FIRST STEPS, INC.

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

As of and for the Years Ended June 30, 2022 and 2021

And Report of Independent Auditor

Cherry Bekaert LLP
Your Guide Forward

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FIRST STEPS, INC.
ROSTER OF BOARD OF DIRECTORS AND EXECUTIVE STAFF

JUNE 30, 2022

Board of Directors

Emily Childers	President
Kristy Frazier	Secretary
Abhay Karandikar	Treasurer
Bahar Azhdari	Board Member
Stuart Burkhalter	Board Member
Hank Clay	Board Member
Meredith Collins	Board Member
Jay Davis	Board Member
Matt Eskind	Board Member
Christy Farrell	Board Member
Ryan Keith	Board Member
Ben Lemly	Board Member
Kathy Medlin	Board Member
Harlow Sumerford	Board Member
Drew Weiskopf	Board Member

Executive Staff

Heather Higgins	Executive Director
Kelli Jo Hazen	Director of Operations
Karla Garig	Director of Finance
Tabitha Hadlow	Center Director
Rosario Langlois	Outreach Program Director
Suzanne Satterfield	Therapy Program Director

Cherry Bekaert LLP
Your Guide Forward

Report of Independent Auditor

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the First Steps, Inc. (the "Organization") (a nonprofit organization), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore. is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

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

Supplementary 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 schedule of expenditures of federal awards and state financial assistance 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 11, 2022, on our consideration of the Organization'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 the Organization's internal control over financial reporting and compliance.

Cherry Bekaert LLP

Nashville, Tennessee
October 11, 2022

FIRST STEPS, INC.
STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2022 AND 2021

	2022	2021
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 851,892	$ 679,759
Accounts and grants receivable, net	270,173	241,101
Prepaid expenses	4,354	15,593
Total Current Assets	1,126,419	936,453
Land, Buildings, and Equipment:		
Land	200,000	200,000
Buildings and improvements	2,364,477	2,364,477
Furniture and equipment	31,557	22,558
	2,596,034	2,587,035
Less accumulated depreciation	(748,031)	(682,506)
Land, Buildings, and Equipment, net	1,848,003	1,904,529
Beneficial interest in assets at Community Foundation of Middle Tennessee	26,283	29,831
Investments, net of donor restricted endowment funds	398,777	469,459
Investments, donor restricted endowment funds	633,227	745,255
Total Assets	$ 4,032,709	$ 4,085,527
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	$ 39,987	$ 37,914
Accrued salaries and benefits	70,260	73,147
Deferred revenue	22,500	5,702
Note payable, current portion	52,381	49,847
Total Current Liabilities	185,128	166,610
Note payable, net of current portion	235,392	287,512
Total Liabilities	420,520	454,122
Net Assets:		
Without Donor Restrictions:		
Undesignated	2,937,866	2,855,242
Board designated	26,283	29,831
Total Net Assets Without Donor Restrictions	2,964,149	2,885,073
With Donor Restrictions	648,040	746,332
Total Net Assets	3,612,189	3,631,405
Total Liabilities and Net Assets	$ 4,032,709	$ 4,085,527

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

FIRST STEPS, INC.
STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Public Support and Revenue:			
Department of Intellectual & Developmental Disabilities contracts and grants	$ 926,677	$ -	$ 926,677
Program service fees	1,064,230	-	1,064,230
Therapy service fees	385,093	-	385,093
Contributions	447,958	14,813	462,771
United Way	123,884	-	123,884
Other (including $1,081 in-kind)	29,744	-	29,744
Special events	4,884	-	4,884
Investment returns	(70,682)	(112,028)	(182,710)
Change in beneficial interest in assets held by others	(3,548)	-	(3,548)
Net assets released from restrictions	1,077	(1,077)	-
Total Public Support and Revenue	2,909,317	(98,292)	2,811,025
Expenses:			
Program services	2,456,521	-	2,456,521
Supporting services	236,158	-	236,158
Fundraising	137,562	-	137,562
Total Expenses	2,830,241	-	2,830,241
Change in net assets	79,076	(98,292)	(19,216)
Net assets, beginning of year	2,885,073	746,332	3,631,405
Net assets, end of year	$ 2,964,149	$ 648,040	$ 3,612,189

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
United Way	140,520	-	140,520
Special events (including $5,000 in-kind)	56,367	-	56,367
Other	163,486	-	163,486
Investment returns	91,120	144,266	235,386
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	3,315,076	131,650	3,446,726
Expenses:			
Program services	2,469,722	-	2,469,722
Supporting services	200,997	-	200,997
Fundraising	106,685	-	106,685
Total Expenses	2,777,404	-	2,777,404
Change in net assets	537,672	131,650	669,322
Net assets, beginning of year	2,347,401	614,682	2,962,083
Net assets, end of year	$ 2,885,073	$ 746,332	$ 3,631,405

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, 2022

	Program Services	Supporting Services	Fundraising	Total
Salaries	$ 1,502,740	$ 151,772	$ 121,090	$ 1,775,602
Employee benefits	205,236	15,631	14,051	234,918
Total Salaries and Employee Benefits	1,707,976	167,403	135,141	2,010,520
Professional services	271,731	5,093	-	276,824
Occupancy	136,606	8,821	-	145,427
Maintenance	56,914	11,856	-	68,770
Supplies (including $1,081 in-kind)	60,602	6,556	-	67,158
Miscellaneous	53,249	3,445	-	56,694
Communications	38,956	8,586	-	47,542
Insurance	26,648	1,739	-	28,387
Conferences	14,519	13,371	-	27,890
Interest	14,801	945	-	15,746
Travel	9,357	-	-	9,357
Dues	2,758	4,350	-	7,108
Special events expenses (rental, postage)	-	-	2,421	2,421
Licenses	810	61	-	871
Total Expenses Before Depreciation	2,394,927	232,226	137,562	2,764,715
Depreciation	61,594	3,932	-	65,526
Total Expenses	$ 2,456,521	$ 236,158	$ 137,562	$ 2,830,241

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
Occupancy	104,128	9,975	-	114,103
Maintenance	56,968	9,046	-	66,014
Supplies	72,154	4,826	-	76,980
Miscellaneous	31,776	2,380	-	34,156
Communications	31,729	19,765	-	51,494
Insurance	24,170	1,802	-	25,972
Conferences	10,974	561	-	11,535
Interest	16,641	1,447	-	18,088
Travel	9	-	-	9
Dues	2,610	3,722	-	6,332
Special events expenses (rental, postage) (including $5,000 in-kind)	-	-	26,020	26,020
Licenses	959	310	-	1,269
Total Expenses Before Depreciation	2,409,162	195,731	106,685	2,711,578
Depreciation	60,560	5,266	-	65,826
Total Expenses	$ 2,469,722	$ 200,997	$ 106,685	$ 2,777,404

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, 2022 AND 2021

	2022	2021
Cash flows from operating activities:		
Change in net assets	$ (19,216)	$ 669,322
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	65,526	65,826
Realized and unrealized losses (gains) on investments, net	186,081	(234,127)
Beneficial interest in assets held at Community Foundation of Middle Tennessee	3,548	(5,624)
Changes in operating assets and liabilities:		
Accounts and grants receivable	(29,072)	26,145
Prepaid expenses	11,239	(1,609)
Accounts payable	2,073	18,777
Accrued salaries and benefits	(2,887)	(59,235)
Deferred revenue	16,798	(4,597)
Deferred grant revenue	-	(370,235)
Net cash flows from operating activities	234,090	104,643
Cash flows from investing activities:		
Proceeds from sale of investments	22,416	124,136
Purchase of investments	(25,787)	(125,395)
Purchase of property and equipment	(9,000)	(8,933)
Net cash flows from investing activities	(12,371)	(10,192)
Cash flows from financing activities:		
Payments on note payable	(49,586)	(47,245)
Net cash flows from financing activities	(49,586)	(47,245)
Net change in cash and cash equivalents	172,133	47,206
Cash and cash equivalents, beginning of year	679,759	632,553
Cash and cash equivalents, end of year	$ 851,892	$ 679,759
Supplemental cash flow information:		
Cash paid during the year for interest	$ 15,746	$ 18,088

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

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 $3,359 and $-0- is recorded at June 30, 2022 and 2021, 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 to 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.

Note 1—Nature of operations and 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 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, 2020 through June 30, 2022.

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.

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

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, 2022 or 2021. Additionally, the Organization has not recognized any tax related interest and penalties in the accompanying financial statements.

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.

In September 2020, FASB issued ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This ASU requires not-for-profit entities to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets. In addition, for each category of contributed nonfinancial assets recognized, certain additional disclosures are required. This standard is effective for the year ending June 30, 2022 and had an immaterial effect on the Organization's financial statements upon adoption. Generally, the Organization has recognized the contribution of professional services and supplies at market value. Such items have been maintained for use with the children. There have been no donor restrictions placed on such contributions.

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).

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

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, supporting services and fundraising 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.

Revenue Recognition – The Organization follows FASB Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)* for recognizing revenue. 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 the related services are rendered.

Contract Balances – Net accounts receivable for program and therapy service fees were $48,872 and $59,230 as of June 30, 2022 and 2021, respectively. Deferred revenue for program and therapy service fees was $7,500 and $5,702 as of June 30, 2022 and 2021, 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 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 $3,359 and $-0-, respectively, at June 30, 2022 and 2021.

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 the result will not be materially different from the consideration of each individual contract.

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

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.

Reclassifications – Certain reclassifications have been made to 2021 balances to conform to 2022 presentation.

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 11, 2022, when these financial statements were available to be issued.

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:

	2022	2021
Financial assets at year-end:		
Cash and cash equivalents	$ 851,892	$ 679,759
Accounts receivable	270,173	241,101
Investments, net of donor restricted endowment funds	398,777	469,459
Investments, donor restricted endowment funds	633,227	745,255
Less amounts not available to be used within one year:		
Net assets subject to restrictions	(648,040)	(746,332)
Financial assets available to meet cash needs for general expenditures within one year:	$ 1,506,029	$ 1,389,242

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 8).

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, 2022:

	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investments in securities:				
Money market funds	$ 29,972	$ 29,972	$ -	$ -
Fixed income investments - domestic	366,359	35,443	330,916	-
Equity investments:				
Small/Mid Cap U.S. Equity fund	80,723	80,723	-	-
Large Cap U.S. Equity fund	359,952	234,431	125,521	-
International Equity fund	194,998	-	194,998	-
Total investment in securities	$ 1,032,004	$ 380,569	$ 651,435	$ -

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:

	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
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	247,472	-	247,472	-
Total Investment in Securities	$ 1,214,714	$ 438,887	$ 775,827	$ -

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

	2022	2021
Interest and dividends, net of investment fees	$ 3,371	$ 1,259
Net realized and unrealized gains (losses)	(186,081)	234,127
Investment returns	$ (182,710)	$ 235,386

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, 2022, 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, 2022) are due monthly. The line of credit matures on November 30, 2022. No borrowings were outstanding at June 30, 2022 or 2021.

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 $287,773 and $337,359 at June 30, 2022 and 2021, respectively. The note is collateralized by land and building.

Interest expense for the years ended June 30, 2022 and 2021 was $15,746 and $18,088, respectively.

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

Years Ending June 30,	
2023	$ 52,381
2024	55,016
2025	57,839
2026	60,779
2027	61,758
Total principal maturities	287,773
Less current portion	(52,381)
Long-term portion	$ 235,392

Note 7—CARES Act Funding

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.

Note 8—Net assets with donor restrictions

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

	2022	2021
Subject to expenditure for specified purpose:		
Programs in the coming year	$ 14,813	$ 1,077
Investment earnings on endowment	133,227	245,255
Subject to endowment spending policy and appropriation:		
General endowment	500,000	500,000
	$ 648,040	$ 746,332

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, 2022 and 2021, 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.

Endowment net assets composition by type of fund as of June 30, 2022:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment fund	$ 26,283	$ -	$ 26,283
Donor-restricted endowment funds	-	633,227	633,227
Total endowment	$ 26,283	$ 633,227	$ 659,510

Note 9—Endowment (continued)

Changes in endowment net assets for the fiscal year ended June 30, 2022:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 29,831	$ 745,255	$ 775,086
Investment return, net	(3,548)	(112,028)	(115,576)
Endowment net assets, end of year	$ 26,283	$ 633,227	$ 659,510

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	$ 29,831	$ 745,255	$ 775,086

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	$ 29,831	$ 745,255	$ 775,086

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 that allows for distributing annually 0% to 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, 2022 and 2021, were $17,901 and $17,570, 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 2022 and 2021, the ED and DIDD funding accounted for approximately 33% and 30%, 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 $221,301 and $168,272 at June 30, 2022 and 2021, respectively.

Financial instruments that potentially subject the Organization to credit risk consist principally of cash and cash equivalents, and investments. At times during 2022 and 2021, the Organization had cash deposits in excess of federally insured limits.

Note 12—Operating lease commitments

During fiscal years 2022 and 2021, the Organization maintained lease agreements accounted for as operating leases. Rent expense for the years ended June 30, 2022 and 2021, was $11,444 and $12,448, 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, 2022 are as follows:

Years Ending June 30,	
2023	$ 10,633
2024	10,196
2025	9,585
2026	6,789
	$ 37,203

SUPPLEMENTARY INFORMATION

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

YEAR ENDED JUNE 30, 2022

Grant Description	Assistance Number	Contract Number	Expenditures	Receivable June 30, 2022
Federal Awards:				
U.S. Department of Intellectual & Developmental Disabilities				
Passed through State of Tennessee, Department of Intellectual & Developmental Disabilities				
Special Education - Grants for Infants & Families	84.181	48116	$ 266,920	$ 60,011
U.S. Department of Health and Human Services				
Passed through State of Tennessee, Department of Health and Human Services				
Child Care Disaster Relief Fund	93.489	n/a	159,051	-
Total Federal Awards			425,971	60,011
State Financial Assistance:				
State of Tennessee, Department of Intellectual & Developmental Disabilities				
TN Early Intervention System	n/a	48116	706,385	153,530
Total State of Tennessee Department of Education			706,385	153,530
State of Tennessee, Department of Human Services				
Families First Certificate Program	n/a	n/a	28,663	-
Total State of Tennessee Department of Human Services			28,663	-
Total State Financial Assistance			735,048	153,530
Total Federal Awards and State Financial Assistance			$ 1,161,019	$ 213,541

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

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, 2022. 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 the financial statements of First Steps, Inc. (the "Organization") (a nonprofit organization), which comprise the statement of financial position as of June 30, 2022, 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 11, 2022.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting ("internal control") as a basis for designing 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 the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from 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 financial statements. 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 the organization'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.

Cherry Bekaert LLP

Nashville, Tennessee
October 11, 2022

FIRST STEPS, INC.
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS

YEAR ENDED JUNE 30, 2022

There were no prior findings reported.