

**Small Steps Nurturing Center and  
Small Steps Nurturing Center Foundation**

Consolidated Financial Statements  
and Independent Auditors' Report  
for the years ended June 30, 2023 and 2022

# **Small Steps Nurturing Center and Small Steps Nurturing Center Foundation**

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## Independent Auditors' Report

To the Board of Directors of  
Small Steps Nurturing Center:

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the financial statements of Small Steps Nurturing Center and Small Steps Nurturing Center Foundation (collectively Small Steps), which comprise the consolidated statements of financial position as of June 30, 2023 and 2022, and the related consolidated statements of activities, of functional expenses, and of cash flows for the years then ended, and the related notes to the combined financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of Small Steps as of June 30, 2023 and 2022, 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.

#### *Basis for Opinion*

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of Small Steps and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Responsibilities of Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Small Steps' ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

#### *Auditors' Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing

standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Small Steps' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Small Steps' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

*Blazek & Vetterling*

January 17, 2024

**Small Steps Nurturing Center and  
Small Steps Nurturing Center Foundation**

Consolidated Statements of Financial Position as of June 30, 2023 and 2022

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	<u>2023</u>	<u>2022</u>
ASSETS		
Cash	\$ 701,030	\$ 4,906,038
Prepaid expenses and other assets	44,204	38,361
Operating contributions receivable, net ( <i>Note 3</i> )	1,092,579	894,825
Investments:		
Restricted for endowment funds	393,686	313,412
Held for operations	7,841,881	2,779,048
Cash restricted for capital projects for campus expansion	1,123,026	
Contributions receivable restricted for capital projects, net ( <i>Note 3</i> )	677,204	510,000
Property, net ( <i>Note 5</i> )	<u>2,574,493</u>	<u>2,411,607</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 14,448,103</u></b>	<b><u>\$ 11,853,291</u></b>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 230,510	\$ 90,363
Funds held for others	26,043	23,677
Refundable advances – Special events ( <i>Note 3</i> )	<u>296,505</u>	<u>241,750</u>
Total liabilities	<u>553,058</u>	<u>355,790</u>
Net assets ( <i>Note 7</i> ):		
Without donor restrictions ( <i>Note 2</i> )	8,065,028	7,136,099
With donor restrictions ( <i>Note 6</i> )	<u>5,830,017</u>	<u>4,361,402</u>
Total net assets	<u>13,895,045</u>	<u>11,497,501</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 14,448,103</u></b>	<b><u>\$ 11,853,291</u></b>

*See accompanying notes to combined financial statements.*

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## Small Steps Nurturing Center and Small Steps Nurturing Center Foundation

Consolidated Statement of Activities for the year ended June 30, 2023

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	WITHOUT DONOR <u>RESTRICTIONS</u>	WITH DONOR <u>RESTRICTIONS</u>	<u>TOTAL</u>
REVENUE:			
Contributions:			
Financial assets	\$ 1,169,735	\$ 2,872,700	\$ 4,042,435
Nonfinancial assets	96,886		96,886
Special events	2,013,809	123,816	2,137,625
Cost of direct donor benefits	(405,307)		(405,307)
Government grant revenue <i>(Note 8)</i>		880,400	880,400
Net investment return	<u>142,185</u>	<u>10,274</u>	<u>152,459</u>
Total revenue	3,017,308	3,887,190	6,904,498
Net assets released from restrictions:			
Program expenditures	2,368,575	(2,368,575)	
Capital expenditures	<u>50,000</u>	<u>(50,000)</u>	
Total	<u>5,435,883</u>	<u>1,468,615</u>	<u>6,904,498</u>
EXPENSES:			
Program services	3,684,405		3,684,405
Management and general	371,644		371,644
Fundraising	<u>450,905</u>		<u>450,905</u>
Total expenses	<u>4,506,954</u>		<u>4,506,954</u>
CHANGES IN NET ASSETS	928,929	1,468,615	2,397,544
Net assets, beginning of year	<u>7,136,099</u>	<u>4,361,402</u>	<u>11,497,501</u>
Net assets, end of year	<u>\$ 8,065,028</u>	<u>\$ 5,830,017</u>	<u>\$ 13,895,045</u>

*See accompanying notes to combined financial statements.*

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## Small Steps Nurturing Center and Small Steps Nurturing Center Foundation

Consolidated Statement of Activities for the year ended June 30, 2022

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	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions:			
Financial assets	\$ 1,738,661	\$ 1,534,688	\$ 3,273,349
Nonfinancial assets	61,304		61,304
Special events	1,927,943	259,839	2,187,782
Cost of direct donor benefits	(405,500)		(405,500)
Government grant revenue <i>(Note 8)</i>		535,590	535,590
Net investment return	<u>(97,785)</u>	<u>(12,338)</u>	<u>(110,123)</u>
Total revenue	3,224,623	2,317,779	5,542,402
Net assets released from restrictions:			
Program expenditures	2,138,548	(2,138,548)	
Capital expenditures	357,982	(357,982)	
Expiration of time restrictions	<u>676,507</u>	<u>(676,507)</u>	
Total	<u>6,397,660</u>	<u>(855,258)</u>	<u>5,542,402</u>
EXPENSES:			
Program services	3,312,289		3,312,289
Management and general	330,820		330,820
Fundraising	<u>450,572</u>		<u>450,572</u>
Total expenses	<u>4,093,681</u>		<u>4,093,681</u>
CHANGES IN NET ASSETS	2,303,979	(855,258)	1,448,721
Net assets, beginning of year	<u>4,832,120</u>	<u>5,216,660</u>	<u>10,048,780</u>
Net assets, end of year	<u>\$ 7,136,099</u>	<u>\$ 4,361,402</u>	<u>\$ 11,497,501</u>

*See accompanying notes to combined financial statements.*

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## Small Steps Nurturing Center and Small Steps Nurturing Center Foundation

Consolidated Statements of Functional Expenses for the years ended June 30, 2023 and 2022

	PROGRAM <u>SERVICES</u>	MANAGEMENT <u>AND GENERAL</u>	<u>FUNDRAISING</u>	2023 <u>TOTAL</u>
Salaries and related expenses	\$ 2,587,476	\$ 136,838	\$ 346,670	\$ 3,070,984
Professional services	369,158	181,536	13,012	563,706
Food and supplies	213,177	1,391	5,069	219,637
Occupancy	176,026	10,373	9,577	195,976
Depreciation	143,881	2,532	6,331	152,744
Insurance	88,636	2,279	5,728	96,643
Software and website	10,635	2,101	25,263	37,999
Credit card fees		25,889		25,889
Printing, publications and postage	496	421	17,884	18,801
Transportation	14,120			14,120
Other	<u>80,800</u>	<u>8,284</u>	<u>21,371</u>	<u>110,455</u>
Total expenses	<u>\$ 3,684,405</u>	<u>\$ 371,644</u>	<u>\$ 450,905</u>	4,506,954
Cost of direct donor benefits				<u>405,307</u>
Total				<u>\$ 4,912,261</u>

	PROGRAM <u>SERVICES</u>	MANAGEMENT <u>AND GENERAL</u>	<u>FUNDRAISING</u>	2022 <u>TOTAL</u>
Salaries and related expenses	\$ 2,371,678	\$ 182,808	\$ 351,246	\$ 2,905,732
Professional services	306,804	102,592	6,309	415,705
Food and supplies	180,025	883	3,848	184,756
Occupancy	136,975	1,818	4,597	143,390
Depreciation	130,958	2,535	6,338	139,831
Insurance	58,033	8,194	3,741	69,968
Software and website	7,588	233	24,860	32,681
Credit card fees		25,410		25,410
Printing, publications and postage	927	76	24,889	25,892
Transportation	38,246			38,246
Other	<u>81,055</u>	<u>6,271</u>	<u>24,744</u>	<u>112,070</u>
Total expenses	<u>\$ 3,312,289</u>	<u>\$ 330,820</u>	<u>\$ 450,572</u>	4,093,681
Cost of direct donor benefits				<u>405,500</u>
Total				<u>\$ 4,499,181</u>

*See accompanying notes to combined financial statements.*



**Small Steps Nurturing Center and  
Small Steps Nurturing Center Foundation**

Consolidated Statements of Cash Flows for the years ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Changes in net assets	\$ 2,397,544	\$ 1,448,721
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Contributions restricted for capital projects	(1,568,266)	(712,000)
Contributions restricted for endowment	(70,000)	(25,000)
Depreciation	152,743	139,831
Net realized and unrealized loss on investments	66,642	216,746
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	(5,843)	14,065
Operating contributions receivable	(197,754)	275,848
Accounts payable and accrued expenses	140,147	36,650
Funds held for others	2,366	(1,103)
Refundable advances – special events	<u>54,755</u>	<u>(41,725)</u>
Net cash provided by operating activities	<u>972,334</u>	<u>1,352,033</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of investments	(116,177)	(100,919)
Net change in money market mutual funds and cash held for investments	(5,093,572)	(971,821)
Payments received on note receivable		233,714
Purchases of property	<u>(315,629)</u>	<u>(447,290)</u>
Net cash used by investing activities	<u>(5,525,378)</u>	<u>(1,286,316)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from contributions restricted for capital projects	1,401,062	202,000
Proceeds from contributions restricted for endowment	<u>70,000</u>	<u>25,000</u>
Net cash provided by financing activities	<u>1,471,062</u>	<u>227,000</u>
<b>NET CHANGE IN CASH</b>	<b>(3,081,982)</b>	<b>292,717</b>
Cash, beginning of year	<u>4,906,038</u>	<u>4,613,321</u>
Cash, end of year	<u>\$ 1,824,056</u>	<u>\$ 4,906,038</u>
<i>Reconciliation of cash balances:</i>		
Cash	\$ 701,030	
Cash restricted for capital projects for campus expansion	<u>1,123,026</u>	
Total cash	<u>\$ 1,824,056</u>	

*Supplemental disclosure of cash flow information:*

Note receivable issued from sale of property \$240,000

See accompanying notes to combined financial statements.

## Small Steps Nurturing Center and Small Steps Nurturing Center Foundation

Notes to Consolidated Financial Statements for the years ended June 30, 2023 and 2022

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### NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – Small Steps Nurturing Center 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 192 students at its Jensen and Gulfton campuses. Small Steps relies on charitable contributions for support of its program.

Small Steps Nurturing Center Foundation (the Foundation) was incorporated as a separate nonprofit organization in 2019 to provide financial support to Small Steps. The Board of Directors of the Foundation are elected by the Board of Directors of Small Steps.

Basis of presentation – These consolidated financial statements include the assets, liabilities, net assets, and activities of Small Steps and the Foundation (collectively Small Steps). All balances and transactions between the consolidated entities have been eliminated.

Federal income tax status – Small Steps and the Foundation are exempt from federal income tax under §501(c)(3) of the Internal Revenue Code and are classified as public charities 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 and an estimated useful life of more than one year 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 and government grants are recognized as revenue at fair value when an unconditional commitment is received from the donor. Contributions and government grants received with donor stipulations that limit their use are classified as *with donor restrictions*. Conditional contributions and government grants are subject to one or more barriers that must be overcome before Small Steps is entitled to receive or retain funding. Conditional contributions and government grants 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.

Contributed nonfinancial assets 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. A substantial number of volunteers have contributed significant amounts of time in connection with programs, administration, and fundraising for which no amount has been recorded in the financial statements because the services do not meet the criteria for recognition under generally accepted accounting principles.

In 2023 and 2022, Small Steps received nonfinancial asset contributions for professional services and program supplies. These contributions are recognized at their estimated fair value at the date of receipt based on current rates for similar items or services and are expensed as utilized.

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>2023</u>	<u>2022</u>
Financial assets:		
Cash	\$ 1,824,056	\$ 4,906,038
Contributions receivable, net	1,769,783	1,404,825
Investments	<u>8,235,567</u>	<u>3,092,460</u>
Total financial assets	11,829,406	9,403,323
Less financial assets not available for general expenditure:		
Board-designated reserve funds:		
Operating reserves	(1,500,000)	(1,500,000)
Jensen expansion	(750,000)	(750,000)
Scholarship	(377,463)	(386,963)
Building maintenance	(200,000)	(200,000)
Staff assistance	(47,500)	(50,000)
Family assistance	(46,466)	(50,000)
Donor-restricted and board-designated endowment investments less estimated appropriation	(1,080,274)	(1,000,000)
Donor-restricted assets not available for general expenditure in the coming year	(1,697,872)	(2,167,587)
Donor-restricted for campus expansion	(2,018,284)	
Funds held for others	<u>(26,043)</u>	<u>(23,677)</u>
Total financial assets available for general expenditure	<u>\$ 4,085,504</u>	<u>\$ 3,275,096</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 this activity, 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.

## NOTE 3 – CONTRIBUTIONS RECEIVABLE

During fiscal year 2022, Small Steps began a \$4 million Fifth Ward expansion capital campaign to purchase land and fund the construction of a new wing to include four classrooms and to renovate some existing spaces for new uses. Through June 30, 2023, total contributions to the campaign were approximately \$2.4 million before pledge allowances and discounts.

Contributions receivable are as follows:

	<u>2023</u>	<u>2022</u>
Total contributions receivable	\$ 1,800,887	\$ 1,404,825
Discount to net present value at 2.90% to 4.87%	<u>(31,104)</u>	<u>                    </u>
Contributions receivable, net	1,769,783	1,404,825
Contributions receivable for capital projects, net	<u>(677,204)</u>	<u>(510,000)</u>
Operating contributions receivable, net	<u>\$ 1,092,579</u>	<u>\$ 894,825</u>

Contributions receivable at June 30, 2023 are expected to be collected as follows:

Receivable in less than one year	\$ 935,387
Receivable in one to five years	<u>865,500</u>
Total contributions receivable	<u>\$ 1,800,887</u>

At June 30, 2023, approximately 83% of contributions receivable were due from six donors, three of which are foundations. At June 30, 2022, 94% of contributions receivable were due from four donors, two of which are foundations.

*Conditional contributions* – During 2023, Small Steps received conditional contributions of \$499,005 for special events to be held in future years, conditioned upon the occurrence of the events. Cash of \$296,505 received during 2023 for events to be held in the future is reported as refundable advances in the statement of financial position.

#### **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. All of Small Steps’ investments are measured at fair value using Level 1 inputs, which 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.

Assets are measured at fair value using Level 1 inputs are as follows:

	<u>2023</u>	<u>2022</u>
Investments:		
Balanced income mutual fund	\$ 1,564,193	\$ 1,514,658
Money market mutual fund	<u>6,364,542</u>	<u>1,262,448</u>
Total assets measured at fair value	7,928,735	2,777,106
Cash held for investment	<u>306,832</u>	<u>315,354</u>
Total investments	<u>\$ 8,235,567</u>	<u>\$ 3,092,460</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 5 – PROPERTY**

Property consists of the following:

	<u>2023</u>	<u>2022</u>
Land	\$ 620,513	\$ 620,513
Buildings and improvements	2,973,662	2,973,662
Classroom equipment and supplies	318,570	273,036
Construction in progress	218,054	
Vans	165,557	113,516
Office furniture and equipment	<u>139,315</u>	<u>139,315</u>
Property, at cost	4,435,671	4,120,042
Accumulated depreciation	<u>(1,861,178)</u>	<u>(1,708,435)</u>
Property, net	<u>\$ 2,574,493</u>	<u>\$ 2,411,607</u>

#### **NOTE 6 – NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions are restricted as follows:

	<u>2023</u>	<u>2022</u>
Subject to passage of time or expenditure for specified purpose:		
Campus expansion	\$ 2,018,284	\$ 500,017
Future operations and continuity fund	2,584,835	3,129,680
For use in future years	588,422	213,422
Scholarship	113,037	113,037
Other	<u>131,753</u>	<u>91,834</u>
Total subject to passage of time or expenditure for specified purpose	5,436,331	4,047,990
Endowments subject to spending policy and appropriation:		
Continuity fund	<u>393,686</u>	<u>313,412</u>
Total net assets with donor restrictions	<u>\$ 5,830,017</u>	<u>\$ 4,361,402</u>

## NOTE 7 – ENDOWMENT FUND

The Foundation 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. The term of the endowment ended in October 2021. The remaining funds may be spent 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			TOTAL
		TERM ENDOWMENT	INVESTMENT EARNINGS	PERPETUAL ENDOWMENT	
Endowment net assets, June 30, 2021	\$ 100,000	\$ 355,552	\$ 25,034	\$ 276,671	\$ 757,257
Contributions				25,000	25,000
Board designation to the endowment	230,081				230,081
Expiration of term endowment	356,507	(356,507)			
Net investment return		955	(13,293)		(12,338)
Endowment net assets, June 30, 2022	686,588	0	11,741	301,671	1,000,000
Contributions				70,000	70,000
Net investment return	23,817		10,274		34,091
Endowment net assets, June 30, 2023	<u>\$ 710,405</u>	<u>\$ 0</u>	<u>\$ 22,015</u>	<u>\$ 371,671</u>	<u>\$1,104,091</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 8 – GOVERNMENT GRANTS

Government grant revenue is recognized as follows:

	<u>2023</u>	<u>2022</u>
U. S. Department of Health and Human Services:		
Child Care Relief Fund grant	\$ 707,512	\$ 379,088
U. S. Department of Agriculture:		
Child and Adult Care Food Program	<u>172,888</u>	<u>156,502</u>
Total government grants	<u>\$ 880,400</u>	<u>\$ 535,590</u>

Small Steps government grants require fulfillment of certain conditions as set forth in the grant contracts and are subject to review and audit by the awarding agencies. Such reviews and audits could result in the discovery of unallowable activities and unallowable costs. Consequently, any of the funding sources may, at their discretion, request reimbursement for expenses or return of funds as a result of non-compliance by Small Steps with the terms of the contracts. Management believes such disallowances, if any, would not be material to Small Steps financial position or changes in net assets.

## NOTE 9 – SUBSEQUENT EVENTS

During December 2023, Small Steps entered into a \$3.4 million contract for the construction of a new classroom wing at the Fifth Ward location.

Management has evaluated subsequent events through January 17, 2024, which is the date that the financial statements were available for issuance. As a result of this evaluation, no other events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.