

First Steps, Inc.

Annual Financial Report
For the Years Ended June 30, 2023 and 2022

First Steps, Inc.
Financial Statements
For the Years Ended June 30, 2023 and 2022

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First Steps, Inc.
Roster of Officials
As of June 30, 2023

Board of Directors

Emily Childers	President
Abhay Karandikar	Treasurer
Kristy Frazier	Secretary
Hank Clay	Director
Jay Davis	Director
Jacqueline Dixon	Director
Matt Eskind	Director
Christy Farrell	Director
Ryan Keith	Director
Benjamin Lemly	Director
Catherine "Kates" Snyder	Director
Megan Kelly	Director
Schaefer Rowe	Director
Harlow Sumerford	Director
Drew Weiskopf	Director

Executive Staff

Heather Higgins	Executive Director
Karla Garig	Director of Finance
Erica Wendt	Director of Programs
Beverly Grant	Director of Philanthropy



Independent Auditor's Report

Board of Directors
First Steps, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of First Steps, Inc. (the Organization), which comprise the statement of financial position as of June 30, 2023, the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of June 30, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). 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 audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matter

The financial statements of the Organization, as of and for the year ended June 30, 2022, were audited by other auditors, whose report, dated October 11, 2022, expressed an unmodified opinion on those statements.

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 that the financial statements are issued or 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 GAAS 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 GAAS 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 audit.

Supplementary Information

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

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the roster of officials but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2023, 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 the Organization's 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 Organization's internal control over financial reporting and compliance.

Blankenship CPA Group, PLLC

Blankenship CPA Group, PLLC
Nashville, Tennessee
October 20, 2023

First Steps, Inc.
Statements of Financial Position
June 30, 2023 and 2022

	2023	2022
Assets		
Current assets		
Cash and cash equivalents	\$ 1,116,463	\$ 851,892
Accounts receivable, net	239,468	270,173
Prepaid expenses	<u>4,572</u>	<u>4,354</u>
Total current assets	1,360,503	1,126,419
Land, buildings, and equipment		
Land	200,000	200,000
Building and improvements	2,364,477	2,364,477
Furniture and equipment	36,310	31,557
Accumulated depreciation	<u>(816,383)</u>	<u>(748,031)</u>
Land, buildings, and equipment, net	1,784,404	1,848,003
Beneficial interest in assets at Community		
Foundation of Middle Tennessee	28,444	26,283
Investments, net of donor restricted endowment funds	436,733	398,777
Investments, donor restricted endowment funds	<u>693,094</u>	<u>633,227</u>
Total assets	\$ 4,303,178	\$ 4,032,709
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 90,644	\$ 39,987
Accrued salaries and benefits	96,408	70,260
Deferred revenue	6,000	22,500
Note payable, current portion	<u>55,016</u>	<u>52,381</u>
Total current liabilities	248,068	185,128
Note payable, net of current portion	<u>180,655</u>	<u>235,392</u>
Total liabilities	428,723	420,520
Net assets		
Without donor restrictions		
Undesignated	3,152,917	2,937,866
Board designated	<u>28,444</u>	<u>26,283</u>
Total net assets without donor restrictions	3,181,361	2,964,149
With donor restrictions	<u>693,094</u>	<u>648,040</u>
Total net assets	<u>3,874,455</u>	<u>3,612,189</u>
Total liabilities and net assets	\$ 4,303,178	\$ 4,032,709

First Steps, Inc.
Statement of Activities
For the Year Ended June 30, 2023

	Without donor restrictions	With donor restrictions	Total
Public Support and Revenues			
Contributions of cash and other financial assets			
Department of Intellectual and Development			
Disabilities contracts and grants	\$ 1,086,576	\$ -	\$ 1,086,576
General contributions	461,990	-	461,990
United Way	137,045	-	137,045
Program service fees	1,096,856	-	1,096,856
Therapy service fees	455,779	-	455,779
Investment returns	37,956	59,867	97,823
Special events	43,935	-	43,935
Change in beneficial interest in assets held by other	2,161	-	2,161
Contributions of nonfinancial assets	1,980	-	1,980
Interest income	1,244	-	1,244
Net assets released from restrictions	14,813	(14,813)	-
Total public support and revenues	<u>3,340,335</u>	<u>45,054</u>	<u>3,385,389</u>
Expenses			
Program services	2,677,365	-	2,677,365
Management and general	268,263	-	268,263
Fundraising	177,495	-	177,495
Total expenses	<u>3,123,123</u>	<u>-</u>	<u>3,123,123</u>
Change in net assets	217,212	45,054	262,266
Net assets, beginning of year	<u>2,964,149</u>	<u>648,040</u>	<u>3,612,189</u>
Net assets, end of year	<u>\$ 3,181,361</u>	<u>\$ 693,094</u>	<u>\$ 3,874,455</u>

First Steps, Inc.
Statement of Activities
For the Year Ended June 30, 2022

	Without donor restrictions	With donor restrictions	Total
Public Support and Revenues			
Contributions of cash and other financial assets			
Department of Intellectual and Development			
Disabilities contracts and grants	\$ 926,677	\$ -	\$ 926,677
General contributions	447,958	14,813	462,771
United Way	123,884	-	123,884
Program service fees	1,064,230	-	1,064,230
Therapy service fees	385,093	-	385,093
Other	28,663	-	28,663
Special events	4,884	-	4,884
Contributions of nonfinancial assets	1,081	-	1,081
Change in beneficial interest in assets held by other	(3,548)	-	(3,548)
Investment returns	(70,682)	(112,028)	(182,710)
Net assets released from restrictions	1,077	(1,077)	-
Total public support and revenues	<u>2,909,317</u>	<u>(98,292)</u>	<u>2,811,025</u>
Expenses			
Program services	2,456,521	-	2,456,521
Management and general	236,158	-	236,158
Fundraising	137,562	-	137,562
Total expenses	<u>2,830,241</u>	<u>-</u>	<u>2,830,241</u>
Change in net assets	79,076	(98,292)	(19,216)
Net assets, beginning of year	<u>2,885,073</u>	<u>746,332</u>	<u>3,631,405</u>
Net assets, end of year	\$ 2,964,149	\$ 648,040	\$ 3,612,189

First Steps, Inc.
Statement of Functional Expenses
For the Year Ended June 30, 2023

	Program services	Management and general	Fundraising	Total
Salaries	\$ 1,628,220	\$ 181,758	\$ 138,120	\$ 1,948,098
Employee benefits	<u>233,393</u>	<u>26,054</u>	<u>19,798</u>	<u>279,245</u>
Total salaries and employee benefits	1,861,613	207,812	157,918	2,227,343
Communications	45,438	8,252	-	53,690
Conference	17,125	3,571	-	20,696
Depreciation	64,251	4,101	-	68,352
Dues	2,478	5,376	-	7,854
Insurance	26,906	1,486	-	28,392
Interest	13,230	-	-	13,230
Licenses	810	61	-	871
Maintenance	56,444	13,324	-	69,768
Miscellaneous	23,749	4,860	-	28,609
Occupancy	164,262	8,768	-	173,030
Professional services	296,596	5,220	-	301,816
Special events expenses	-	-	19,577	19,577
Supplies	76,033	5,432	-	81,465
Travel	<u>28,430</u>	<u>-</u>	<u>-</u>	<u>28,430</u>
	\$ 2,677,365	\$ 268,263	\$ 177,495	\$ 3,123,123

First Steps, Inc.
Statement of Functional Expenses
For the Year Ended June 30, 2022

	Program services	Management and general	Fundraising	Total
Salaries	\$ 1,502,740	\$ 151,772	\$ 121,090	\$ 1,775,602
Employee benefits	<u>205,236</u>	<u>15,631</u>	<u>14,051</u>	<u>234,918</u>
Total salaries and employee benefits	1,707,976	167,403	135,141	2,010,520
Communications	38,956	8,586	-	47,542
Conference	14,519	13,371	-	27,890
Depreciation	61,594	3,932	-	65,526
Dues	2,758	4,350	-	7,108
Insurance	26,648	1,739	-	28,387
Interest	14,801	945	-	15,746
Licenses	810	61	-	871
Maintenance	56,914	11,856	-	68,770
Miscellaneous	53,249	3,445	-	56,694
Occupancy	136,606	8,821	-	145,427
Professional services	271,731	5,093	-	276,824
Special events expenses	-	-	2,421	2,421
Supplies	60,602	6,556	-	67,158
Travel	<u>9,357</u>	<u>-</u>	<u>-</u>	<u>9,357</u>
	\$ 2,456,521	\$ 236,158	\$ 137,562	\$ 2,830,241

First Steps, Inc.
Statements of Cash Flows
For the Years Ended June 30, 2023 and 2022

	2023	2022
Cash and cash equivalents, beginning of year	\$ 851,892	\$ 679,759
Cash flows from operating activities		
Change in net assets	262,266	(19,216)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	68,352	65,526
Unrealized (gain) loss on investments, net	(102,071)	186,081
Change in beneficial interest in assets held at Community Foundation of Middle Tennessee	(2,161)	3,548
Change in:		
Accounts receivable	30,705	(29,072)
Prepaid expenses	(218)	11,239
Accounts payable	50,657	2,073
Accrued salaries and benefits	26,148	(2,887)
Deferred revenue	<u>(16,500)</u>	<u>16,798</u>
Net cash provided (used) by operating activities	317,178	234,090
Cash flows from investing activities		
Proceeds from the sale of investments	34,399	22,416
Purchase of investments	(30,151)	(25,787)
Purchase of property and equipment	<u>(4,753)</u>	<u>(9,000)</u>
Net cash provided (used) by investing activities	(505)	(12,371)
Cash flows from financing activities		
Payments on note payable	(52,102)	(49,586)
Net change in cash and cash equivalents	<u>264,571</u>	<u>172,133</u>
Cash and cash equivalents, end of year	\$ 1,116,463	\$ 851,892
Supplemental disclosures of cash flow information		
Cash paid during the year for interest	\$ 13,230	\$ 15,746

First Steps, Inc.
Notes to Financial Statements
For the Years Ended June 30, 2023 and 2022

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 (US 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.

Use of Estimates

The preparation of financial statements in conformity with US 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.

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.

Accounts Receivables

Accounts 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 \$1,076 and \$3,359 is recorded at June 30, 2023 and 2022, respectively.

Investments

In accordance with US 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.

First Steps, Inc.
Notes to Financial Statements
For the Years Ended June 30, 2023 and 2022

Note 1. Nature of Operations and Summary of Significant Accounting Policies

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.

Investments stated at fair value consist of money market funds, mutual funds, and exchange traded funds. These fair values are determined based on Level 1 inputs.

The Organization uses net asset value (NAV) per share, or its equivalent, as a practical expedient to estimate the fair values of investments common trust funds that hold investments in a variety of investment instruments including domestic government and corporate debt and equity securities, mutual funds, limited partnerships, and foreign equity securities, which do not have readily determinable fair values. Investments that are measured at fair value using NAV per share as a practical expedient are not classified in the fair value hierarchy. The net asset value is determined by the funds' manager at the end of each month. Units are issued and redeemed only at the month-end asset value.

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.

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.

First Steps, Inc.
Notes to Financial Statements
For the Years Ended June 30, 2023 and 2022

Note 1. Nature of Operations and Summary of Significant Accounting Policies

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.

Leases (New Accounting Standard Adopted in 2022)

In February 2016, the FASB issued ASC Topic 842, *Leases*, to increase transparency and comparability among organizations related to their leasing arrangements. The update requires lessees to recognize most leases on their statements of financial position as a right-of-use (ROU) asset representing the right to use an underlying asset and a lease liability representing the obligation to make lease payments over the lease term, measured on a discounted basis. Topic 842 also requires additional disclosure of key quantitative and qualitative information for leasing arrangements. Similar to the previous lease guidance, the update retains a distinction between finance leases (similar to capital leases in Topic 840, *Leases*) and operating leases, with classification affecting the pattern of expense recognition in the income statement. The Association adopted Topic 842 on July 1, 2022, using the optional transition method to the modified retrospective approach, which eliminates the requirement to restate the prior period financial statements. Under this transition provision, the Association has applied Topic 842 to reporting periods beginning on July 1, 2022. Leases are not material to the Association's financial statements and, therefore, separate line-item presentation and additional disclosures are not presented.

Income Tax Status

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

The Organization follows Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) guidance concerning the accounting for income taxes recognized in an entity's financial statements. This guidance prescribes a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. The Organization does not believe there are any uncertain tax positions at June 30, 2023 and 2022. Additionally, the Organization has not recognized any tax related interest and penalties in the accompanying financial statements.

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.

First Steps, Inc.
Notes to Financial Statements
For the Years Ended June 30, 2023 and 2022

Note 1. Nature of Operations and Summary of Significant Accounting Policies

Advertising

Advertising costs are expensed as incurred.

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 \$44,866 and \$48,872 as of June 30, 2023 and 2022, respectively. Deferred revenue for program and therapy service fees was \$6,000 and \$7,500 as of June 30, 2023 and 2022, 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 \$1,076 and \$3,359, respectively, at June 30, 2023 and 2022.

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.

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.

First Steps, Inc.
Notes to Financial Statements
For the Years Ended June 30, 2023 and 2022

Note 1. Nature of Operations and Summary of Significant Accounting Policies

Contributions of Cash and Other Financial Assets

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.

Contributions of Nonfinancial Assets

Contributions of nonfinancial assets are reflected as contributions at their fair value at date of donation and are reported as support without donor restrictions unless explicit donor stipulations specify how donated assets must be used. Donated specialized services have been recognized in the accompanying financial statements. These donated services require professional skills, and would typically be purchased if not provided by donation.

Contributions of Nonfinancial Assets

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.

Reclassifications

Certain reclassifications have been made to 2022 balances to conform to 2023 presentation.

Note 2. Liquidity and Availability

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:

	2023	2022
Financial assets		
Cash and cash equivalents	\$ 1,116,463	\$ 851,892
Accounts receivable, net	239,468	270,173
Investments, net of donor restricted endowment funds	436,733	398,777
Investments, donor restricted endowment funds	<u>693,094</u>	<u>633,227</u>
Total financial assets at year-end	2,485,758	2,154,069
Less amounts not available to be used within one year		
Net assets subject to donor restrictions	<u>(693,094)</u>	<u>(648,040)</u>
Financial assets available to meet cash needs for general expenditures within one year	\$ 1,792,664	\$ 1,506,029

First Steps, Inc.
Notes to Financial Statements
For the Years Ended June 30, 2023 and 2022

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.

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.

Note 3. Investments

Investments consist of the following:

	2023	2022
Investments at fair value		
Money market funds	\$ 31,412	\$ 29,972
Other mutual funds	<u>409,853</u>	<u>350,597</u>
	441,265	380,569
Investments at NAV		
Common trust funds	<u>688,562</u>	<u>651,435</u>
Total investments	\$ 1,129,827	\$ 1,032,004

Investments are classified in the accompanying statements of financial position as follows:

	2023	2022
Investments, net of donor restricted endowment funds	\$ 436,733	\$ 398,777
Investments, donor restricted endowment funds	<u>\$693,094</u>	<u>\$633,227</u>
Total investments	\$ 1,129,827	\$ 1,032,004

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

	2023	2022
Interest and dividends, net of investment fees	\$ 4,589	\$ 3,371
Net realized and unrealized gains (losses)	<u>93,234</u>	<u>(186,081)</u>
Investment returns	\$ 97,823	\$ (182,710)

First Steps, Inc.
Notes to Financial Statements
For the Years Ended June 30, 2023 and 2022

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, 2023, 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% (8.00% at June 30, 2023) are due monthly. The line of credit matures on March 30, 2025. No borrowings were outstanding at June 30, 2023 and 2022.

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 \$235,671 and \$287,773 at June 30, 2023 and 2022, respectively. The note is collateralized by land and building.

Interest expense for the years ended June 30, 2023 and 2022 was \$13,230 and \$15,746, respectively.

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

Year ending June 30,		
2024	\$	55,016
2025		57,839
2026		60,779
2027		<u>62,037</u>
Total principal maturities		235,671
Less current portion		<u>(55,016)</u>
Long-term portion	\$	180,655

Note 7. Net Assets with Donor Restrictions

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

	2023	2022
Subject to expenditure for specified purpose:		
Programs in coming year	\$ -	\$ 14,813
Investment earning on endowment	193,094	133,227
Subject to endowment spending policy and appropriation:		
General endowment	<u>500,000</u>	<u>500,000</u>
	\$ 693,094	\$ 648,040

First Steps, Inc.
Notes to Financial Statements
For the Years Ended June 30, 2023 and 2022

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.

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, 2023 and 2022, 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, 2023:

	Without donor restrictions	With donor restrictions	Total
Board-designated endowment fund	\$ 28,444	\$ -	\$ 28,444
Donor-restricted endowment funds	<u>-</u>	<u>693,094</u>	<u>693,094</u>
Total endowment	\$ 28,444	\$ 693,094	\$ 721,538

Changes in endowment net assets for the fiscal year ended June 30, 2023:

	Without donor restrictions	With donor restrictions	Total
Endowment net assets, beginning of year	\$ 26,283	\$ 633,227	\$ 659,510
Investment return, net	<u>2,161</u>	<u>59,867</u>	<u>62,028</u>
Endowment net assets, end of year	\$ 28,444	\$ 693,094	\$ 721,538

First Steps, Inc.
Notes to Financial Statements
For the Years Ended June 30, 2023 and 2022

Note 8. Endowment

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	<u>-</u>	<u>633,227</u>	<u>633,227</u>
Total endowment	\$ 26,283	\$ 633,227	\$ 659,510

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	<u>(3,548)</u>	<u>(112,028)</u>	<u>(115,576)</u>
Endowment net assets, end of year	\$ 26,283	\$ 633,227	\$ 659,510

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 9. 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, 2023 and 2022, were \$15,579 and \$17,901, respectively.

First Steps, Inc.
Notes to Financial Statements
For the Years Ended June 30, 2023 and 2022

Note 10. Concentrations

The Organization receives a significant amount of its support through grants from the Tennessee Department of Intellectual and Developmental Disabilities (DIDD). In 2023 and 2022, DIDD funding accounted for approximately 33% and 33%, 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 \$194,602 and \$221,301 at June 30, 2023 and 2022, respectively.

Financial instruments that potentially subject the Organization to credit risk consist principally of cash and cash equivalents, and investments. The Organization had cash deposits in excess of federally insured limits of \$874,447 and \$658,298 at June 30, 2023 and 2022, respectively.

Note 11. Subsequent Events

Management has evaluated subsequent events through October 20, 2023, the date on which the financial statements were available for issuance.

Supplementary Information

First Steps, Inc.
Schedule of Expenditures of Federal Awards and State Financial Assistance
For the Year Ended June 30, 2023

Grantor / Pass-through Grantor	Program name	Assistance Listing Number	Contract Number	Expenditures
Federal Awards				
US Department of the Treasury / Metropolitan Government of Nashville and Davidson County / United Way of Greater Nashville	COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	21.027	n/a	\$ 12,929
US Department of Education / Tennessee Department of Intellectual and Developmental Disabilities	Special Education-Grants for Infants and Families	84.181A	34401-99243	268,844
Tennessee Department of Intellectual and Developmental Disabilities	Special Education-Grants for Infants and Families	84.181A	33195-00419	<u>81,216</u>
				350,060
Total federal awards				362,989
State Financial Assistance				
Tennessee Department of Intellectual and Development Disabilities	TN Early Intervention Services	n/a	34401-99243	726,873
Tennessee Department of Intellectual and Development Disabilities	TN Early Intervention Services	n/a	33195-00419	<u>87,982</u>
Total state financial assistance				814,855
Total federal awards and state financial assistance				\$ 1,177,844

Notes to Schedule

Note 1. Basis of Presentation

This schedule was prepared on the accrual basis of accounting in accordance with the format prescribed by the Tennessee Comptroller of the Treasury Division of Local Government Audit.

Note 2. Indirect Cost Rate

The Organization has elected to use the 10% de minimis indirect cost rate.



**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***

Board of Directors
First Steps, Inc.

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 (*Government Auditing Standards*), the financial statements First Steps, Inc. (a not-for-profit organization, the Organization), which comprise the statement of financial position as of June 30, 2023, the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements as listed in the table of contents (collectively, the financial statements), and have issued our report thereon dated October 20, 2023.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Blankenship CPA Group, PLLC

Blankenship CPA Group, PLLC
Goodlettsville, Tennessee
October 20, 2023

First Steps, Inc.
Schedule of Findings and Responses
For the Year Ended June 30, 2023

Section I. Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with US GAAP

Unmodified

Internal control over financial reporting

Material weakness identified?

No

Significant deficiency identified?

None reported

Noncompliance material to financial statements noted?

No

Section II. Financial Statement Findings

None

First Steps, Inc.
Summary Schedule of Prior Year Findings
For the Year Ended June 30, 2023

Financial Statement Findings

Finding Number	Finding Title	Status
N/A	There were no prior findings reported	N/A

Federal Award Findings and Questioned Costs

Finding Number	Finding Title	Status
N/A	There were no prior findings reported	N/A