

FIRST STEPS, INC.

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

As of and for the Years Ended June 30, 2021 and 2020

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, 2021

Board of Directors

David Wedemeyer
Emily Childers
Jay Davis
Bahar Azhdari
Stuart Burkhalter
William Caldwell
Hank Clay
Meredith Collins
Matt Eskind
Christy Farrell
Kristy Frazier
Jon Harris
Kathy Medlin
Emily Runzo
Harlow Sumerford

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

Executive Staff

Heather Higgins
Kelli Jo Hazen
Karla Garig
Tabitha Hadlow
Rosario Langlois
Suzanne Satterfield

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

Report of Independent Auditor

To the Board of Directors
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 statements of financial position as of June 30, 2021 and 2020, and the related statements of activities, functional expenses, and 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.

Auditor's 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 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, 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.

OTHER MATTERS

Other Information

Our audits were 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 audits 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.

The Roster of Board of Directors and Executive Staff on page 1, which is the responsibility of management, is of a nonaccounting nature and has not been subjected to the audit procedures applied in the audit of the financial statements. Accordingly, we do not express an opinion or provide assurance over it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2021, 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 Bekeant LLP

Nashville, Tennessee
October 26, 2021

FIRST STEPS, INC.
STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2021 AND 2020

	2021	2020
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 679,759	\$ 632,553
Accounts and grants receivable, net	241,101	267,246
Prepaid expenses	15,593	13,984
Total Current Assets	<u>936,453</u>	<u>913,783</u>
Land, Buildings, and Equipment:		
Land	200,000	200,000
Buildings and improvements	2,364,477	2,357,477
Furniture and equipment	22,558	20,625
	<u>2,587,035</u>	<u>2,578,102</u>
Less accumulated depreciation	<u>(682,506)</u>	<u>(616,680)</u>
Land, Buildings, and Equipment, net	<u>1,904,529</u>	<u>1,961,422</u>
Beneficial interest in assets at Community Foundation of Middle Tennessee	29,831	24,207
Investments, net of donor restricted endowment funds	469,459	378,338
Investments, donor restricted endowment funds	745,255	600,990
Total Assets	<u><u>\$ 4,085,527</u></u>	<u><u>\$ 3,878,740</u></u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 37,914	\$ 19,137
Accrued salaries and benefits	73,147	132,382
Deferred revenue	5,702	10,299
Note payable, current portion	49,847	47,436
Deferred grant revenue	-	370,235
Total Current Liabilities	<u>166,610</u>	<u>579,489</u>
Note payable, net of current portion	<u>287,512</u>	<u>337,168</u>
Total Liabilities	<u>454,122</u>	<u>916,657</u>
Net Assets:		
Without donor restrictions:		
Undesignated	2,855,242	2,323,194
Board designated	29,831	24,207
Total net assets without donor restrictions	<u>2,885,073</u>	<u>2,347,401</u>
With donor restrictions	<u>746,332</u>	<u>614,682</u>
Total Net Assets	<u>3,631,405</u>	<u>2,962,083</u>
Total Liabilities and Net Assets	<u><u>\$ 4,085,527</u></u>	<u><u>\$ 3,878,740</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, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Public Support and Revenue:			
Department of Intellectual & Developmental			
Disabilities contracts and grants	\$ 1,026,133	\$ -	\$ 1,026,133
Program service fees	847,055	-	847,055
Other government grants	370,235	-	370,235
Therapy service fees	335,672	-	335,672
Contributions	265,171	1,077	266,248
Investment returns	91,120	144,266	235,386
Other	163,486	-	163,486
United Way	140,520	-	140,520
Special events (including \$5,000 in-kind)	56,367	-	56,367
Change in beneficial interest in assets held by others	5,624	-	5,624
Net assets released from restrictions	13,693	(13,693)	-
Total Public Support and Revenue	<u>3,315,076</u>	<u>131,650</u>	<u>3,446,726</u>
Expenses:			
Program services	2,469,722	-	2,469,722
Supporting services	200,997	-	200,997
Fundraising	106,685	-	106,685
Total Expenses	<u>2,777,404</u>	<u>-</u>	<u>2,777,404</u>
Change in net assets	537,672	131,650	669,322
Net assets, beginning of year	<u>2,347,401</u>	<u>614,682</u>	<u>2,962,083</u>
Net assets, end of year	<u>\$ 2,885,073</u>	<u>\$ 746,332</u>	<u>\$ 3,631,405</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, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Public Support and Revenue:			
Department of Education contracts and grants	\$ 1,008,855	\$ -	\$ 1,008,855
Program service fees	826,974	-	826,974
Therapy service fees	271,427	-	271,427
Contributions	328,773	13,692	342,465
United Way	127,177	-	127,177
Special events (including \$1,580 in-kind)	35,218	-	35,218
Other	22,471	-	22,471
Investment returns	509	708	1,217
Change in beneficial interest in assets held by others	647	-	647
Net assets released from restrictions	-	-	-
Total Public Support and Revenue	<u>2,622,051</u>	<u>14,400</u>	<u>2,636,451</u>
Expenses:			
Program services	2,336,992	-	2,336,992
Supporting services	160,496	-	160,496
Fundraising	98,968	-	98,968
Total Expenses	<u>2,596,456</u>	<u>-</u>	<u>2,596,456</u>
Change in net assets	25,595	14,400	39,995
Net assets, beginning of year	<u>2,321,806</u>	<u>600,282</u>	<u>2,922,088</u>
Net assets, end of year	<u>\$ 2,347,401</u>	<u>\$ 614,682</u>	<u>\$ 2,962,083</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, 2021

	Program Services	Supporting Services	Fundraising	Total
Salaries	\$ 1,578,735	\$ 121,201	\$ 67,662	\$ 1,767,598
Employee benefits	218,253	17,650	13,003	248,906
Total Salaries and Employee Benefits	1,796,988	138,851	80,665	2,016,504
Professional services	260,056	3,046	-	263,102
Supplies	72,154	4,826	-	76,980
Occupancy	65,344	6,603	-	71,947
Maintenance	56,968	9,046	-	66,014
Communications	31,729	19,765	-	51,494
Utilities	38,784	3,372	-	42,156
Miscellaneous	31,776	2,380	-	34,156
Special events expenses (rental, postage) (including \$5,000 in-kind)	-	-	26,020	26,020
Insurance	24,170	1,802	-	25,972
Interest	16,641	1,447	-	18,088
Conferences	10,974	561	-	11,535
Dues	2,610	3,722	-	6,332
Licenses	959	310	-	1,269
Travel	9	-	-	9
Total Expenses Before Depreciation	2,409,162	195,731	106,685	2,711,578
Depreciation	60,560	5,266	-	65,826
Total Expenses	<u>\$ 2,469,722</u>	<u>\$ 200,997</u>	<u>\$ 106,685</u>	<u>\$ 2,777,404</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, 2020

	Program Services	Supporting Services	Fundraising	Total
Salaries	\$ 1,507,465	\$ 105,369	\$ 77,969	\$ 1,690,803
Employee benefits	214,127	14,099	9,269	237,495
Total Salaries and Employee Benefits	1,721,592	119,468	87,238	1,928,298
Professional services	214,771	2,623	-	217,394
Occupancy	58,862	5,344	-	64,206
Supplies	57,839	3,217	-	61,056
Maintenance	47,033	7,886	-	54,919
Utilities	38,246	3,333	-	41,579
Communications	27,604	4,248	-	31,852
Miscellaneous	28,810	-	-	28,810
Travel	23,543	1,749	-	25,292
Insurance	19,977	1,533	-	21,510
Interest	18,828	1,637	-	20,465
Conferences	19,418	729	-	20,147
Special events expenses (rental, postage) (including \$1,580 in-kind)	-	-	11,730	11,730
Dues	1,695	3,398	-	5,093
Licenses	810	290	-	1,100
Total Expenses Before Depreciation	2,279,028	155,455	98,968	2,533,451
Depreciation	57,964	5,041	-	63,005
Total Expenses	<u>\$ 2,336,992</u>	<u>\$ 160,496</u>	<u>\$ 98,968</u>	<u>\$ 2,596,456</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, 2021 AND 2020

	2021	2020
Cash flows from operating activities:		
Change in net assets	\$ 669,322	\$ 39,995
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	65,826	63,005
Loss on disposal of property and equipment	-	6,883
Realized and unrealized (gains) losses on investments, net	(234,127)	12,976
Beneficial interest in assets held at Community Foundation of Middle Tennessee	(5,624)	(647)
Changes in operating assets and liabilities:		
Accounts and grants receivable	26,145	(15,407)
Prepaid expenses	(1,609)	3,259
Accounts payable	18,777	(21,916)
Accrued salaries and benefits	(59,235)	16,279
Deferred revenue	(4,597)	(13,647)
Deferred grant revenue	(370,235)	370,235
Net cash flows from operating activities	<u>104,643</u>	<u>461,015</u>
Cash flows from investing activities:		
Proceeds from sale of investments	124,136	271,932
Purchase of investments	(125,395)	(286,053)
Purchase of property and equipment	(8,933)	(114,609)
Net cash flows from investing activities	<u>(10,192)</u>	<u>(128,730)</u>
Cash flows from financing activities:		
Payments on note payable	(47,245)	(44,866)
Net cash flows from financing activities	<u>(47,245)</u>	<u>(44,866)</u>
Net increase in cash and cash equivalents	47,206	287,419
Cash and cash equivalents, beginning of year	632,553	345,134
Cash and cash equivalents, end of year	<u>\$ 679,759</u>	<u>\$ 632,553</u>
Supplemental cash flow information:		
Cash paid during the year for interest	<u>\$ 18,088</u>	<u>\$ 20,465</u>

FIRST STEPS, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 1—Nature of operations and 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:

Net Assets Without Donor Restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization’s management and the board of directors. Net assets without donor restrictions may be designated for specific purposes by action of the board of directors.

Net Assets With Donor Restrictions – Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. Net assets with donor restrictions represent amounts available for specified projects. Net assets required to be held in perpetuity represent restricted gifts held in investment accounts. Generally, donors of these assets may permit the Organization to use all or part of the income earned for general or specific purposes.

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

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 \$-0- and \$2,473 is recorded at June 30, 2021 and 2020, respectively.

Land, Buildings, and Equipment – Land, buildings, and equipment are recorded at cost or, if donated, at estimated fair 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.

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.

FIRST STEPS, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 1—Nature of operations and summary of significant accounting policies (continued)

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.

Following is a description of the valuation methodology 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 methodology have been made during the period from July 1, 2019 through June 30, 2021.

The method 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 3).

Income Tax Status – The Organization is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code ("IRC"), and the Organization is classified as an organization that is not a private foundation as defined in Section 509(a) of the IRC. 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, 2021 and 2020. 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, 2021 AND 2020

Note 1—Nature of operations and summary of significant accounting policies (continued)

Contributions – 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 net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor restrictions are reported as increases in net assets with donor restrictions based on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

In-Kind Contributions – The Organization records various types of in-kind support. Contributions of tangible assets are recognized at fair 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.

Endowment Funds – The Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) was enacted in Tennessee effective July 1, 2007. 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 9).

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. While most costs have been directly assigned to a functional category, certain personnel costs have been allocated to program and management and general based on time and effort estimates made 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.

Adoption of New Accounting Pronouncements – In May 2014, FASB issued Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 clarifies the principles for recognizing revenue and develops a common revenue standard under U.S. GAAP under which an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 is effective for the Organization for the year ending June 30, 2021. Management evaluated the impact of this standard on the financial statements of the Organization and determined the accounting standard did not require a change to the Organization’s practice of recognizing revenues.

FIRST STEPS, INC.
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 1—Nature of operations and summary of significant accounting policies (continued)

Revenue Recognition – The Organization’s revenue recognition policies are as follows:

Program Service Fees – Childcare fees are recorded as revenue in the period that the related services are rendered.

Therapy Service Fees – Therapy fees are recorded as revenue in the period that the related services are rendered.

Contract Balances – Net accounts receivable were \$59,230 and \$53,717 as of June 30, 2021 and 2020, respectively. Deferred revenue was \$5,702 and \$10,299 as of June 30, 2021 and 2020, respectively.

Accounts receivable consist of amounts due from program services and therapy services rendered, and are presented net of an allowance for doubtful accounts. Management evaluates the collectability of accounts receivable based primarily on the length of time the receivables are past due, historical experience, and an individual customer’s ability to meet their financial obligations. When it has been determined, it is probable that an account is uncollectible, the Organization recognizes an allowance for doubtful accounts. However, actual accounts receivable write-offs might differ from management’s estimate. The allowance for doubtful accounts included in accounts receivable, net totaled \$(1,089) and \$2,473, respectively, at June 30, 2021 and 2020.

Performance Obligations and Revenue Recognition – A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account under ASC 606. The transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. The Organization’s revenue within the scope of ASC 606 consists of program service and therapy fees. The contract obligations related to these services are satisfied when the services are rendered.

Practical Expedients and Exemptions – There are several practical expedients and exemptions allowed under ASC 606 that impact timing of revenue recognition and disclosures. The one practical expedient the Organization applied in the application of ASC 606 allows the Organization to elect to treat similar contracts as part of a portfolio of contracts. The contracts have the same provision terms and management has the expectation that the result will not be materially different from the consideration of each individual contract.

Revenues from non-exchange transactions (contributions and government grants) may be subject to conditions, in the form of both a barrier to entitlement and a refund of amounts paid (or a release from obligation to make future payments). Revenues from conditional non-exchange transactions are recognized when the barrier is satisfied.

Forthcoming Accounting Pronouncements – In February 2016, FASB issued ASU 2016-02, *Leases*. This guidance introduces a lessee model that brings substantially all leases on the statements of financial position. This guidance is effective for the year ending June 30, 2023. The Organization is evaluating the impact this guidance may have on its financial statements. See Note 12 for disclosure regarding the Organization’s current operating leases.

Subsequent Events – The Organization evaluated subsequent events through October 26, 2021, when these financial statements were available to be issued.

FIRST STEPS, INC.
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 2—Liquidity and availability of resources

The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures related to its ongoing activities of providing education and care for children with special needs and medical conditions alongside their typically developing peers as well as the conduct of services undertaken to support those activities to be general expenditures. As a part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due.

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

	<u>2021</u>	<u>2020</u>
Financial assets at year-end:		
Cash and cash equivalents	\$ 679,759	\$ 632,553
Accounts receivable	241,101	267,246
Investments, net of donor restricted endowment funds	469,459	378,338
Investments, donor restricted endowment funds	745,255	600,990
Less amounts not available to be used within one year:		
Net assets subject to restrictions	<u>(746,332)</u>	<u>(614,682)</u>
Financial assets available to meet cash needs for general expenditures within one year:	<u>\$ 1,389,242</u>	<u>\$ 1,264,445</u>

The Organization's endowment funds consist of donor-restricted funds. Generally, donors of these assets may permit the Organization to use all or part of the income earned for general or specific purposes. The corpus of the donor-restricted endowment funds must be maintained in perpetuity and is not available for general expenditure (see Note 9).

Note 3—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, 2021:

	<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	\$ 15,048	\$ 15,048	\$ -	\$ -
Fixed income investments - domestic	416,590	41,484	375,106	-
Equity Investments:				
Small/Mid Cap U.S. Equity fund	116,192	116,192	-	-
Large Cap U.S. Equity fund	419,412	266,163	153,249	-
International Equity fund	<u>247,472</u>	<u>-</u>	<u>247,472</u>	<u>-</u>
Total Investment in Securities	<u>\$ 1,214,714</u>	<u>\$ 438,887</u>	<u>\$ 775,827</u>	<u>\$ -</u>

FIRST STEPS, INC.
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 3—Investments (continued)

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, 2020:

	<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	\$ 11,658	\$ 11,658	\$ -	\$ -
Fixed income investments - domestic	386,380	-	386,380	-
Equity Investments:				
Small/Mid Cap U.S. Equity fund	79,043	79,043	-	-
Large Cap U.S. Equity fund	313,918	198,648	115,270	-
International Equity fund	188,329	-	188,329	-
Total Investment in Securities	<u>\$ 979,328</u>	<u>\$ 289,349</u>	<u>\$ 689,979</u>	<u>\$ -</u>

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

	<u>2021</u>	<u>2020</u>
Interest and dividends, net of investment fees	\$ 1,259	\$ 14,193
Net realized and unrealized gains (losses)	234,127	(12,976)
Investment returns	<u>\$ 235,386</u>	<u>\$ 1,217</u>

Note 4—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. These investments are reflected as board designated net assets in the statements of financial position.

Note 5—Line of credit

At June 30, 2021, the Organization had available a \$175,000 revolving line of credit with a bank. Payments of interest only at a variable rate based on the lender's index base commercial rate plus 1.5% (4.25% at June 30, 2021) are due monthly. The line of credit matures on November 30, 2022. No borrowings were outstanding at June 30, 2021 and 2020.

FIRST STEPS, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 6—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 \$337,359 and \$384,604 at June 30, 2021 and 2020, respectively. The note is collateralized by land and building.

Interest expense for the years ended June 30, 2021 and 2020 was \$18,088 and \$20,465, respectively.

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

Years Ending June 30,

2022	\$ 49,847
2023	52,381
2024	55,016
2025	57,839
2026	60,779
Thereafter	61,497
Total principal maturities	337,359
Less current portion	(49,847)
Long-Term Portion	<u>\$ 287,512</u>

Note 7—Deferred grant revenue

The Organization received a Paycheck Protection Program (“PPP”) loan in the amount of \$370,235. The PPP loan is granted by the Small Business Administration (“SBA”) under the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”). PPP loans are considered conditional contributions under ASC 958-605, *Not-for-Profit Entities – Revenue Recognition*. The loan must be repaid if the Organization does not overcome certain barriers within the CARES Act. The barriers under the program include the requirement to maintain employee headcount, spend up to 60% of the loan proceeds on certain payroll and employee benefits, and restricts other loan proceeds to be used for other qualifying expenses such as mortgage interest, rent, and utilities. In May 2021, the PPP loan of \$370,235, plus accrued interest, was fully forgiven by the SBA and was recognized in other government grants within the statement of activities for the year ended June 30, 2021.

FIRST STEPS, INC.
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 8—Net assets with donor restrictions

Net assets with donor restrictions are available for the following purposes or periods at June 30:

	2021	2020
Subject to expenditure for specified purpose:		
Programs in the coming year	\$ 1,077	\$ 13,692
Investment earnings on endowment	245,255	100,990
Subject to endowment spending policy and appropriation:		
General endowment	500,000	500,000
	<u>\$ 746,332</u>	<u>\$ 614,682</u>

Note 9—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 Organization has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds unless there are explicit donor stipulations to the contrary. At June 30, 2021 and 2020, there were no such stipulations. As a result of this interpretation, the Organization retains in perpetuity (a) the original value of initial and subsequent gift amounts (including promises to give, net of discount and allowance for doubtful accounts donated to the endowment and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. The Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund,
- The purposes of the Organization and the donor-restricted endowment fund,
- General economic conditions,
- The possible effect of inflation and deflation,
- The expected total return from income and the appreciation of investments,
- Other resources of the Organization, and
- The investment policies of the Organization.

FIRST STEPS, INC.
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 9—Endowment (continued)

Endowment net assets composition by type of fund as of June 30, 2021:

	Without Donor Restrictions	With Donor Restrictions	Total
Board designated endowment fund	\$ 29,831	\$ -	\$ 29,831
Donor restricted endowment funds	-	745,255	745,255
Total Endowment	<u>\$ 29,831</u>	<u>\$ 745,255</u>	<u>\$ 775,086</u>

Changes in endowment net assets for the fiscal year ended June 30, 2021:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 24,207	\$ 600,990	\$ 625,197
Investment return, net	5,624	144,265	149,889
Endowment net assets, end of year	<u>\$ 29,831</u>	<u>\$ 745,255</u>	<u>\$ 775,086</u>

Endowment net assets composition by type of fund as of June 30, 2020:

	Without Donor Restrictions	With Donor Restrictions	Total
Board designated endowment fund	\$ 24,207	\$ -	\$ 24,207
Donor restricted endowment funds	-	600,990	600,990
Total Endowment	<u>\$ 24,207</u>	<u>\$ 600,990</u>	<u>\$ 625,197</u>

Changes in endowment net assets for the fiscal year ended June 30, 2020:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 23,560	\$ 600,282	\$ 623,842
Investment return, net	647	708	1,355
Endowment net assets, end of year	<u>\$ 24,207</u>	<u>\$ 600,990</u>	<u>\$ 625,197</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, 2021 AND 2020

Note 9—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 10—Retirement plan

The Organization maintains 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, 2021 and 2020, were \$17,570 and \$16,461, respectively.

Note 11—Concentrations

The Organization has historically received a significant amount of its support through grants from the Tennessee Department of Education (“ED”). During fiscal 2021, the administration of such grants was moved to the Tennessee Department of Intellectual and Developmental Disabilities (“DIDD”). In 2021 and 2020, the ED and DIDD funding accounted for approximately 30% 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 under these grant arrangements of \$168,272 and \$172,248 at June 30, 2021 and 2020, respectively.

Financial instruments that potentially subject the Organization to credit risk consist principally of cash and cash equivalents, and investments. At times during 2021 and 2020, the Organization had cash deposits in excess of federally insured limits.

FIRST STEPS, INC.
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 12—Operating lease commitments

During fiscal years 2021 and 2020, the Organization maintained lease agreements accounted for as operating leases. Rent expense for the years ended June 30, 2021 and 2020, was \$12,448 and \$12,799, 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, 2021 are as follows:

Years Ending June 30,

2022	\$	8,648
2023		1,048
2024		349
	\$	<u>10,045</u>

Note 13—Uncertainty

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a global pandemic which continues to spread throughout the world and has adversely impacted global commercial activity and contributed to significant declines and volatility in the financial markets. The coronavirus outbreak and government responses are creating disruption to global supply chains and adversely impacting many industries. The outbreak has caused a material, adverse impact on the economic and market conditions. The rapid development and fluidity of this situation precludes any prediction as to the ultimate material, adverse impact of the coronavirus outbreak. Nevertheless, the outbreak presents uncertainty and risk with respect to the Organization, its performance, and its financial results.

SUPPLEMENTARY INFORMATION

FIRST STEPS, INC.**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND
STATE FINANCIAL ASSISTANCE**

YEAR ENDED JUNE 30, 2021

Grant Description	Assistance Number	Contract Number	Expenditures	Receivable June 30, 2021
Federal Awards:				
<u>U.S. Department of Intellectual & Developmental Disabilities</u>				
<i>Passed through State of Tennessee, Department of Intellectual & Developmental Disabilities</i>				
Special Education - Grants for Infants & Families	84.181	48116	\$ 281,471	\$ 46,220
<u>U.S. Department of Treasury</u>				
<i>Passed through State of Tennessee, Department of Finance and Administration</i>				
COVID-19 Coronavirus Relief Fund	21.019	n/a	25,050	-
<u>U.S. Department of Health and Human Services</u>				
<i>Passed through State of Tennessee, Department of Health and Human Services</i>				
COVID-19 Child Care and Development Fund	93.575	n/a	12,325	-
<u>U.S. Department of Health and Human Services</u>				
<i>Passed through State of Tennessee, Department of Health and Human Services</i>				
COVID-19 Coronavirus Response and Relief Supplemental Appropriations Act	84.425R	n/a	7,000	-
Total Federal Awards			<u>325,846</u>	<u>46,220</u>
State Financial Assistance:				
<i>State of Tennessee, Department of Intellectual & Developmental Disabilities</i>				
TN Early Intervention System	n/a	48116	<u>749,710</u>	<u>116,759</u>
Total State of Tennessee Department of Education			<u>749,710</u>	<u>116,759</u>
<i>State of Tennessee, Department of Human Services</i>				
Families First Certificate Program	n/a	n/a	<u>163,486</u>	<u>12,576</u>
Total State of Tennessee Department of Human Services			<u>163,486</u>	<u>12,576</u>
Total State Financial Assistance			<u>913,196</u>	<u>129,335</u>
Total Federal Awards and State Financial Assistance			<u>\$ 1,239,042</u>	<u>\$ 175,555</u>

See notes to schedule of expenditures of federal awards and state financial assistance.

FIRST STEPS, INC.**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND
STATE FINANCIAL ASSISTANCE***JUNE 30, 2021*

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, 2021. 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. has elected to use the 10% de minimis indirect 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
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, 2021, 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 26, 2021.

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") as a basis for designing 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 the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cheng Bekeant LLP

Nashville, Tennessee
October 26, 2021

FIRST STEPS, INC.

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS

YEAR ENDED JUNE 30, 2021

There were no prior findings reported.