

Audited Financial Statements

First Steps Kent

*Years ended September 30, 2011 and 2010
with Report of Independent Auditors*

First Steps Kent

Audited Financial Statements

Years ended September 30, 2011 and 2010

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Report of Independent Auditors

First Steps Kent Commission
First Steps Kent
Grand Rapids, Michigan

We have audited the accompanying statements of financial position of First Steps Kent (First Steps) as of September 30, 2011 and 2010, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of First Steps' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of First Steps' internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of First Steps Kent as of September 30, 2011 and 2010, and the changes in its net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Andrews Hooper Pavlik PLC

Grand Rapids, Michigan
January 3, 2012

First Steps Kent

Statements of Financial Position

	September 30	
	2011	2010
Assets		
Cash and cash equivalents	\$ 206,353	\$ 661,383
Contributions and grants receivable (Note 2)	2,067,157	2,524,946
Heart of West Michigan United Way (United Way) allocation receivable	164,043	218,181
Receivable from United Way (Note 7)	272,225	-
Accounts receivable	58,451	-
Furniture and equipment, less accumulated depreciation of \$20,976 in 2011 and \$7,691 in 2010	88,892	91,539
Prepaid expenses	9,442	-
Total assets	\$ 2,866,563	\$ 3,496,049
Liabilities and net assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 214,105	\$ 203,244
Payable to United Way (Note 7)	-	150,672
Total liabilities	214,105	353,916
Net assets:		
Unrestricted:		
Undesignated	214,536	1,941
Temporarily restricted (Note 5)	2,437,922	3,140,192
Total net assets	2,652,458	3,142,133
Total liabilities and net assets	\$ 2,866,563	\$ 3,496,049

See accompanying notes.

First Steps Kent

Statements of Activities

Year ended September 30, 2011

	Unrestricted	Temporarily Restricted	Total
Revenues, gains, and other support			
Contributions and grants	\$ 1,099,720	\$ 532,638	\$ 1,632,358
United Way allocation	243,991	187,425	431,416
Other revenue	69,671		69,671
Net assets released from restriction	1,422,333	(1,422,333)	-
Total revenues, gains, and other support	<u>2,835,715</u>	<u>(702,270)</u>	<u>2,133,445</u>
Expenses			
Program services:			
CHAP - Children's Healthcare Access Program	583,871		583,871
Welcome Home Baby	608,731		608,731
Great Start Collaborative and Parent Liaisons	338,875		338,875
Early Learning	286,478		286,478
Family Support Services	491,633		491,633
Total program services	<u>2,309,588</u>	-	<u>2,309,588</u>
Supporting services:			
Administration	194,854		194,854
Fundraising	118,678		118,678
Total supporting services	<u>313,532</u>	-	<u>313,532</u>
Total program and supporting services	<u>2,623,120</u>	-	<u>2,623,120</u>
Change in net assets	212,595	(702,270)	(489,675)
Net assets - beginning of year	1,941	3,140,192	3,142,133
Net assets - end of year	<u>\$ 214,536</u>	<u>\$ 2,437,922</u>	<u>\$ 2,652,458</u>

See accompanying notes.

First Steps Kent

Statements of Activities

Year ended September 30, 2010

	Unrestricted	Temporarily Restricted	Total
Revenues, gains, and other support			
Contribution received in donation from United Way (Note 7)	\$ 462,750	\$ -	\$ 462,750
Contributions and grants	1,220,303	2,922,011	4,142,314
United Way allocation	296,227	218,181	514,408
Total revenues, gains, and other support	1,979,280	3,140,192	5,119,472
Expenses			
Program services:			
CHAP - Children's Healthcare Access Program	568,137		568,137
Welcome Home Baby	311,574		311,574
Great Start Collaborative and Parent Liaisons	310,115		310,115
Early Learning	248,685		248,685
Family Support Services	192,961		192,961
Total program services	1,631,472	-	1,631,472
Supporting services:			
Administration	214,984		214,984
Fundraising	130,883		130,883
Total supporting services	345,867	-	345,867
Total program and supporting services	1,977,339	-	1,977,339
Change in net assets	1,941	3,140,192	3,142,133
Net assets - beginning of year	-	-	-
Net assets - end of year	\$ 1,941	\$ 3,140,192	\$ 3,142,133

See accompanying notes.

First Steps Kent
Statement of Functional Expenses
Year ended September 30, 2011

	Program Services					Supporting Services		Total Expenses
	CHAP Children's Healthcare Access Program	Welcome Home Baby	Great Start Collaborative and Parent Liaisons	Early Learning	Family Support Services	Administration	Fundraising	
Salaries	\$ 233,025	\$ 399,995	\$ 143,815	\$ 144,777	\$ 50,858	\$ 74,944	\$ 46,216	\$ 1,093,630
Employee health and retirement benefits	70,988	57,450	17,221	3,004	6,404	9,870	6,087	171,024
Payroll taxes and unemployment insurance	19,648	35,381	12,329	12,582	2,922	5,905	3,641	92,408
Total salaries and related expenses	323,661	492,826	173,365	160,363	60,184	90,719	55,944	1,357,062
Grants - pass through				80,448	428,720			509,168
Professional fees	19,984	5,701	2,472	636	287	24,448	15,076	68,604
Management services	1,681	4,261	5,237	2,898	784	12,306	7,589	34,756
Program evaluation - consulting	43,976	27,503	67,432		241	20,568	12,684	172,404
Program partners - consulting	117,669	1,931	15,985		135	11,550	7,122	154,392
Office supplies	1,562	3,023	1,775	2,710	32	2,705	1,667	13,474
Telephone	5,846	14,721	1,418	931	481	4,488	2,767	30,652
Postage and shipping	735	1,187	258	1,037	26	395	243	3,881
Minor equipment	209	1,633	1,120	2,030	11	969	598	6,570
Occupancy	1,056	8,500	7,537	2,244	168	14,363	8,857	42,725
Patient expenses	31,097	8,687	5,444	1,650				46,878
Medical supplies	9,882	4,793						14,675
Printing, publications, and promotion	11,026	19,101	22,169	1,707	33	1,449	893	56,378
Conferences, workshops, and meetings	15,058	13,717	26,584	24,282	463	2,660	1,640	84,404
Miscellaneous	(37)	87	7,639	4,551	(6)	1,892	(313)	13,813
Total expenses before depreciation	583,405	607,671	338,435	285,487	491,559	188,512	114,767	2,609,836
Depreciation	466	1,060	440	991	74	6,342	3,911	13,284
Total expenses	\$ 583,871	\$ 608,731	\$ 338,875	\$ 286,478	\$ 491,633	\$ 194,854	\$ 118,678	\$ 2,623,120

See accompanying notes.

First Steps Kent

Statement of Functional Expenses

Year ended September 30, 2010

	Program Services					Supporting Services		Total Expenses
	CHAP Children's Healthcare Access Program	Welcome Home Baby	Great Start Collaborative and Parent Liaisons	Early Learning	Family Support Services	Administration	Fundraising	
Salaries	\$ 261,963	\$ 131,305	\$ 127,303	\$ 10,257	\$ 9,332	\$ 70,449	\$ 42,890	\$ 653,499
Employee health and retirement benefits	57,575	13,946	15,196	1,593	193	10,944	6,662	106,109
Payroll taxes and unemployment insurance	19,795	10,323	9,704	898	686	6,166	3,754	51,326
Total salaries and related expenses	339,333	155,574	152,203	12,748	10,211	87,559	53,306	810,934
Grants - pass through					179,586			179,586
Professional fees	1,281	5,461	9,731	1,844	144	12,667	7,711	38,839
Management services	2,600	12,184	2,888	1,944	454	13,350	8,129	41,549
Program evaluation - consulting	85,677	52,026	3,986	19,963	271	23,815	14,498	200,236
Program partners - consulting	64,627	1,220	46,358	193,129	96	8,443	5,140	319,013
Office supplies	2,685	8,318	3,794	313	25	2,152	1,310	18,597
Telephone	3,957	3,932	1,027	238	51	1,635	995	11,835
Postage and shipping	2,453	653	1,122	14	1	98	60	4,401
Minor equipment	441	6,340	1,224	953	1,398	6,543	3,984	20,883
Occupancy	949	4,632	3,656	2,050	161	14,080	8,572	34,100
Patient expenses	37,816	1,343						39,159
Medical supplies	109	22,048						22,157
Printing, publications, and promotion	10,210	20,009	45,802	9,332	27	2,350	1,431	89,161
Conferences, workshops, and meetings	11,839	5,324	34,477	389	85	2,675	1,628	56,417
Miscellaneous	3,899	11,991	3,719	5,204	407	35,741	21,820	82,781
Total expenses before depreciation	567,876	311,055	309,987	248,121	192,917	211,108	128,584	1,969,648
Depreciation	261	519	128	564	44	3,876	2,299	7,691
Total expenses	\$ 568,137	\$ 311,574	\$ 310,115	\$ 248,685	\$ 192,961	\$ 214,984	\$ 130,883	\$ 1,977,339

See accompanying notes.

First Steps Kent
Statements of Cash Flows

	Year Ended September 30	
	2011	2010
Cash flows from operating activities		
Increase (decrease) in net assets	\$ (489,675)	\$ 3,142,133
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	13,284	7,691
Contribution of furniture and equipment	-	(60,836)
Change in operating assets and liabilities:		
Contributions and grants receivable	457,789	(2,524,946)
United Way allocation receivable	54,138	(218,181)
Receivable from United Way	(272,225)	-
Accounts receivable	(58,451)	-
Prepaid expenses	(9,442)	-
Accounts payable and accrued expenses	10,861	203,244
Payable to United Way	(150,672)	150,672
Net cash provided by (used in) operating activities	(444,393)	699,777
Cash flows from investing activity		
Purchases of furniture and equipment	(10,637)	(38,394)
Net increase (decrease) in cash and cash equivalents	(455,030)	661,383
Cash and cash equivalents - beginning of year	661,383	-
Cash and cash equivalents - end of year	\$ 206,353	\$ 661,383

See accompanying notes.

First Steps Kent

Notes to Financial Statements

September 30, 2011

1. Nature of Organization and Summary of Significant Accounting Policies

Nature of Organization

The mission of First Steps is to create a coordinated, integrated system of early childhood services that supports families in Kent County.

First Steps Programs

First Steps provides the following programs:

- **Children's Healthcare Access Program** – A pediatric medical home program to improve health outcomes among children on Medicaid while better utilizing existing resources and decreasing costs.
- **Welcome Home Baby** – This program is available to all first-time parents and parents 25 and younger in Kent County. The program includes an initial visit in the hospital and a home visit from a maternal child nurse. Included in the visit is a maternal child assessment conducted by an RN and parent education about early childhood development, community resources to meet family needs, and the importance of reading, talking, singing, and playing with their child from birth. The nurse then helps the parents access community programs that best meet their needs.
- **Great Start Collaborative and Parent Liaisons (GSC)** – The GSC is a body composed of interdisciplinary stakeholders – service providers, businesses, funders, government, elected officials, and parents – that works to identify early childhood system indicators and gaps in services as well as to convene stakeholders, research best practices, and recommend systems changes, programs and/or solutions to address the gap or problem. Recommendations are made to the First Steps Commission for endorsement and/or action. First Steps has a contract with the Kent Intermediate School District to administer funds from the Early Childhood Investment Corporation in support of GSC operations and infrastructure. First Steps employs the GSC Director and Parent representatives.
- **Early Learning** – First Steps provides in-home coaching to unlicensed child care providers to improve the caregiver-child relationship and the literacy environment. Coaches also model teaching and learning opportunities that improve child language development and literacy outcomes, both in home and in Play & Learn groups.

First Steps Kent

Notes to Financial Statements (continued)

1. Nature of Organization and Summary of Significant Accounting Policies (continued)

First Steps Programs (continued)

- **Family Support Services** – This is a contract with the Michigan Department of Human Services (DHS) which, in small part, supports the Intake and Referral functions of First Steps. The major portion of the award supports subcontracts to three agencies – Arbor Circle, Catholic Charities, and the Family Futures (formerly Child and Family Resource Council) – in delivering home visiting services and supports to DHS clients with certain risk factors. The Healthy Families America home visiting model used is evidence-based for outcomes related to child abuse and neglect prevention.

Financial Statement Presentation

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. First Steps' financial position and activities are presented according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Net Asset Classifications

Unrestricted net assets represent First Steps' resources available for operations. The use of portions of the assets has been designated by First Steps' Commission for specific purposes.

Temporarily restricted net assets are primarily comprised of grants which are restricted for future operating and program expenses.

Contributions and Grants

Contributions and grants received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor or grantee restrictions. Support that is restricted by the donor or grantee is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor and grantee restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

First Steps Kent

Notes to Financial Statements (continued)

1. Nature of Organization and Summary of Significant Accounting Policies (continued)

Contributions and Grants (continued)

Unconditional promises to give which are expected to be collected in periods in excess of one year are recognized at the present value of the estimated future cash flows at the time the pledge is received. The change in the present value due to the passage of time is recognized as contributions or grant revenue. Management annually reviews these assets to determine the net realizable value of the pledge.

Accounts Receivable

First Steps values its accounts receivable at net realizable value and accounts for uncollectible accounts by the allowance method (none at September 30, 2011 or 2010). Management discretion is used, considering many factors including prior experience, debtor's ability to pay, and current economic conditions, in determining whether the impairment is probable and can be reasonably estimated. The Company considers accounts receivable past due when they have not been paid within the contracted terms granted. Accounts receivable are charged off when it is probable that the amounts will not be collected.

Use of Estimates

Management uses estimates and assumptions in preparing these financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Cash and Cash Equivalents

Cash and cash equivalents consist of highly liquid investments purchased with an original maturity of three months or less.

Furniture and Equipment and Depreciation

Furniture and equipment are recorded at cost or, if donated, at fair value on the date of the gift. Major improvements and renewals are capitalized while ordinary maintenance and repairs are expensed. Management annually reviews assets to determine whether carrying values have been impaired. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, which range generally from 5 to 10 years.

First Steps Kent

Notes to Financial Statements (continued)

1. Nature of Organization and Summary of Significant Accounting Policies (continued)

Functional Allocation of Expenses

Expenses are charged to each program based on direct expenditures incurred. Any program expenses not directly chargeable are allocated to programs based on full-time equivalent hours by department.

Income Taxes

First Steps is exempt from federal income taxes under 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to First Steps' tax-exempt purpose is subject to taxation as unrelated business income. First Steps accounts for tax positions in accordance with the provisions of Financial Accounting Standards Board Codification Section 740-10. Interest or penalties related to tax positions, if any, would be recorded as a component of general and administrative expenses in the statements of activities. No interest or penalties related to tax positions has been recorded in the statement of activities.

Generally, tax years from 2010 through the current year remain open to examination. The Organization does not believe that the results from any examination of these open years would have a material adverse effect on First Steps.

Concentration of Credit Risk

First Steps maintains demand deposits in one bank which is secured by the Federal Deposit Insurance Corporation. First Steps had a non-federally insured account of approximately \$275,000 at September 30, 2011 and \$507,000 at September 30, 2010. Management does not consider this concentration to be a significant credit risk.

Subsequent Events

Management has evaluated subsequent events for potential recognition or disclosure in the financial statements through January 3, 2012, which is the date the financial statements were available to be issued.

First Steps Kent

Notes to Financial Statements (continued)

2. Multi-year Contributions and Grants

Multi-year contributions and grants consist of unconditional promises to give or grants receivable and are expected to be collected as follows at September 30:

	<u>2011</u>	<u>2010</u>
Receivable in less than one year	\$ 1,373,153	\$ 1,262,380
Receivable in one to five years	698,533	1,279,166
	<u>2,071,686</u>	2,541,546
Less net present value discount	4,529	16,600
	<u>\$ 2,067,157</u>	<u>\$ 2,524,946</u>

The discount rate used for multi-year pledge commitments is based on the 3-year U.S. Treasury rate for constant maturities of U.S. obligations. Management believes that all unconditional promises to give are collectible and, therefore, no allowance for doubtful accounts has been established.

3. Lease Agreements

First Steps leases certain equipment and office space under operating lease agreements expiring at various dates through August 2016. Rental expense for all operating leases was approximately \$40,500 for the year ended September 30, 2011 and \$24,400 for the year ended September 30, 2010.

The following is a schedule of annual future minimum lease payments required under operating leases with initial or remaining noncancelable lease terms in excess of one year as of September 30, 2011:

<u>Year Ending September 30</u>	<u>Total</u>
2012	\$ 45,316
2013	7,012
2014	6,024
2015	5,460
2016	4,488

First Steps Kent

Notes to Financial Statements (continued)

4. Retirement Plan

First Steps maintains a retirement plan qualified under Section 401(k) of the Internal Revenue Code. Under this plan, eligible employees are permitted to contribute up to a maximum amount determined by the Internal Revenue Code. In accordance with the plan document, First Steps makes a matching contribution and a discretionary annual contribution. First Steps contributed approximately \$55,000 during 2011 and \$38,000 during 2010 to the Plan. These amounts are included in employee health and retirement benefits on the statement of functional expenses.

5. Temporarily Restricted Net Assets

The components of temporarily restricted net assets are as follows as of September 30:

Temporarily restricted for future operations:	2011	2010
Donor designated grants	\$ 2,250,497	\$ 2,919,511
Undesignated	187,425	220,681
Total temporarily restricted for future operations	<u>\$ 2,437,922</u>	<u>\$ 3,140,192</u>

6. Related Party Transactions

First Steps received contributions from related parties of approximately \$2,100 during the year ended September 30, 2011 and approximately \$1,650,000 during the year ended September 30, 2010.

7. First Steps Spin Off

Effective October 1, 2009, the First Steps program spun off from Heart of West Michigan United Way (United Way) into a separate legal entity. United Way contributed fixed assets of \$60,836 and unspent contributions restricted for the First Steps program of \$401,914 on October 1, 2009.

First Steps utilizes the services of United Way to maintain their books and records, human resources, and information technology infrastructure. United Way bills First Steps for these services, as well as expenses that are currently paid on behalf of First Steps. First Steps also uses United Way as a fiscal sponsor for certain grants. As of September 30, 2011, First Steps' payments to United Way for expenses were less than grant revenue payments due by \$272,225 which is reflected as an asset in the statement of financial position. As of September 30, 2010, First Steps had a liability of \$150,672 related to these expenses which is reflected in the statement of financial position.