

FIRST STEPS, INC.

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

June 30, 2017 and 2016

FIRST STEPS, INC.

TABLE OF CONTENTS

Independent Auditor's Report.....	2 – 3
Audited Financial Statements:	
Statements of Financial Position	4
Statements of Activities.....	5 – 6
Statements of Functional Expenses	7 – 8
Statements of Cash Flows.....	9
Notes to Financial Statements.....	10 – 20



INDEPENDENT AUDITOR'S REPORT

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 statements of financial position as of June 30, 2017 and 2016, 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. 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, 2017 and 2016, 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.

Frasier Dean & Hand, PLLC

Nashville, Tennessee

September 22, 2017

FIRST STEPS, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 216,860	\$ 213,848
Investments, net of donor restricted endowment funds	349,204	326,423
Accounts and grants receivable, net	256,045	236,748
Contributions receivable	1,080	8,964
Prepaid expenses	4,729	8,181
Total current assets	<u>827,918</u>	<u>794,164</u>
Land, buildings and equipment:		
Land	200,000	200,000
Buildings and improvements	2,265,685	2,265,685
Furniture and equipment	17,463	22,830
	<u>2,483,148</u>	<u>2,488,515</u>
Less: accumulated depreciation	(444,476)	(387,459)
Land, buildings and equipment, net	<u>2,038,672</u>	<u>2,101,056</u>
Beneficial interest in assets at Community		
Foundation of Middle Tennessee	20,954	18,916
Donor restricted endowment funds	554,750	518,310
Total assets	<u>\$ 3,442,294</u>	<u>\$ 3,432,446</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 22,836	\$ 25,852
Accrued salaries and benefits	118,392	110,145
Deferred revenue	7,400	13,900
Note payable, current portion	40,883	38,905
Total current liabilities	<u>189,511</u>	<u>188,802</u>
Note payable, net of current portion	472,029	512,731
Total liabilities	<u>661,540</u>	<u>701,533</u>
Net assets:		
Unrestricted:		
Undesignated	2,184,856	2,180,734
Board designated	20,954	18,916
Total unrestricted net assets	<u>2,205,810</u>	<u>2,199,650</u>
Temporarily restricted	74,944	31,263
Permanently restricted	500,000	500,000
Total net assets	<u>2,780,754</u>	<u>2,730,913</u>
Total liabilities and net assets	<u>\$ 3,442,294</u>	<u>\$ 3,432,446</u>

See accompanying notes.

FIRST STEPS, INC.
STATEMENT OF ACTIVITIES
For the 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 gain, net	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	7,884	(7,884)	-	-
	<u>2,507,017</u>	<u>43,681</u>	<u>-</u>	<u>2,550,698</u>
Total public support and revenue				
Expenses:				
Program services	2,241,963	-	-	2,241,963
Supporting services	145,656	-	-	145,656
Fundraising	113,238	-	-	113,238
	<u>2,500,857</u>	<u>-</u>	<u>-</u>	<u>2,500,857</u>
Total expenses				
Change in net assets	6,160	43,681	-	49,841
Net assets - beginning of year	2,199,650	31,263	500,000	2,730,913
Net assets - end of year	<u>\$ 2,205,810</u>	<u>\$ 74,944</u>	<u>\$ 500,000</u>	<u>\$ 2,780,754</u>

See accompanying notes.

FIRST STEPS, INC.
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public support and revenue:				
Department of Education contracts and grants	\$ 918,537	\$ -	\$ -	\$ 918,537
Program service fees	726,712	-	-	726,712
Therapy service fees	327,074	-	-	327,074
Contributions	240,885	11,173	-	252,058
United Way	126,708	-	-	126,708
In-kind contribution	51,350	-	-	51,350
Other	37,261	-	-	37,261
Special events	17,814	-	-	17,814
Change in beneficial interest in assets held by others	(361)	-	-	(361)
Investment loss, net	(2,699)	(5,997)	-	(8,696)
Net assets released from restrictions	101,549	(101,549)	-	-
Total public support and revenue	<u>2,544,830</u>	<u>(96,373)</u>	<u>-</u>	<u>2,448,457</u>
Expenses:				
Program services	2,279,237	-	-	2,279,237
Supporting services	155,290	-	-	155,290
Fundraising	65,862	-	-	65,862
Total expenses	<u>2,500,389</u>	<u>-</u>	<u>-</u>	<u>2,500,389</u>
Change in net assets	44,441	(96,373)	-	(51,932)
Net assets - beginning of year	<u>2,155,209</u>	<u>127,636</u>	<u>500,000</u>	<u>2,782,845</u>
Net assets - end of year	<u><u>\$ 2,199,650</u></u>	<u><u>\$ 31,263</u></u>	<u><u>\$ 500,000</u></u>	<u><u>\$ 2,730,913</u></u>

See accompanying notes.

FIRST STEPS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2017

	Program Services	Supporting Services	Fundraising	Total
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 benefits	1,698,224	96,356	100,531	1,895,111
Professional services	140,468	1,946	-	142,414
Occupancy (including \$6,472 in-kind)	61,361	6,768	-	68,129
Travel	64,505	-	-	64,505
Utilities	44,489	4,400	-	48,889
Maintenance	34,087	6,863	-	40,950
Supplies	31,361	3,405	-	34,766
Interest	24,213	2,395	-	26,608
Miscellaneous	24,154	962	-	25,116
Communications	15,649	5,167	-	20,816
Insurance	15,930	1,531	-	17,461
Bad debts	11,404	5,000	-	16,404
Special events expenses (rental, postage)	-	-	12,707	12,707
Conferences	9,965	1,236	-	11,201
Dues	2,068	3,722	-	5,790
Food	5,645	-	-	5,645
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>

See accompanying notes.

FIRST STEPS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2016

	Program Services	Supporting Services	Fundraising	Total
Salaries	\$1,514,471	\$ 45,237	\$ 51,960	\$1,611,668
Employee benefits	225,904	5,964	6,640	238,508
Total salaries and employee benefits	1,740,375	51,201	58,600	1,850,176
Professional services (including \$51,350 in-kind)	123,387	53,749	-	177,136
Occupancy	59,931	5,122	-	65,053
Travel	64,227	16	-	64,243
Utilities	47,295	4,678	-	51,973
Maintenance	33,520	10,762	-	44,282
Supplies	35,763	2,586	-	38,349
Interest	25,982	2,569	-	28,551
Miscellaneous	21,707	2,456	-	24,163
Communications	16,501	4,899	-	21,400
Insurance	11,396	1,097	-	12,493
Bad debts	11,145	4,300	-	15,445
Special events expenses (rental, postage)	-	-	7,262	7,262
Conferences	18,811	1,462	-	20,273
Dues	2,630	4,426	-	7,056
Food	7,264	-	-	7,264
Licenses	2,277	327	-	2,604
Total expenses before depreciation	2,222,211	149,650	65,862	2,437,723
Depreciation	57,026	5,640	-	62,666
Total expenses	<u>\$2,279,237</u>	<u>\$ 155,290</u>	<u>\$ 65,862</u>	<u>\$2,500,389</u>

See accompanying notes.

FIRST STEPS, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	\$ 49,841	\$ (51,932)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	62,384	62,666
Realized and unrealized (gain) loss on investments, net	(52,295)	7,842
Changes in operating assets and liabilities:		
Accounts and grants receivable	(19,297)	67,158
Contributions receivable	7,884	1,097
Prepaid expenses	3,452	(8,181)
Beneficial interest in assets held at Community Foundation of Middle Tennessee	(2,038)	361
Accounts payable	(3,016)	(3,043)
Accrued salaries and benefits	8,247	31,840
Deferred revenue	(6,500)	13,900
Net cash provided by operating activities	<u>48,662</u>	<u>121,708</u>
Cash flows from investing activities:		
Proceeds from sale of investments	84,936	204,177
Purchase of investments	(91,862)	(159,674)
Purchase of property and equipment	-	(3,830)
Net cash (used in) provided by investing activities	<u>(6,926)</u>	<u>40,673</u>
Cash flows from financing activities:		
Payments on note payable	(38,724)	(36,781)
Net cash used in financing activities	<u>(38,724)</u>	<u>(36,781)</u>
Net increase in cash and cash equivalents	3,012	125,600
Cash and cash equivalents - beginning of year	213,848	88,248
Cash and cash equivalents - end of year	<u>\$ 216,860</u>	<u>\$ 213,848</u>
Supplemental cash flow information:		
Cash paid during the year for interest	<u>\$ 26,608</u>	<u>\$ 28,551</u>

See accompanying notes.

FIRST STEPS, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

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. Net assets and revenues, expenses and 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 accounting principles generally accepted in the United States of America, investments in marketable securities and all investments in debt securities are reported at their fair values in the statements of financial position. Unrealized gains and losses are included in the statements of activities.

FIRST STEPS, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2017 and 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2015 through June 30, 2017.

FIRST STEPS, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2017 and 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

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 \$15,263 and \$6,656 is recorded at June 30, 2017 and 2016, 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 Accounting Standards Codification ("FASB 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 fifty percent likely of being realized upon ultimate settlement. The Organization does not believe there are any uncertain tax positions at June 30, 2017 and 2016. Additionally, the Organization has not recognized any tax related interest and penalties in the accompanying financial statements.

FIRST STEPS, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2017 and 2016

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 7.)

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. 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.

FIRST STEPS, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2017 and 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 September 22, 2017 when these financial statements were available to be issued. The Organization is not aware of any significant events that occurred subsequent to the statement of financial position date but prior to the filing of this report that would have a material impact on the financial statements.

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, 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 investments-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	<u>213,142</u>	<u>-</u>	<u>213,142</u>	<u>-</u>
 Total investment in securities	 <u>\$ 903,954</u>	 <u>\$ 285,623</u>	 <u>\$ 618,331</u>	 <u>\$ -</u>

FIRST STEPS, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2017 and 2016

NOTE 2 – 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, 2016:

	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investments in securities:				
Money market funds	\$ 8,625	\$ 8,625	\$ -	\$ -
Fixed income investments-domestic	224,593	22,969	201,624	-
Equity investments:				
Small/Mid Cap U.S. Equity fund	27,331	27,331	-	-
Large Cap U.S. Equity fund	120,877	120,877	-	-
International Equity fund	154,103	-	154,103	-
Opportunistic Equity fund	53,755	-	53,755	-
Master Ltd Partnership funds	54,888	54,888	-	-
Multi-Strategy Alternative funds	<u>200,561</u>	<u>-</u>	<u>200,561</u>	<u>-</u>
Total investment in securities	<u>\$ 844,733</u>	<u>\$ 234,690</u>	<u>\$ 610,043</u>	<u>\$ -</u>

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

	<u>2017</u>	<u>2016</u>
Interest and dividends, net of investment fees	\$ 6,966	\$ (854)
Realized and unrealized gains (losses), net	<u>52,295</u>	<u>(7,842)</u>
Investment gain (loss)	<u>\$ 59,261</u>	<u>\$ (8,696)</u>

NOTE 3 – ENDOWMENT FUND 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. The Organization has recorded the related asset “Beneficial interest in assets at Community Foundation of Middle Tennessee” in the accompanying statements of financial position.

FIRST STEPS, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2017 and 2016

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 debt arrangement were \$512,912 and \$551,636 at June 30, 2017 and 2016, respectively. The note is collateralized by land and building.

Interest expense for the years ended June 30, 2017 and 2016 was \$26,608 and \$28,551, respectively.

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

Years ending June 30,	
2018	\$ 40,883
2019	42,960
2020	45,089
2021	47,436
2022	49,847
Thereafter	<u>286,697</u>
Total principal maturities	512,912
Less current portion	<u>(40,883)</u>
Long-term obligations	<u>\$ 472,029</u>

NOTE 5 – LINE OF CREDIT

At June 30, 2017, the Organization had available a \$175,000 revolving line-of-credit with a bank. Payments of interest only at minimum interest rate of 5.50% are due monthly. The line of credit matures November 30, 2017. No borrowings were outstanding at June 30, 2017 and 2016.

FIRST STEPS, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2017 and 2016

NOTE 6 – NET ASSETS

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

	<u>2017</u>	<u>2016</u>
Capital campaign and other pledges	\$ 1,080	\$ 8,964
Technology upgrades	3,989	3,989
Programs in the coming year	15,125	-
Investment earnings on endowment	<u>54,750</u>	<u>18,310</u>
	<u>\$ 74,944</u>	<u>\$ 31,263</u>

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

	<u>2017</u>	<u>2016</u>
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.

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. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based upon the existence or absence of donor-imposed restrictions. Additional endowment funds consist of assets designated by the Board of Directors which are held in investment accounts. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based upon the existence or absence of donor-imposed restrictions.

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 FINANCIAL STATEMENTS (Continued)
June 30, 2017 and 2016

NOTE 6 – NET ASSETS (Continued)

Endowment Net Asset Composition by Type of Fund as of June 30, 2017:

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 18,916	\$ 18,310	\$ 500,000	\$ 537,226
Investment return:				
Net appreciation (realized and unrealized)	<u>2,038</u>	<u>36,440</u>	<u>-</u>	<u>38,478</u>
Endowment net assets, end of year	<u>\$ 20,954</u>	<u>\$ 54,750</u>	<u>\$ 500,000</u>	<u>\$ 575,704</u>

Endowment Net Asset Composition by Type of Fund as of June 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board designated endowment fund	\$ 18,916	\$ -	\$ -	\$ 18,916
Donor restricted endowment funds	<u>-</u>	<u>18,310</u>	<u>500,000</u>	<u>518,310</u>
Total endowment	<u>\$ 18,916</u>	<u>\$ 18,310</u>	<u>\$ 500,000</u>	<u>\$ 537,226</u>

FIRST STEPS, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2017 and 2016

NOTE 6 – NET ASSETS (Continued)

Changes in Endowment Net Assets for the fiscal year ended June 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 19,277	\$ 67,925	\$ 500,000	\$ 587,202
Withdrawal	-	(43,618)	-	(43,618)
Investment return:				
Net depreciation (realized and unrealized)	(361)	(5,997)	-	(6,358)
Endowment net assets, end of year	<u>\$ 18,916</u>	<u>\$ 18,310</u>	<u>\$ 500,000</u>	<u>\$ 537,226</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.

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 7 – PENSION PLAN

Effective July 1, 2011, the Organization instituted a 401(k) profit sharing 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. Retirement expense for the years ended June 30, 2017 and 2016 was \$19,583 and \$18,005, respectively.

FIRST STEPS, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2017 and 2016

NOTE 8 – CONCENTRATIONS

The Organization receives a significant amount of its support through grants from the Tennessee Department of Education (“ED”). In 2017 and 2016, the ED funding accounted for approximately 38% 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 \$176,015 and \$136,619 at June 30, 2017 and 2016, 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 2017 and 2016, the Organization had cash deposits in excess of federally insured limits.

NOTE 9 – OPERATING LEASE COMMITMENTS

During fiscal years 2017 and 2016, the Organization maintained lease agreements accounted for as operating leases. Rent expense for the years ended June 30, 2017 and 2016 was \$40,951 and \$44,282, 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, 2017 are as follows:

Year ended <u>June 30,</u>	
2018	\$ 15,424
2019	14,773
2020	351
2021	-
2022	-
	<hr/>
	<u>\$ 30,548</u>