



## **FIRST STEPS, INC.**

### **FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES**

***As of and for the Years Ended June 30, 2018  
and 2017***

***And Report of Independent Auditor***

**FIRST STEPS, INC.**  
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# FIRST STEPS, INC.

## ROSTER OF BOARD OF DIRECTORS AND EXECUTIVE STAFF

JUNE 30, 2018

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### Board of Directors

William Caldwell  
David Wedemeyer  
Emily Runzo  
Phil Groves  
Bahar Azhdari  
Stuart Burkhalter  
Jay Davis  
Matt Eskind  
Kristy Frazier  
Jon Harris  
Amy Hobbs  
Ruthie Huggins  
Kathy Medlin  
Holly Poff  
Marcy Rehse  
Harlow Sumerford  
Travis Walters, MD

President  
Vice President  
Secretary  
Treasurer  
Board Member  
Board Member  
Board Member  
Board Member  
Board Member  
Board Member  
Board Member  
Board Member  
Board Member  
Board Member  
Board Member  
Board Member  
Board Member

### Executive Staff

Heather Higgins  
Kelli Jo Hazen  
Karla Garig  
Melissa Houck  
Stephanie Underwood  
Rosario Langlois  
Suzanne Satterfield

Executive Director  
Director of Operations  
Director of Finance  
Director of Development  
Center Director  
Outreach Program Director  
Therapy Program Director

## **Report of Independent Auditor**

To the Board of Directors of  
First Steps, Inc.  
Nashville, Tennessee

### **Report on the Financial Statements**

We have audited the accompanying financial statements of First Steps, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, and 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.

### **Auditor's 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 auditor's 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 First Steps, Inc. as of June 30, 2018, 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.

### **Prior Year Financial Statements**

The financial statements of First Steps, Inc. as of June 30, 2017, were audited by other auditors whose report dated September 22, 2017, expressed an unmodified opinion on those statements.

## OTHER MATTERS

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards and state financial assistance is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2018, on our consideration of First Steps, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering First Steps, Inc.'s internal control over financial reporting and compliance.

Cheng Beikant LLP

Nashville, Tennessee  
October 22, 2018

**FIRST STEPS, INC.**  
**STATEMENTS OF FINANCIAL POSITION**

*JUNE 30, 2018 AND 2017*

	<b>2018</b>	<b>2017</b>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 168,819	\$ 216,860
Accounts and grants receivable, net	375,119	256,045
Contributions receivable	980	1,080
Prepaid expenses	6,088	4,729
Total Current Assets	<u>551,006</u>	<u>478,714</u>
Land, Buildings, and Equipment:		
Land	200,000	200,000
Buildings and improvements	2,265,314	2,265,685
Furniture and equipment	16,336	17,463
	<u>2,481,650</u>	<u>2,483,148</u>
Less accumulated depreciation	<u>(502,981)</u>	<u>(444,476)</u>
Land, Buildings, and Equipment, net	<u>1,978,669</u>	<u>2,038,672</u>
Beneficial interest in assets at Community		
Foundation of Middle Tennessee	22,402	20,954
Investments, net of donor restricted endowment funds	366,432	349,204
Donor restricted endowment funds	<u>582,326</u>	<u>554,750</u>
<b>Total Assets</b>	<u><u>\$ 3,500,835</u></u>	<u><u>\$ 3,442,294</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities:		
Accounts payable	\$ 29,639	\$ 22,836
Accrued salaries and benefits	108,460	118,392
Deferred revenue	13,000	7,400
Note payable, current portion	42,961	40,883
Total Current Liabilities	<u>194,060</u>	<u>189,511</u>
Note payable, net of current portion	<u>429,262</u>	<u>472,029</u>
<b>Total Liabilities</b>	<u><u>623,322</u></u>	<u><u>661,540</u></u>
Net Assets:		
Unrestricted:		
Undesignated	2,258,858	2,184,856
Board designated	22,402	20,954
Total unrestricted net assets	<u>2,281,260</u>	<u>2,205,810</u>
Temporarily restricted	96,253	74,944
Permanently restricted	<u>500,000</u>	<u>500,000</u>
<b>Total Net Assets</b>	<u><u>2,877,513</u></u>	<u><u>2,780,754</u></u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$ 3,500,835</u></u>	<u><u>\$ 3,442,294</u></u>

The accompanying notes to the financial statements are an integral part of these statements.

**FIRST STEPS, INC.**  
**STATEMENT OF ACTIVITIES**

*YEAR ENDED JUNE 30, 2018*

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Public Support and Revenue:				
Department of Education contracts and grants	\$ 1,050,334	\$ -	\$ -	\$ 1,050,334
Program service fees	825,818	-	-	825,818
Therapy service fees	315,381	-	-	315,381
Contributions	245,001	12,822	-	257,823
United Way	126,277	-	-	126,277
Investment returns	17,281	27,576	-	44,857
Special events (including \$1,980 in-kind)	42,682	-	-	42,682
Other	11,871	-	-	11,871
In-kind contribution	600	-	-	600
Change in beneficial interest in assets held by others	1,448	-	-	1,448
Net assets released from restrictions	19,089	(19,089)	-	-
Total Public Support and Revenue	<u>2,655,782</u>	<u>21,309</u>	<u>-</u>	<u>2,677,091</u>
Expenses:				
Program services	2,314,849	-	-	2,314,849
Supporting services	142,808	-	-	142,808
Fundraising	122,675	-	-	122,675
Total Expenses	<u>2,580,332</u>	<u>-</u>	<u>-</u>	<u>2,580,332</u>
Change in net assets	75,450	21,309	-	96,759
Net assets, beginning of year	<u>2,205,810</u>	<u>74,944</u>	<u>500,000</u>	<u>2,780,754</u>
Net assets, end of year	<u>\$ 2,281,260</u>	<u>\$ 96,253</u>	<u>\$ 500,000</u>	<u>\$ 2,877,513</u>

The accompanying notes to the financial statements are an integral part of these statements.

**FIRST STEPS, INC.**  
**STATEMENT OF ACTIVITIES**

*YEAR ENDED JUNE 30, 2017*

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public Support and Revenue:				
Department of Education contracts and grants	\$ 971,024	\$ -	\$ -	\$ 971,024
Program service fees	773,624	-	-	773,624
Therapy service fees	339,437	-	-	339,437
Contributions	197,494	15,125	-	212,619
United Way	127,305	-	-	127,305
Investment returns	22,821	36,440	-	59,261
Special events	46,466	-	-	46,466
Other	12,452	-	-	12,452
In-kind contribution	6,472	-	-	6,472
Change in beneficial interest in assets held by others	2,038	-	-	2,038
Net assets released from restrictions	<u>7,884</u>	<u>(7,884)</u>	<u>-</u>	<u>-</u>
Total Public Support and Revenue	<u>2,507,017</u>	<u>43,681</u>	<u>-</u>	<u>2,550,698</u>
Expenses:				
Program services	2,241,963	-	-	2,241,963
Supporting services	145,656	-	-	145,656
Fundraising	<u>113,238</u>	<u>-</u>	<u>-</u>	<u>113,238</u>
Total Expenses	<u>2,500,857</u>	<u>-</u>	<u>-</u>	<u>2,500,857</u>
Change in net assets	6,160	43,681	-	49,841
Net assets, beginning of year	<u>2,199,650</u>	<u>31,263</u>	<u>500,000</u>	<u>2,730,913</u>
Net assets, end of year	<u>\$ 2,205,810</u>	<u>\$ 74,944</u>	<u>\$ 500,000</u>	<u>\$ 2,780,754</u>

The accompanying notes to the financial statements are an integral part of these statements.



**FIRST STEPS, INC.****STATEMENT OF FUNCTIONAL EXPENSES***YEAR ENDED JUNE 30, 2018*

	<b>Program Services</b>	<b>Supporting Services</b>	<b>Fundraising</b>	<b>Total</b>
Salaries	\$ 1,467,705	\$ 95,272	\$ 91,493	\$ 1,654,470
Employee benefits	231,564	5,667	13,407	250,638
Total Salaries and Employee Benefits	1,699,269	100,939	104,900	1,905,108
Professional services	201,105	2,116	-	203,221
Travel	62,704	20	-	62,724
Occupancy	53,229	4,749	-	57,978
Supplies (including \$600 in-kind)	48,817	3,618	-	52,435
Utilities	45,177	4,468	-	49,645
Maintenance	40,225	7,225	-	47,450
Miscellaneous	27,423	879	-	28,302
Interest	22,425	2,218	-	24,643
Communications	16,163	4,351	-	20,514
Insurance	16,552	1,615	-	18,167
Special events expenses (rental, postage) (including \$1,980 in-kind)	-	-	17,775	17,775
Conferences	11,239	1,047	-	12,286
Food	8,820	-	-	8,820
Dues	1,791	3,652	-	5,443
Bad debts	1,989	-	-	1,989
Licenses	1,435	325	-	1,760
Total Expenses Before Depreciation	2,258,363	137,222	122,675	2,518,260
Depreciation	56,486	5,586	-	62,072
Total Expenses	<u>\$ 2,314,849</u>	<u>\$ 142,808</u>	<u>\$ 122,675</u>	<u>\$ 2,580,332</u>

The accompanying notes to the financial statements are an integral part of these statements.

**FIRST STEPS, INC.****STATEMENT OF FUNCTIONAL EXPENSES***YEAR ENDED JUNE 30, 2017*

	<b>Program Services</b>	<b>Supporting Services</b>	<b>Fundraising</b>	<b>Total</b>
Salaries	\$ 1,474,511	\$ 90,896	\$ 87,916	\$ 1,653,323
Employee benefits	223,713	5,460	12,615	241,788
Total Salaries and Employee Benefit:	1,698,224	96,356	100,531	1,895,111
Professional services	140,468	1,946	-	142,414
Travel	64,505	-	-	64,505
Occupancy (including \$6,472 in-kind)	61,361	6,768	-	68,129
Supplies	31,361	3,405	-	34,766
Utilities	44,489	4,400	-	48,889
Maintenance	34,087	6,863	-	40,950
Miscellaneous	24,154	962	-	25,116
Interest	24,213	2,395	-	26,608
Communications	15,649	5,167	-	20,816
Insurance	15,930	1,531	-	17,461
Special events expenses (rental, postage)	-	-	12,707	12,707
Conferences	9,965	1,236	-	11,201
Food	5,645	-	-	5,645
Dues	2,068	3,722	-	5,790
Bad debts	11,404	5,000	-	16,404
Licenses	1,671	290	-	1,961
Total Expenses Before Depreciation	2,185,194	140,041	113,238	2,438,473
Depreciation	56,769	5,615	-	62,384
Total Expenses	<u>\$ 2,241,963</u>	<u>\$ 145,656</u>	<u>\$ 113,238</u>	<u>\$ 2,500,857</u>

The accompanying notes to the financial statements are an integral part of these statements.

**FIRST STEPS, INC.**  
**STATEMENTS OF CASH FLOWS**

*YEARS ENDED JUNE 30, 2018 AND 2017*

	<b>2018</b>	<b>2017</b>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 96,759	\$ 49,841
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	62,072	62,384
Loss on disposal of property and equipment	1,931	-
Realized and unrealized gains on investments, net	(9,178)	(52,295)
Beneficial interest in assets held at Community Foundation of Middle Tennessee	(1,448)	(2,038)
Changes in operating assets and liabilities:		
Accounts and grants receivable	(119,074)	(19,297)
Contributions receivable	100	7,884
Prepaid expenses	(1,359)	3,452
Accounts payable	6,803	(3,016)
Accrued salaries and benefits	(9,932)	8,247
Deferred revenue	5,600	(6,500)
Net cash provided by operating activities	<u>32,274</u>	<u>48,662</u>
<b>Cash flows from investing activities:</b>		
Proceeds from sale of investments	272,955	84,936
Purchase of investments	(308,581)	(91,862)
Purchase of property and equipment	(4,000)	-
Net cash used in investing activities	<u>(39,626)</u>	<u>(6,926)</u>
<b>Cash flows from financing activities:</b>		
Payments on note payable	(40,689)	(38,724)
Net cash used in financing activities	<u>(40,689)</u>	<u>(38,724)</u>
Net (decrease) increase in cash and cash equivalents	(48,041)	3,012
Cash and cash equivalents, beginning of year	216,860	213,848
Cash and cash equivalents, end of year	<u>\$ 168,819</u>	<u>\$ 216,860</u>
<b>Supplemental cash flow information:</b>		
Cash paid during the year for interest	<u>\$ 24,643</u>	<u>\$ 26,608</u>

# FIRST STEPS, INC.

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

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### **Note 1—Summary of significant accounting policies**

*Nature of Operations* – First Steps, Inc. (the “Organization”) is a nonprofit corporation located in Nashville, Tennessee, that provides education and care for children with special needs and medical conditions alongside their typically developing peers in an inclusive environment and supports their families.

*Financial Statement Presentation* – The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). Net assets and revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

*Unrestricted Net Assets* – Net assets that are not subject to donor-imposed stipulations.

*Temporarily Restricted Net Assets* – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

*Permanently Restricted Net Assets* – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally the donors of these assets permit the Organization to use all or part of the income on related investments for general or specific purposes.

*Cash Equivalents* – The Organization considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

*Investments* – In accordance with U.S. GAAP, investments in marketable securities and all investments in debt securities are reported at their fair values in the statements of financial position. Investment earnings are included in the statements of activities.

*Fair Value Measurements* – Financial accounting standards relating to fair value measurements establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset and liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

An asset’s or liability’s fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques should maximize the use of observable inputs and minimize the use of unobservable inputs.

# FIRST STEPS, INC.

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

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### **Note 1—Summary of significant accounting policies (continued)**

Following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis:

*Investments* – Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include highly liquid government securities and certain other products, such as mutual funds. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows and are classified within Level 2 of the valuation hierarchy. In certain cases where there is limited activity, or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy.

No changes in the valuation methodologies have been made during the period from July 1, 2016 through June 30, 2018.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with that of other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different fair value measurements at the reporting date (see Note 2).

*Receivables* – Accounts, grants, and contributions receivable are reviewed periodically as to their collectability. Management provides for losses on receivables using the allowance method. Based on collection experience and management's review, an allowance for doubtful accounts of \$17,757 and \$15,263 is recorded at June 30, 2018 and 2017, respectively.

*Land, Buildings, and Equipment* – Land, buildings, and equipment are recorded at cost or, if donated, at the estimated fair market value as of the date of donation. The Organization generally capitalizes an asset if its life is estimated to be one year or greater and the cost is \$1,000 or greater. Depreciation is provided using the straight-line basis over the estimated useful lives of the respective assets, which range from 5-39 years. Expenditures for repairs and maintenance are charged to expense as incurred.

*Income Tax Status* – The Organization is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code, and the Organization is classified as an organization that is not a private foundation as defined in Section 509(a) of the Internal Revenue Code. Therefore, no provision for federal income taxes is included in the accompanying financial statements.

The Organization follows Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") guidance concerning the accounting for income taxes recognized in an entity's financial statements. This guidance prescribes a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. The Organization does not believe there are any uncertain tax positions at June 30, 2018 and 2017. Additionally, the Organization has not recognized any tax related interest and penalties in the accompanying financial statements.

**FIRST STEPS, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**

*JUNE 30, 2018 AND 2017*

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**Note 1—Summary of significant accounting policies (continued)**

*Unconditional Promises to Give* – Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor restrictions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

*In-Kind Contributions* – The Organization records various types of in-kind support. Contributions of tangible assets are recognized at fair market value when received. The amounts reflected in the accompanying financial statements as in-kind contributions are typically offset by like amounts included in expenses.

Contributed professional services are recognized if the services received (a) create or enhance long-lived 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. The Organization receives contributed time from volunteers which does not meet this recognition criteria. Accordingly, the value of this contributed time has not been determined and is not reflected in the accompanying financial statements.

*Permanently Restricted Endowment Funds* – The Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) was enacted in Tennessee effective July 1, 2007. The FASB ASC provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of UPMIFA. It also requires disclosure of a description of the governing board’s interpretation of the law that underlies the organization’s net asset classification of donor-restricted endowment funds, a description of the organization’s policies for the appropriation of endowment assets for expenditures (its endowment spending policies), a description of the organization’s endowment investment policies, and additional disclosures not previously required (see Note 6).

*Functional Allocation of Expenses* – The costs of providing program services and supporting services have been summarized on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited based upon estimates by management.

*Advertising* – Advertising costs are expensed as incurred.

*Use of Estimates* – The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Subsequent Events* – The Organization evaluated subsequent events through October 22, 2018, when these financial statements were available to be issued and have determined that there are no subsequent events that require disclosure.

**FIRST STEPS, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**

JUNE 30, 2018 AND 2017

**Note 1—Summary of significant accounting policies (continued)**

*New Accounting Pronouncements* – In August of 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 standard changes presentation and disclosure requirements of not-for-profit entities. The primary changes are a decrease in the number of net asset classes from three to two, reporting of underwater amounts of donor-restricted endowment funds in net assets with donor restrictions, requiring disclosures of qualitative information on how the not-for-profit entity manages its liquid available resources and liquidity risks and requiring reporting of expenses by function and nature, as well as enhanced endowment disclosures. This standard is effective for all fiscal years beginning after December 31, 2017. The Organization has elected not to early adopt ASU 2016-14.

**Note 2—Investments**

The following table sets forth the Organization’s major categories of assets measured at fair value on a recurring basis, by level within the fair value hierarchy, as of June 30, 2018:

	<u>Fair Value</u>	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>
Investments in securities:				
Money market funds	\$ 15,647	\$ 15,647	\$ -	\$ -
Fixed income investments-domestic	281,923	56,475	225,448	-
Equity investments:				
Small/Mid Cap U.S. Equity fund	55,957	55,957	-	-
Large Cap U.S. Equity fund	213,817	131,399	82,418	-
International Equity fund	218,106	-	218,106	-
Master Ltd Partnership funds	55,778	55,778	-	-
Multi-Strategy Alternative funds	107,530	-	107,530	-
Total Investment in Securities	<u>\$ 948,758</u>	<u>\$ 315,256</u>	<u>\$ 633,502</u>	<u>\$ -</u>

The following table sets forth the Organization’s major categories of assets measured at fair value on a recurring basis, by level within the fair value hierarchy, as of June 30, 2017:

	<u>Fair Value</u>	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>
Investments in securities:				
Money market funds	\$ 22,130	\$ 22,130	\$ -	\$ -
Fixed income-domestic	228,358	23,635	204,723	-
Equity investments:				
Small/Mid Cap U.S. Equity fund	32,753	32,753	-	-
Large Cap U.S. Equity fund	150,818	150,818	-	-
International Equity fund	200,466	-	200,466	-
Master Ltd Partnership funds	56,287	56,287	-	-
Multi-Strategy Alternative funds	213,142	-	213,142	-
Total Investment in Securities	<u>\$ 903,954</u>	<u>\$ 285,623</u>	<u>\$ 618,331</u>	<u>\$ -</u>

**FIRST STEPS, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**

*JUNE 30, 2018 AND 2017*

**Note 2—Investments (continued)**

The following schedule summarizes investment returns for the years ended June 30:

	<b>2018</b>	<b>2017</b>
Interest and dividends, net of investment fees	\$ 35,679	\$ 6,966
Net realized and unrealized gains	9,178	52,295
Investment returns	<u>\$ 44,857</u>	<u>\$ 59,261</u>

**Note 3—Beneficial interest in assets at Community Foundation of Middle Tennessee**

The Community Foundation of Middle Tennessee (the “Foundation”) maintains investments on behalf of the Organization. The Foundation has ultimate authority and control over the investments. However, the Organization is the beneficiary of these funds and receives distributions of income, subject to the Foundation’s spending policy. The investments result from unrestricted amounts transferred by the Organization to the Foundation in prior years.

**Note 4—Note payable**

On July 13, 2010, the Organization acquired a building to serve as its principal facility for programs and administration at a cost of \$2,225,000. The purchase was financed through the issuance of a \$1,050,000 promissory note payable to a financial institution. During 2012, the Organization executed a change in terms agreement effective May 16, 2012, which extended the maturity date to May 13, 2027, and reduced the interest rate to 4.90%. Amounts outstanding under this note payable were \$472,223 and \$512,912 at June 30, 2018 and 2017, respectively. The note is collateralized by land and building.

Interest expense for the years ended June 30, 2018 and 2017, was \$24,643 and \$26,608, respectively.

Following is a summary of future principal maturities under the note payable:

<u><b>Years Ending June 30,</b></u>	
2019	\$ 42,961
2020	45,089
2021	47,436
2022	49,847
2023	52,381
Thereafter	<u>234,509</u>
Total principal maturities	472,223
Less current portion	<u>(42,961)</u>
Long-Term Portion	<u>\$ 429,262</u>

**Note 5—Line of credit**

At June 30, 2018, the Organization had available a \$175,000 revolving line-of-credit with a bank. Payments of interest only at minimum interest rate of 4.25% are due monthly. The line of credit matures on November 30, 2018. No borrowings were outstanding at June 30, 2018 and 2017.



**FIRST STEPS, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**

*JUNE 30, 2018 AND 2017*

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**Note 6—Net assets**

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

	<b>2018</b>	<b>2017</b>
Capital campaign and other pledges	\$ 980	\$ 1,080
Technology upgrades	-	3,989
Programs in the coming year	12,947	15,125
Investment earnings on endowment	82,326	54,750
	<u>\$ 96,253</u>	<u>\$ 74,944</u>

Permanently restricted net assets consist of the following endowment funds at June 30:

	<b>2018</b>	<b>2017</b>
Investments to be held for production of income:		
General endowment	<u>\$ 500,000</u>	<u>\$ 500,000</u>

The interest earned on permanently restricted net assets is available to the Organization on an unrestricted basis.

**Note 7—Endowment**

The Organization's endowment consists of a gift from Massey Foundation of \$500,000 which was received in 1991. The donor stipulated that only the income from this endowment gift should be available directly or indirectly for operations of the Organization. The initial gift and earnings thereon are maintained in the Organization's brokerage account.

The Board of Directors has interpreted UPMIFA as requiring that the Organization classify as permanently restricted net assets a) the original value of donor-restricted gifts to the permanent endowment, b) the original value of subsequent donor-restricted gifts to the permanent endowment, and c) accumulations (interest, dividends, capital gain/loss) to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are approved for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

**FIRST STEPS, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**

*JUNE 30, 2018 AND 2017*

**Note 7—Endowment (continued)**

Endowment net asset composition by type of fund as of June 30, 2018:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Board designated endowment fund	\$ 22,402	\$ -	\$ -	\$ 22,402
Donor restricted endowment funds	-	82,326	500,000	582,326
Total Endowment	<u>\$ 22,402</u>	<u>\$ 82,326</u>	<u>\$ 500,000</u>	<u>\$ 604,728</u>

Changes in endowment net assets for the fiscal year ended June 30, 2018:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ 20,954	\$ 54,750	\$ 500,000	\$ 575,704
Investment returns	1,448	27,576	-	29,024
Endowment net assets, end of year	<u>\$ 22,402</u>	<u>\$ 82,326</u>	<u>\$ 500,000</u>	<u>\$ 604,728</u>

Endowment net asset composition by type of fund as of June 30, 2017:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Board designated endowment fund	\$ 20,954	\$ -	\$ -	\$ 20,954
Donor restricted endowment funds	-	54,750	500,000	554,750
Total Endowment	<u>\$ 20,954</u>	<u>\$ 54,750</u>	<u>\$ 500,000</u>	<u>\$ 575,704</u>

Changes in endowment net assets for the fiscal year ended June 30, 2017:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ 18,916	\$ 18,310	\$ 500,000	\$ 537,226
Investment returns	2,038	36,440	-	38,478
Endowment net assets, end of year	<u>\$ 20,954</u>	<u>\$ 54,750</u>	<u>\$ 500,000</u>	<u>\$ 575,704</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration.

# FIRST STEPS, INC.

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

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### Note 7—Endowment (continued)

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board of Directors, the endowment assets are to be invested in cash and cash equivalents, fixed income, equities, and publicly traded real estate. In order to ensure proper levels of diversification of investments, equity is capped at 70% of total investments and fixed income investments are capped at 50% of total investments. To satisfy its long-term rate-of-return objectives, the Organization 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).

The Organization has a policy of distributing annually 0%-5% of a three-year moving average from the endowment fund. This distribution is made with the understanding that the spending rate plus inflation will not normally exceed the total return from the investment. Any spending will be approved by the Finance Committee and the Board of Directors. Specific agreements with donors for income taken relative to their specific endowment gifts are exempted.

### Note 8—Pension plan

Effective July 1, 2011, the Organization instituted a 401(k) profit sharing plan (the “Plan”) covering all personnel who are at least 21 years old and performed services for the Organization for at least three months. The Organization makes matching contributions equal to 100% of the salary reduction contributions made by employees up to 2% of employees’ compensation. Plan expenses for the years ended June 30, 2018 and 2017, were \$18,306 and \$19,583, respectively.

### Note 9—Concentrations

The Organization receives a significant amount of its support through grants from the Tennessee Department of Education (“ED”). In 2018 and 2017, the ED funding accounted for approximately 39% and 38%, respectively, of the Organization’s total public support and revenues. A significant reduction in the level of this support, if this were to occur, could have an adverse effect on the Organization’s programs and services. The Organization had grants receivable due from ED of \$293,968 and \$176,015 at June 30, 2018 and 2017, respectively.

Financial instruments that potentially subject the Organization to credit risk consist principally of cash and cash equivalents, unconditional promises to give, and investments. At times during 2018 and 2017, the Organization had cash deposits in excess of federally insured limits.

### Note 10—Operating lease commitments

During fiscal years 2018 and 2017, the Organization maintained lease agreements accounted for as operating leases. Rent expense for the years ended June 30, 2018 and 2017, was \$14,528 and \$15,073, respectively. Future minimum lease payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2018, are as follows:

<u>Years Ending June 30,</u>	
2019	\$ 12,085
2020	11,751
2021	11,400
2022	7,600
	<u>\$ 42,836</u>

**SUPPLEMENTAL SCHEDULES**

**FIRST STEPS, INC.****SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND  
STATE FINANCIAL ASSISTANCE***YEAR ENDED JUNE 30, 2018*

<b>Grant Description</b>	<b>CFDA Number</b>	<b>Contract Number</b>	<b>Expenditures</b>	<b>Receivable June 30, 2018</b>
<b>Federal Awards:</b>				
<u>U.S. Department of Education</u>				
<i>Passed through State of Tennessee, Department of Education</i>				
Special Education - Grants for Infants & Families	84.181	48116	\$ 445,602	\$ 128,057
Total Federal Awards			<u>445,602</u>	<u>128,057</u>
<b>State Financial Assistance:</b>				
<i>State of Tennessee, Department of Education</i>				
TN Early Intervention System	n/a	48116	<u>672,463</u>	<u>206,776</u>
Total State of Tennessee Department of Education			<u>672,463</u>	<u>206,776</u>
<i>State of Tennessee, Department of Human Services</i>				
Families First Certificate Program	n/a	n/a	<u>9,611</u>	<u>756</u>
Total State of Tennessee Department of Human Services			<u>9,611</u>	<u>756</u>
Total State Financial Assistance			<u>682,074</u>	<u>207,532</u>
Total Federal Awards and State Financial Assistance			<u>\$ 1,127,676</u>	<u>\$ 335,589</u>

**FIRST STEPS, INC.****NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND  
STATE FINANCIAL ASSISTANCE***JUNE 30, 2018*

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**Note 1—Basis of presentation**

The accompanying schedule of expenditures of federal awards and state financial assistance (the "Schedule") summarizes the expenditures of First Steps, Inc. under programs of the federal and state governments for the year ended June 30, 2018. The Schedule is presented using the accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of the state of Tennessee Audit Manual for Auditing, Accounting, and Reporting for Local Government Units and Other Organizations.

**Note 2—Summary of significant accounting policies**

First Steps, Inc. expended indirect costs using a multiple allocation base method and did not elect to use the 10% de minimus cost rate allowed under the Uniform Guidance.

**Report of Independent Auditor on Internal Control over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements Performed in  
Accordance with *Government Auditing Standards***

To the Board of Directors of  
First Steps, Inc.  
Nashville, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America, the financial statements of First Steps, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 22, 2018.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered First Steps, Inc.'s internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of First Steps, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of First Steps, Inc.'s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether First Steps, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of First Steps, Inc.'s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering First Steps, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cheng Beikant LLP

Nashville, Tennessee  
October 22, 2018



**FIRST STEPS, INC.**

**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS**

*YEAR ENDED JUNE 30, 2018*

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There were no prior findings reported.