

FIRST STEPS, INC.

FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES

As of and for the Years Ended June 30, 2019 and 2018

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, 2019

Board of Directors

William Caldwell
David Wedemeyer
Emily Runzo
Phil Groves
Bahar Azhdari
Stuart Burkhalter
Emily Childers
Hank Clay
Jay Davis
Matt Eskin
Kristy Frazier
Jon Harris
Julie Maloney
Kathy Medlin
Holly Poff
Harlow Sumerford
Travis Walters, MD

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

Executive Staff

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

Executive Director
Director of Operations
Director of Finance
Center Director, through 5/2019
Center Director, effective 6/2019
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, 2019 and 2018, 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, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Changes in Financial Statement Presentation

As discussed in Note 1, First Steps, Inc. adopted Financial Accounting Standards Board (FASB) Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements for Not-for-Profit Entities*. The ASU has been applied retrospectively to all years presented in the financial statements. Our opinion is not modified with respect to this matter.

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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2019, 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 Bekant LLP

Nashville, Tennessee
October 14, 2019

FIRST STEPS, INC.
STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2019 AND 2018

	2019	2018
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 345,134	\$ 168,819
Accounts and grants receivable, net	251,839	375,119
Contributions receivable	-	980
Prepaid expenses	17,243	6,088
Total Current Assets	<u>614,216</u>	<u>551,006</u>
Land, Buildings, and Equipment:		
Land	200,000	200,000
Buildings and improvements	2,265,314	2,265,314
Furniture and equipment	16,336	16,336
	<u>2,481,650</u>	<u>2,481,650</u>
Less accumulated depreciation	<u>(564,949)</u>	<u>(502,981)</u>
Land, Buildings, and Equipment, net	<u>1,916,701</u>	<u>1,978,669</u>
Beneficial interest in assets at Community		
Foundation of Middle Tennessee	23,560	22,402
Investments, net of donor restricted endowment funds	377,901	366,432
Investments, donor restricted endowment funds	600,282	582,326
Total Assets	<u><u>\$ 3,532,660</u></u>	<u><u>\$ 3,500,835</u></u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 41,053	\$ 29,639
Accrued salaries and benefits	116,103	108,460
Deferred revenue	23,946	13,000
Note payable, current portion	45,089	42,961
Total Current Liabilities	<u>226,191</u>	<u>194,060</u>
Note payable, net of current portion	<u>384,381</u>	<u>429,262</u>
Total Liabilities	<u>610,572</u>	<u>623,322</u>
Net Assets:		
Without donor restrictions:		
Undesignated	2,298,246	2,258,858
Board designated	23,560	22,402
Total net assets without donor restrictions	<u>2,321,806</u>	<u>2,281,260</u>
With donor restrictions	<u>600,282</u>	<u>596,253</u>
Total Net Assets	<u>2,922,088</u>	<u>2,877,513</u>
Total Liabilities and Net Assets	<u><u>\$ 3,532,660</u></u>	<u><u>\$ 3,500,835</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, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Public Support and Revenue:			
Department of Education contracts and grants	\$ 1,018,857	\$ -	\$ 1,018,857
Program service fees	840,606	-	840,606
Therapy service fees	303,958	-	303,958
Contributions	185,037	-	185,037
United Way	126,239	-	126,239
Investment returns	11,581	17,956	29,537
Special events (including \$2,880 in-kind)	76,522	-	76,522
Other	8,445	-	8,445
Change in beneficial interest in assets held by others	1,158	-	1,158
Net assets released from restrictions	13,927	(13,927)	-
Total Public Support and Revenue	<u>2,586,330</u>	<u>4,029</u>	<u>2,590,359</u>
Expenses:			
Program services	2,276,023	-	2,276,023
Supporting services	152,896	-	152,896
Fundraising	116,865	-	116,865
Total Expenses	<u>2,545,784</u>	<u>-</u>	<u>2,545,784</u>
Change in net assets	40,546	4,029	44,575
Net assets, beginning of year	<u>2,281,260</u>	<u>596,253</u>	<u>2,877,513</u>
Net assets, end of year	<u>\$ 2,321,806</u>	<u>\$ 600,282</u>	<u>\$ 2,922,088</u>

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

FIRST STEPS, INC.
STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Public Support and Revenue:			
Department of Education contracts and grants	\$ 1,050,334	\$ -	\$ 1,050,334
Program service fees	825,818	-	825,818
Therapy service fees	315,381	-	315,381
Contributions	245,001	12,822	257,823
United Way	126,277	-	126,277
Investment returns	17,281	27,576	44,857
Special events (including \$1,980 in-kind)	42,682	-	42,682
Other	11,871	-	11,871
In-kind contribution	600	-	600
Change in beneficial interest in assets held by others	1,448	-	1,448
Net assets released from restrictions	19,089	(19,089)	-
Total Public Support and Revenue	<u>2,655,782</u>	<u>21,309</u>	<u>2,677,091</u>
Expenses:			
Program services	2,314,849	-	2,314,849
Supporting services	142,808	-	142,808
Fundraising	122,675	-	122,675
Total Expenses	<u>2,580,332</u>	<u>-</u>	<u>2,580,332</u>
Change in net assets	75,450	21,309	96,759
Net assets, beginning of year	<u>2,205,810</u>	<u>574,944</u>	<u>2,780,754</u>
Net assets, end of year	<u>\$ 2,281,260</u>	<u>\$ 596,253</u>	<u>\$ 2,877,513</u>

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

FIRST STEPS, INC.**STATEMENT OF FUNCTIONAL EXPENSES***YEAR ENDED JUNE 30, 2019*

	Program Services	Supporting Services	Fundraising	Total
Salaries	\$ 1,444,561	\$ 95,655	\$ 79,946	\$ 1,620,162
Employee benefits	205,792	13,176	10,640	229,608
Total Salaries and Employee Benefits	1,650,353	108,831	90,586	1,849,770
Professional services	242,540	2,233	-	244,773
Occupancy	51,687	5,174	-	56,861
Utilities	41,359	4,090	-	45,449
Maintenance	40,629	7,735	-	48,364
Travel	40,495	10	-	40,505
Supplies	30,013	2,335	-	32,348
Miscellaneous	30,531	1,375	-	31,906
Communications	18,593	4,130	-	22,723
Interest	20,547	2,032	-	22,579
Special events expenses (rental, postage) (including \$2,880 in-kind)	-	-	26,279	26,279
Conferences	18,107	2,048	-	20,155
Insurance	17,168	1,698	-	18,866
Food	9,189	-	-	9,189
Dues	2,210	4,329	-	6,539
Bad debts	5,306	884	-	6,190
Licenses	905	415	-	1,320
Total Expenses Before Depreciation	2,219,632	147,319	116,865	2,483,816
Depreciation	56,391	5,577	-	61,968
Total Expenses	<u>\$ 2,276,023</u>	<u>\$ 152,896</u>	<u>\$ 116,865</u>	<u>\$ 2,545,784</u>

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

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

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

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

FIRST STEPS, INC.
STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ 44,575	\$ 96,759
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	61,968	62,072
Loss on disposal of property and equipment	-	1,931
Realized and unrealized gains on investments, net	(6,958)	(9,178)
Beneficial interest in assets held at Community Foundation of Middle Tennessee	(1,158)	(1,448)
Changes in operating assets and liabilities:		
Accounts and grants receivable	123,280	(119,074)
Contributions receivable	980	100
Prepaid expenses	(11,155)	(1,359)
Accounts payable	11,414	6,803
Accrued salaries and benefits	7,643	(9,932)
Deferred revenue	10,946	5,600
Net cash provided by operating activities	<u>241,535</u>	<u>32,274</u>
Cash flows from investing activities:		
Proceeds from sale of investments	7,743	272,955
Purchase of investments	(30,210)	(308,581)
Purchase of property and equipment	-	(4,000)
Net cash used in investing activities	<u>(22,467)</u>	<u>(39,626)</u>
Cash flows from financing activities:		
Payments on note payable	<u>(42,753)</u>	<u>(40,689)</u>
Net cash used in financing activities	<u>(42,753)</u>	<u>(40,689)</u>
Net increase (decrease) in cash and cash equivalents	176,315	(48,041)
Cash and cash equivalents, beginning of year	<u>168,819</u>	<u>216,860</u>
Cash and cash equivalents, end of year	<u><u>\$ 345,134</u></u>	<u><u>\$ 168,819</u></u>
Supplemental cash flow information:		
Cash paid during the year for interest	<u><u>\$ 22,579</u></u>	<u><u>\$ 24,643</u></u>

FIRST STEPS, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

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 \$23,194 and \$17,757 is recorded at June 30, 2019 and 2018, 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, 2019 AND 2018

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, 2017 through June 30, 2019.

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, and the Organization is classified as an organization that is not a private foundation as defined in Section 509(a) of the Internal Revenue Code. Therefore, no provision for federal income taxes is included in the accompanying financial statements.

The Organization follows Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") guidance concerning the accounting for income taxes recognized in an entity's financial statements. This guidance prescribes a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. The Organization does not believe there are any uncertain tax positions at June 30, 2019 and 2018. 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, 2019 AND 2018

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. 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 8).

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.

Change in Accounting Principle – In August 2016, the FASB issued Accounting Standards Update (“ASU”) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The ASU has been adopted during 2019 and retrospectively applied to 2018.

FIRST STEPS, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

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

Forthcoming Accounting Pronouncements – In May 2014, the FASB issued 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, 2020. The Organization is currently evaluating the effect of the implementation of this new standard.

In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. This guidance revises accounting related to (1) the classification and measurement of investments in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. It also amends certain disclosure requirements associated with the fair value of financial instruments. This guidance is effective for the year ending June 30, 2020. The Organization is evaluating the impact this guidance may have on its financial statements.

In February 2016, the 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, 2021. The Organization is evaluating the impact this guidance may have on its financial statements.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The guidance in this ASU clarifies the accounting guidance for contributions received and contributions made. The amendments in this ASU will assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, *Not-for-Profit Entities*, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. This guidance is effective for the year ending June 30, 2020. The Organization is evaluating the impact of this standard on its financial statements.

Subsequent Events – The Organization evaluated subsequent events through October 14, 2019, when these financial statements were available to be issued.

Note 2—Liquidity and availability

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.

FIRST STEPS, INC.**NOTES TO THE FINANCIAL STATEMENTS***JUNE 30, 2019 AND 2018***Note 2—Liquidity and availability (continued)**

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:

	2019	2018
Financial assets at year-end:		
Cash and cash equivalents	\$ 345,134	\$ 168,819
Accounts receivable	251,839	375,119
Contributions receivable	-	980
Investments, net of donor restricted endowment funds	377,901	366,432
Investments, donor restricted endowment funds	600,282	582,326
Less amounts not available to be used within one year:		
Net assets subject to restrictions	<u>(600,282)</u>	<u>(596,253)</u>
Financial assets available to meet cash needs for general expenditures within one year:	<u><u>\$ 974,874</u></u>	<u><u>\$ 897,423</u></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 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, 2019:

	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investments in securities:				
Money market funds	\$ 26,497	\$ 26,497	\$ -	\$ -
Fixed income investments-domestic	289,477	55,697	233,780	-
Equity Investments:				
Small/Mid Cap U.S. Equity fund	56,308	56,308	-	-
Large Cap U.S. Equity fund	232,197	142,090	90,107	-
International Equity fund	212,408	-	212,408	-
Master Ltd Partnership funds	54,219	54,219	-	-
Multi-Strategy Alternative funds	107,077	-	107,077	-
Total Investment in Securities	<u><u>\$ 978,183</u></u>	<u><u>\$ 334,811</u></u>	<u><u>\$ 643,372</u></u>	<u><u>\$ -</u></u>

FIRST STEPS, INC.
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

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, 2018:

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

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

	<u>2019</u>	<u>2018</u>
Interest and dividends, net of investment fees	\$ 22,579	\$ 35,679
Net realized and unrealized gains	6,958	9,178
Investment returns	<u>\$ 29,537</u>	<u>\$ 44,857</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, 2019, 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% (7.0% at June 30, 2019) are due monthly. The line of credit matures on November 30, 2020. No borrowings were outstanding at June 30, 2019 and 2018.

FIRST STEPS, INC.
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

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 \$429,470 and \$472,223 at June 30, 2019 and 2018, respectively. The note is collateralized by land and building.

Interest expense for the years ended June 30, 2019 and 2018 was \$22,579 and \$24,643, respectively.

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

Years Ending June 30,

2020	\$ 45,089
2021	47,436
2022	49,847
2023	52,381
2024	55,016
Thereafter	179,701
Total principal maturities	429,470
Less current portion	(45,089)
Long-Term Portion	<u>\$ 384,381</u>

Note 7—Net assets

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

	<u>2019</u>	<u>2018</u>
Subject to expenditure for specified purpose:		
Capital campaign and other pledges	\$ -	\$ 980
Programs in the coming year	-	12,947
Investment earnings on endowment	100,282	82,326
Subject to endowment spending policy and appropriation:		
General endowment	500,000	500,000
	<u>\$ 600,282</u>	<u>\$ 596,253</u>

Note 8—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.

FIRST STEPS, INC.
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

Note 8—Endowment (continued)

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, 2019 and 2018, 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 us 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, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Board designated endowment fund	\$ 23,560	\$ -	\$ 23,560
Donor restricted endowment funds	-	600,282	600,282
Total Endowment	<u>\$ 23,560</u>	<u>\$ 600,282</u>	<u>\$ 623,842</u>

Changes in endowment net assets for the fiscal year ended June 30, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 22,402	\$ 582,326	\$ 604,728
Investment return, net	1,158	17,956	19,114
Endowment net assets, end of year	<u>\$ 23,560</u>	<u>\$ 600,282</u>	<u>\$ 623,842</u>

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

	Without Donor Restrictions	With Donor Restrictions	Total
Board designated endowment fund	\$ 22,402	\$ -	\$ 22,402
Donor restricted endowment funds	-	582,326	582,326
Total Endowment	<u>\$ 22,402</u>	<u>\$ 582,326</u>	<u>\$ 604,728</u>

FIRST STEPS, INC.
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

Note 8—Endowment (continued)

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

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 20,954	\$ 554,750	\$ 575,704
Investment return, net	1,448	27,576	29,024
Endowment net assets, end of year	<u>\$ 22,402</u>	<u>\$ 582,326</u>	<u>\$ 604,728</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 9—Pension plan

Effective July 1, 2011, the Organization instituted a 401(k) profit sharing plan (the “Plan”) covering all personnel who are at least 21 years old and performed services for the Organization for at least three months. The Organization makes matching contributions equal to 100% of the salary reduction contributions made by employees up to 2% of employees’ compensation. Plan expenses for the years ended June 30, 2019 and 2018, were \$14,137 and \$18,306, respectively.

Note 10—Concentrations

The Organization receives a significant amount of its support through grants from the Tennessee Department of Education (“ED”). In 2019 and 2018, the ED funding accounted for approximately 39% 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 \$182,022 and \$293,968 at June 30, 2019 and 2018, 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 2019 and 2018, the Organization had cash deposits in excess of federally insured limits.

FIRST STEPS, INC.**NOTES TO THE FINANCIAL STATEMENTS***JUNE 30, 2019 AND 2018*

Note 11—Operating lease commitments

During fiscal years 2019 and 2018, the Organization maintained lease agreements accounted for as operating leases. Rent expense for the years ended June 30, 2019 and 2018, was \$12,784 and \$14,528, 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, 2019 are as follows:

Years Ending June 30,

2020	\$	12,799
2021		12,448
2022		8,648
2023		1,048
2024		349
	\$	<u>35,292</u>

SUPPLEMENTAL SCHEDULES

FIRST STEPS, INC.**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND
STATE FINANCIAL ASSISTANCE***YEAR ENDED JUNE 30, 2019*

Grant Description	CFDA Number	Contract Number	Expenditures	Receivable June 30, 2019
Federal Awards:				
<u>U.S. Department of Education</u>				
<i>Passed through State of Tennessee, Department of Education</i>				
Special Education - Grants for Infants & Families	84.181	48116	\$ 334,360	\$ 106,062
Total Federal Awards			<u>334,360</u>	<u>106,062</u>
State Financial Assistance:				
<i>State of Tennessee, Department of Education</i>				
TN Early Intervention System	n/a	48116	<u>708,541</u>	<u>108,025</u>
Total State of Tennessee Department of Education			<u>708,541</u>	<u>108,025</u>
<i>State of Tennessee, Department of Human Services</i>				
Families First Certificate Program	n/a	n/a	<u>7,820</u>	<u>492</u>
Total State of Tennessee Department of Human Services			<u>7,820</u>	<u>492</u>
Total State Financial Assistance			<u>716,361</u>	<u>108,517</u>
Total Federal Awards and State Financial Assistance			<u>\$ 1,050,721</u>	<u>\$ 214,579</u>

FIRST STEPS, INC.**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND
STATE FINANCIAL ASSISTANCE***JUNE 30, 2019*

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, 2019. The Schedule is presented using the accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of the state of Tennessee Audit Manual for Auditing, Accounting, and Reporting for Local Government Units and Other Organizations.

Note 2—Summary of significant accounting policies

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

**Independent Auditor's Report 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, 2019, 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 14, 2019.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Cheng Bekant LLP

Nashville, Tennessee
October 14, 2019

FIRST STEPS, INC.

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS

YEAR ENDED JUNE 30, 2019

There were no prior findings reported.