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Contributions restricted for endowment	(125,000)	(25,000)
Gain on sale of property	(619,822)	
Depreciation	170,470	162,864
Net realized and unrealized gain on investments	(131,302)	(22,062)
Forgiveness of Paycheck Protection Program refundable advance	(535,440)	
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	(14,509)	1,081
Contributions receivable	(344,088)	(305,556)
Accrued salaries and benefits	3,595	(122,299)
Accounts payable	(9,483)	22,085
Funds held for others	(15,363)	3,835
Deferred special event revenue	175,450	108,025
Paycheck Protection Program refundable advance	<u>                    </u>	<u>535,440</u>
Net cash provided by operating activities	<u>1,603,389</u>	<u>1,631,634</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of investments	(60,401)	(59,693)
Proceeds from sale of investments	21,149	23,347
Net change in cash held for investments	(72)	(25,923)
Payments received on note receivable	6,286	
Purchases of property	(102,133)	(28,748)
Proceeds from sale of property	<u>745,660</u>	<u>                    </u>
Net cash provided (used) by investing activities	<u>610,489</u>	<u>(91,017)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from contributions restricted for endowment	<u>125,000</u>	<u>25,000</u>
<b>NET CHANGE IN CASH</b>	<b>2,338,878</b>	<b>1,565,617</b>
Cash, beginning of year	<u>2,274,443</u>	<u>708,826</u>
Cash, end of year	<u>\$ 4,613,321</u>	<u>\$ 2,274,443</u>
 <i>Supplemental disclosure of cash flow information:</i>		
Note receivable issued from sale of property	\$240,000	

*See accompanying notes to financial statements.*

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## Small Steps Nurturing Center

Notes to Financial Statements for the years ended June 30, 2021 and 2020

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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 175 students at its Jensen and Gulfton 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. At June 30, 2021, approximately 86% of contributions receivable were due from two donors, one of which is a foundation. At June 30, 2020, approximately 57% of contributions receivable were due from three donors, two of which are foundations.

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 special event 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 – 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>2021</u>	<u>2020</u>
Financial assets:		
Cash	\$ 4,613,321	\$ 2,274,443
Contributions receivable	1,170,673	826,585
Note receivable	233,714	
Investments	<u>2,236,466</u>	<u>2,065,840</u>
Total financial assets	8,254,174	5,166,868
Less financial assets not available for general expenditure:		
Board-designated reserve funds:		
Operating reserves	(1,000,000)	
Jensen expansion	(654,000)	
Scholarship	(385,463)	
Building maintenance	(200,000)	
Staff assistance	(50,000)	
Family assistance	(50,000)	
General continuity		(866,659)
Donor-restricted and board-designated endowment investments less estimated appropriation	(742,257)	(464,286)
Donor-restricted assets subject to satisfaction of restrictions	(3,170,605)	(2,395,700)
Note receivable not expected to be collected during 2022	(156,631)	
Funds held for others	<u>(24,780)</u>	<u>(40,143)</u>
Total financial assets available for general expenditure	<u>\$ 1,820,438</u>	<u>\$ 1,400,080</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.

The Board of Directors has designated funds that are 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 loan in April 2020. The loan was fully forgiven in April 2021 and was recognized as government grant revenue in 2021.

### NOTE 3 – CONTRIBUTIONS RECEIVABLE

At June 30, 2021, contributions receivable are expected to be collected as follows:

Less than one year	\$ 580,669
One to five years	<u>590,004</u>
Total contributions receivable	<u>\$ 1,170,673</u>

### NOTE 4 – NOTE RECEIVABLE

During May 2021, Small Steps entered into a \$240,000 note agreement with the purchaser of the DePelchin land and building. The note agreement bears interest at 4%, requires monthly payments of principal and interest, and matures May 2024.

### 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, 2021 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Balanced income mutual fund	\$ 1,630,485	<u>          </u>	<u>          </u>	\$ 1,630,485
Total assets measured at fair value	<u>\$ 1,630,485</u>	<u>\$ 0</u>	<u>\$ 0</u>	1,630,485
Cash held for investment				<u>605,981</u>
Total investments				<u>\$ 2,236,466</u>

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>\$ 0</u>	<u>\$ 0</u>	1,459,931
Cash held for investment				<u>605,909</u>
Total investments				<u>\$ 2,065,840</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>2021</u>	<u>2020</u>
Land	\$ 271,556	\$ 367,748
Buildings and improvements	2,880,128	3,825,266
Classroom equipment and supplies	268,237	212,029
Office furniture and equipment	139,315	166,474
Vans	<u>113,516</u>	<u>159,721</u>
Property, at cost	3,672,752	4,731,238
Accumulated depreciation	<u>(1,568,604)</u>	<u>(2,192,915)</u>
Property, net	<u>\$ 2,104,148</u>	<u>\$ 2,538,323</u>

#### **NOTE 7 – NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions are restricted as follows:

	<u>2021</u>	<u>2020</u>
Subject to passage of time or expenditure for specific purpose:		
Campus expansion	\$ 3,014,895	\$ 1,839,585
Future operations and continuity fund	1,035,000	535,000
For use in future years	320,000	8,000
Higher education	114,537	123,037
Strategic core commitments		100,000
Other	<u>74,971</u>	<u>48,668</u>
Total subject to passage of time or expenditure for specific purpose	4,559,403	2,654,290
Endowments subject to spending policy and appropriation:		
Continuity fund	301,705	165,053
Term endowment to support school operations	<u>355,552</u>	<u>328,555</u>
Total net assets with donor restrictions	<u>\$ 5,216,660</u>	<u>\$ 3,147,898</u>

## NOTE 8 – ENDOWMENT FUND

Small Steps maintains an endowment fund restricted in perpetuity for continuity and a term endowment fund that was 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. The Board of Directors has not established a spending policy for the endowment restricted for continuity.

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:

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS			
		TERM ENDOWMENT	INVESTMENT EARNINGS	ORIGINAL GIFT AMOUNT	TOTAL
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		<u>(15,764)</u>			<u>(15,764)</u>
Endowment net assets, June 30, 2020		328,555	13,382	151,671	493,608
Contributions				125,000	125,000
Board designation to the endowment	\$ 100,000				100,000
Net investment return		42,937	11,652		54,589
Distributions		<u>(15,940)</u>			<u>(15,940)</u>
Endowment net assets, June 30, 2021	<u>\$ 100,000</u>	<u>\$ 355,552</u>	<u>\$ 25,034</u>	<u>\$ 276,671</u>	<u>\$ 757,257</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 – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through December 6, 2021, 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.

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