

First Steps Kent

**Financial Report
September 30, 2015**

First Steps Kent

Contents

Report Letter	1-2
Financial Statements	
Statement of Financial Position	3
Statement of Activities and Changes in Net Assets	4
Statement of Functional Expenses	5-6
Statement of Cash Flows	7
Notes to Financial Statements	8-13

Independent Auditor's Report

To the Commission
First Steps Kent

We have audited the accompanying financial statements of First Steps Kent (First Steps or the "Organization"), which comprise the statements of financial position as of September 30, 2015 and 2014 and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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.

To the Commission
First Steps Kent

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, 2015 and 2014 and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

January 28, 2016

First Steps Kent

Statement of Financial Position

	September 30, 2015	September 30, 2014
Assets		
Cash and cash equivalents	\$ 167,299	\$ 265,527
Receivables:		
Contributions and grants receivable (Note 2)	606,749	608,725
Accounts receivable	40,000	3,849
Receivable from United Way (Note 7)	-	1,363
United Way allocation receivable (Note 7)	-	45,101
Prepaid expenses and other	17,118	16,979
Certificate of deposit	-	100,337
Furniture and equipment - Less accumulated depreciation of \$128,807 in 2015 and \$105,073 in 2014	47,758	69,028
Total assets	\$ 878,924	\$ 1,110,909
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 121,121	\$ 129,018
Payable to United Way (Note 7)	26,954	-
Deferred revenue	-	40,000
Total liabilities	148,075	169,018
Net Assets		
Unrestricted - Undesignated	152,715	148,942
Temporarily restricted (Note 6)	578,134	792,949
Total net assets	730,849	941,891
Total liabilities and net assets	\$ 878,924	\$ 1,110,909

First Steps Kent

Statement of Activities and Changes in Net Assets

	Year Ended					
	September 30, 2015			September 30, 2014		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue and Support						
Contributions and grants	\$ 707,923	\$ 655,008	\$ 1,362,931	\$ 894,051	\$ 1,216,797	\$ 2,110,848
Other revenue	618	-	618	44,674	-	44,674
United Way allocation	-	-	-	-	15,034	15,034
Total revenue and support	708,541	655,008	1,363,549	938,725	1,231,831	2,170,556
Net Assets Released from Restriction	869,823	(869,823)	-	913,600	(913,600)	-
Total revenue, support, and net assets released from restriction	1,578,364	(214,815)	1,363,549	1,852,325	318,231	2,170,556
Expenses						
Program services:						
Great Start Collaborative and Parent Liaisons	456,200	-	456,200	378,674	-	378,674
Early Learning	304,049	-	304,049	436,342	-	436,342
Welcome Home Baby	515,520	-	515,520	560,840	-	560,840
Children's Healthcare Access Program	-	-	-	362,601	-	362,601
Total program services	1,275,769	-	1,275,769	1,738,457	-	1,738,457
Support services:						
Administration	217,003	-	217,003	183,380	-	183,380
Fundraising	81,819	-	81,819	67,530	-	67,530
Total support services	298,822	-	298,822	250,910	-	250,910
Total expenses	1,574,591	-	1,574,591	1,989,367	-	1,989,367
Increase (Decrease) in Net Assets	3,773	(214,815)	(211,042)	(137,042)	318,231	181,189
Net Assets - Beginning of year	148,942	792,949	941,891	285,984	474,718	760,702
Net Assets - End of year	\$ 152,715	\$ 578,134	\$ 730,849	\$ 148,942	\$ 792,949	\$ 941,891

First Steps Kent

Statement of Functional Expenses Year Ended September 30, 2015

	Program Services			Support Services		Total
	Great Start Collaborative and Parent Liasons	Early Learning	Welcome Home Baby	Administration	Fundraising	
Salaries	\$ 177,291	\$ 121,315	\$ 190,302	\$ 30,986	\$ 25,627	\$ 545,521
Employee benefits and retirement benefits	17,777	8,550	47,546	9,240	4,402	87,515
Payroll taxes and unemployment insurance	14,770	9,094	20,050	3,615	1,364	48,893
Total salaries and related expenses	209,838	138,959	257,898	43,841	31,393	681,929
Grants - Pass through	-	98,510	-	-	-	98,510
Professional fees	157,548	33,368	206,281	111,128	25,785	534,110
Office supplies	974	8,413	1,678	3,107	483	14,655
Telephone	1,939	789	6,949	13,779	1,801	25,257
Postage and shipping	298	225	1,069	582	-	2,174
Minor equipment	3,301	321	2,806	-	-	6,428
Occupancy	9,993	2,997	2,997	20,888	8,879	45,754
Patient expenses	260	-	4,746	-	-	5,006
Medical supplies	-	-	572	-	-	572
Printing, publications, and promotion	20,656	15,085	9,165	30	457	45,393
Conferences, workshops, and meetings	34,661	916	1,511	6,178	2,226	45,492
Miscellaneous	13,528	2,864	18,246	4,891	6,048	45,577
Depreciation	3,204	1,602	1,602	12,579	4,747	23,734
Total functional expenses	\$ 456,200	\$ 304,049	\$ 515,520	\$ 217,003	\$ 81,819	\$ 1,574,591

First Steps Kent

Statement of Functional Expenses Year Ended September 30, 2014

	Program Services				Support Services		Total
	Children's Healthcare Access Program	Great Start Collaborative and Parent Liaisons	Early Learning	Welcome Home Baby	Administration	Fundraising	
Salaries	\$ 210,035	\$ 196,092	\$ 147,062	\$ 222,945	\$ 48,148	\$ 20,488	\$ 844,770
Employee benefits and retirement benefits	35,535	24,806	8,568	36,271	17,625	7,500	130,305
Payroll taxes and unemployment insurance	14,522	15,751	11,381	25,313	4,306	1,832	73,105
Total salaries and related expenses	260,092	236,649	167,011	284,529	70,079	29,820	1,048,180
Grants - Pass through	16,468	-	147,977	-	-	-	164,445
Professional fees	24,675	55,630	57,802	232,744	64,809	27,579	463,239
Office supplies	1,623	1,231	10,193	1,251	2,224	947	17,469
Telephone	2,876	1,393	1,472	6,377	6,440	2,740	21,298
Postage and shipping	429	585	1,146	880	-	-	3,040
Minor equipment	1,039	1,761	503	1,523	-	-	4,826
Occupancy	19,867	10,956	8,911	6,956	6,979	817	54,486
Patient expenses	10,389	100	95	5,070	-	-	15,654
Medical supplies	-	-	-	1,181	-	-	1,181
Printing, publications, and promotion	3,209	17,351	19,943	10,816	2,165	921	54,405
Conferences, workshops, and meetings	5,238	24,393	18,304	1,173	2,911	1,239	53,258
Miscellaneous	12,218	27,132	-	6,847	7,032	2,991	56,220
Depreciation	4,478	1,493	2,985	1,493	20,741	476	31,666
Total functional expenses	\$ 362,601	\$ 378,674	\$ 436,342	\$ 560,840	\$ 183,380	\$ 67,530	\$ 1,989,367

First Steps Kent

Statement of Cash Flows

	Year Ended	
	September 30, 2015	September 30, 2014
Cash Flows from Operating Activities		
(Decrease) increase in net assets	\$ (211,042)	\$ 181,189
Adjustments to reconcile (decrease) increase in net assets to net cash from operating activities:		
Depreciation	23,734	31,666
Changes in operating assets and liabilities which provided (used) cash:		
Contributions and grants receivable	1,976	(41,350)
United Way allocation receivable	45,101	(36,528)
Receivable from United Way	1,363	(1,363)
Accounts receivable	(36,151)	(3,558)
Prepaid expenses and other	(139)	(7,036)
Accounts payable and accrued expenses	(7,897)	(21,785)
Payable to United Way	26,954	(73,907)
Deferred revenue	(40,000)	40,000
Net cash (used in) provided by operating activities	(196,101)	67,328
Cash Flows from Investing Activities		
Proceeds from maturity of certificate of deposit	100,337	-
Purchase of certificate of deposit	-	(100,337)
Net cash provided by (used in) investing activities	100,337	(100,337)
Cash Flows from Capital and Related Financing Activities -		
Purchase of property and equipment	(2,464)	-
Net Decrease in Cash and Cash Equivalents	(98,228)	(33,009)
Cash and Cash Equivalents - Beginning of year	265,527	298,536
Cash and Cash Equivalents - End of year	<u>\$ 167,299</u>	<u>\$ 265,527</u>

Note I - Nature of Organization and Significant Accounting Policies

Nature of Organization - The mission of First Steps Kent (First Steps or the "Organization") is to create a coordinated, integrated system of early childhood services that supports families in Kent County.

First Steps provides the following programs:

- **Great Start Collaborative and Parent Liaisons (GSC)** - GSC is a body composed of interdisciplinary stakeholders (service providers, businesses, funders, government, elected officials, and parents) that work 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 at home and in play-and-learn groups.
- **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 a registered nurse 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.
- **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. This program was transferred to another local organization during fiscal year 2014 and is no longer a program of First Steps Kent.

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.

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

First Steps Kent

Notes to Financial Statements September 30, 2015 and 2014

Note 1 - Nature of Organization and Significant Accounting Policies (Continued)

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, 2015 or 2014). 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 Organization 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.

Contributions and Grants Receivable - The Organization's contributions and grants receivable are comprised primarily of grants and allocations committed from various funding sources for use in the Organization's activities. The Organization has not recorded a provision for doubtful accounts since it is the opinion of management that those receivables are collectible in full.

Certificates of Deposit - Certificates of deposit have an original maturity greater than three months and are recorded at fair market value.

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 generally range from 5 to 10 years.

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 revenue and expenses. Actual results could vary from the estimates that were used.

Classification of Net Assets - Net assets of the Organization are classified as unrestricted, temporarily restricted, or permanently restricted depending on the presence and characteristics of donor-imposed restrictions limiting the Organization's ability to use or dispose of contributed assets or the economic benefits embodied in those assets.

Donor-imposed restrictions that expire with the passage of time or can be removed by meeting certain requirements result in temporarily restricted net assets. Permanently restricted net assets result from donor-imposed restrictions that limit the use of net assets in perpetuity. Earnings, gains, and losses on restricted net assets are classified as unrestricted unless specifically restricted by the donor or by applicable state law.

Note 1 - Nature of Organization and Significant Accounting Policies (Continued)

Deferred Revenue - Deferred revenue consists of money received from Kent County related to revenue to be earned during the next fiscal year for program evaluations.

Contributions and Grants - Contributions and certain 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 as unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions.

Unconditional promises to give that 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.

Certain grants are determined to be exchange transactions and revenue is recorded when services are provided. Funds received in advance of earning are recorded as deferred revenue and accounts receivable are recorded when funds have been earned but not yet received.

Functional Allocation of Expenses - The costs of providing the program and support services have been reported on a functional basis in the statement of activities and changes in net assets. Indirect costs have been allocated between the various programs and support services based on estimates, as determined by management. Although the methods of allocation used are considered reasonable, other methods could be used that would produce a different amount.

Note I - Nature of Organization and Significant Accounting Policies (Continued)

Federal Income Taxes - The Organization is exempt from income tax under provisions of Internal Revenue Code Section 501(c)(3). Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Organization and recognize a tax liability if the Organization has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS or other applicable taxing authorities. Management has analyzed the tax positions taken by the Organization and has concluded that as of September 30, 2015 and 2014, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to 2012.

Concentration of Credit Risk - First Steps maintained demand deposits in one bank which is secured by the Federal Deposit Insurance Corporation. The Organization evaluates the financial institutions with which it deposits funds; however, it is not practical to insure all cash deposits. 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 28, 2016, which is the date the financial statements were available to be issued.

Upcoming Accounting Change - In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of 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. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for the Organization's year ending September 30, 2020. The ASU permits application of the new revenue recognition guidance to be applied using one of two retrospective application methods. The Organization has not yet determined which application method it will use or the potential effects of the new standard on the financial statements, if any.

First Steps Kent

Notes to Financial Statements September 30, 2015 and 2014

Note 2 - Contributions and Grants Receivable

Included in contributions and grants receivable are several unconditional promises to give. They are included as follows:

	<u>2015</u>	<u>2014</u>
Gross promises to give before unamortized discount	\$ 607,069	\$ 609,045
Less unamortized discount using 5 percent discount rate	<u>(320)</u>	<u>(320)</u>
Net contributions receivable	<u>\$ 606,749</u>	<u>\$ 608,725</u>
Amounts due in:		
Less than one year	\$ 557,069	\$ 349,045
One to five years	<u>50,000</u>	<u>260,000</u>
Total	<u>\$ 607,069</u>	<u>\$ 609,045</u>

Note 3 - Line of Credit

The Organization has a \$150,000 line of credit available from a bank which expires in July 2016. There were no borrowings on this line of credit at September 30, 2015 and 2014. The note bears interest at a rate equal to the bank's prime rate plus 0.50 percent with a minimum rate of 4.00 percent. The line of credit is secured by substantially all assets.

Note 4 - Operating Leases

The Organization leases office space and certain equipment under operating lease agreements that expire through August 2019. The office space is leased through Heart of West Michigan United Way, which is a related party as disclosed in Note 7. The following is a schedule of future minimum rental payments for the years ending September 30:

<u>Years Ending September 30</u>	<u>Amount</u>
2016	\$ 23,010
2017	2,220
2018	2,220
2019	<u>1,280</u>
Total	<u>\$ 28,730</u>

Total rent expense on these leases for 2015 and 2014 was approximately \$49,000 and \$52,000, respectively.

First Steps Kent

Notes to Financial Statements September 30, 2015 and 2014

Note 5 - Employee Benefit Plan

The Organization participates in the Heart of West Michigan United Way 401(k) Savings and Retirement Plan. All employees who have reached the age of 21, have worked at least 1,000 hours of service during the plan year, and are employed on the last day of the plan year are eligible to participate in the plan. The Organization matches 50 percent of a participant's elective deferral up to a maximum of 6 percent of gross pay, as well as a discretionary annual contribution, as limited by the Internal Revenue Service. The Organization made contributions of \$20,900 and \$25,800 to the plan for the years ended September 30, 2015 and 2014, respectively.

Note 6 - Temporarily Restricted Net Assets

Temporarily restricted net assets at September 30, 2015 and 2014 are restricted for the following purposes:

	2015	2014
Purpose restricted	\$ 200,634	\$ 261,997
Time restricted	377,500	530,952
Total temporarily restricted net assets	<u>\$ 578,134</u>	<u>\$ 792,949</u>

Note 7 - Related Party Transactions

The Organization utilizes the services of Heart of West Michigan United Way (United Way) to maintain its books and records and to provide human resources services and information technology infrastructure services. United Way bills the Organization for these services, as well as expenses that are currently paid on behalf of the Organization. The Organization also uses United Way as a fiscal sponsor for certain grants. At September 30, 2015 and 2014, the Organization had accounts receivable from Heart of West Michigan United Way totaling \$0 and \$1,363, respectively. At September 30, 2015 and 2014, the Organization had accounts payable to United Way totaling \$26,954 and \$0, respectively. The Organization also has an allocation receivable from United Way of \$0 and \$45,101 as of September 30, 2015 and 2014, respectively. As disclosed in Note 4, office space lease expenses of \$41,580 and \$44,102 for the years ended September 30, 2015 and 2014, respectively, were paid to United Way under the lease agreement.

In addition, certain revenue earned and receivables balances at year end for fiscal years 2015 and 2014 are from related parties of members of the commission.