First Steps Kent

Financial Report
September 30, 2016

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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 statement of financial position as of September 30, 2016 and 2015 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, 2016 and 2015 and the changes in its net assets, functional expenses, 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

February 13, 2017

First Steps Kent

Statement of Financial Position

	September 30, 2016	September 30, 2015
Assets		
Cash and cash equivalents	$ 385,315	$ 167,299
Receivables:		
Contributions and grants receivable (Note 2)	233,319	606,749
Accounts receivable	82,000	40,000
Prepaid expenses and other	24,923	17,118
Furniture and equipment - Less accumulated depreciation of $129,502 in 2016 and $128,807 in 2015	39,594	47,758
Total assets	**$ 765,151**	**$ 878,924**
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	$ 88,790	$ 121,121
Payable to United Way (Note 7)	15,537	26,954
Total liabilities	104,327	148,075
Net Assets		
Unrestricted - Undesignated	155,826	152,715
Temporarily restricted (Note 6)	504,998	578,134
Total net assets	660,824	730,849
Total liabilities and net assets	**$ 765,151**	**$ 878,924**

Statement of Activities and Changes in Net Assets

	Year Ended					
	September 30, 2016			September 30, 2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue and Support						
Contributions and grants	$ 479,286	$ 719,439	$ 1,198,725	$ 707,923	$ 655,008	$ 1,362,931
Other revenue	2,812	-	2,812	618	-	618
Loss on sale of fixed assets	(4,424)	-	(4,424)	-	-	-
Total revenue and support	477,674	719,439	1,197,113	708,541	655,008	1,363,549
Net assets released from restriction	792,575	(792,575)	-	869,823	(869,823)	-
Total revenue, support, and net assets released from restriction	1,270,249	(73,136)	1,197,113	1,578,364	(214,815)	1,363,549
Expenses						
Program services:						
Great Start Collaborative and Parent Liaisons	427,338	-	427,338	456,200	-	456,200
Early Learning	171,027	-	171,027	304,049	-	304,049
Welcome Home Baby	269,040	-	269,040	515,520	-	515,520
Total program services	867,405	-	867,405	1,275,769	-	1,275,769
Support services:						
Administration	324,408	-	324,408	217,003	-	217,003
Fundraising	75,325	-	75,325	81,819	-	81,819
Total support services	399,733	-	399,733	298,822	-	298,822
Total expenses	1,267,138	-	1,267,138	1,574,591	-	1,574,591
Increase (Decrease) in Net Assets	3,111	(73,136)	(70,025)	3,773	(214,815)	(211,042)
Net Assets - Beginning of year	152,715	578,134	730,849	148,942	792,949	941,891
Net Assets - End of year	**$ 155,826**	**$ 504,998**	**$ 660,824**	**$ 152,715**	**$ 578,134**	**$ 730,849**

See Notes to Financial Statements.

Statement of Functional Expenses
Year Ended September 30, 2016

	Program Services				Support Services		
	Great Start Collaborative and Parent Liaisons	Early Learning	Welcome Home Baby	Total	Administration	Fundraising	Total
Salaries	$ 207,493	$ 90,185	$ 110,303	$ 407,981	$ 91,225	$ 35,904	$ 535,110
Employee benefits and retirement benefits	33,396	7,841	24,891	66,128	22,406	10,314	98,848
Payroll taxes and unemployment insurance	16,331	6,953	11,747	35,031	6,778	2,837	44,646
Total salaries and related expenses	257,220	104,979	146,941	509,140	120,409	49,055	678,604
Grants - Pass through	2,620	40,845	332	43,797	-	-	43,797
Professional fees	74,066	8,847	82,444	165,357	148,073	13,091	326,521
Office supplies	3,731	2,877	1,369	7,977	706	295	8,978
Telephone	3,752	682	4,615	9,049	2,971	1,244	13,264
Postage and shipping	435	60	331	826	261	109	1,196
Minor equipment	3,284	280	2,155	5,719	-	-	5,719
Occupancy	22,030	3,803	3,803	29,636	13,899	7,022	50,557
Patient expenses	40	-	4,362	4,402	-	-	4,402
Medical supplies	-	-	127	127	-	-	127
Printing, publications, and promotion	14,519	768	3,175	18,462	339	142	18,943
Conferences, workshops, and meetings	19,100	23	15,572	34,695	3,359	440	38,494
Miscellaneous	24,331	6,758	2,709	33,798	29,519	1,888	65,205
Depreciation	2,210	1,105	1,105	4,420	4,872	2,039	11,331
Total functional expenses	**$ 427,338**	**$ 171,027**	**$ 269,040**	**$ 867,405**	**$ 324,408**	**$ 75,325**	**$ 1,267,138**

Statement of Functional Expenses
Year Ended September 30, 2015

	Program Services				Support Services		
	Great Start Collaborative and Parent Liaisons	Early Learning	Welcome Home Baby	Total	Administration	Fundraising	Total
Salaries	$ 177,291	$ 121,315	$ 190,302	$ 488,908	$ 30,986	$ 25,627	$ 545,521
Employee benefits and retirement benefits	17,777	8,550	47,546	73,873	9,240	4,402	87,515
Payroll taxes and unemployment insurance	14,770	9,094	20,050	43,914	3,615	1,364	48,893
Total salaries and related expenses	209,838	138,959	257,898	606,695	43,841	31,393	681,929
Grants - Pass through	-	98,510	-	98,510	-	-	98,510
Professional fees	157,548	33,368	206,281	397,197	111,128	25,785	534,110
Office supplies	974	8,413	1,678	11,065	3,107	483	14,655
Telephone	1,939	789	6,949	9,677	13,779	1,801	25,257
Postage and shipping	298	225	1,069	1,592	582	-	2,174
Minor equipment	3,301	321	2,806	6,428	-	-	6,428
Occupancy	9,993	2,997	2,997	15,987	20,888	8,879	45,754
Patient expenses	260	-	4,746	5,006	-	-	5,006
Medical supplies	-	-	572	572	-	-	572
Printing, publications, and promotion	20,656	15,085	9,165	44,906	30	457	45,393
Conferences, workshops, and meetings	34,661	916	1,511	37,088	6,178	2,226	45,492
Miscellaneous	13,528	2,864	18,246	34,638	4,891	6,048	45,577
Depreciation	3,204	1,602	1,602	6,408	12,579	4,747	23,734
Total functional expenses	**$ 456,200**	**$ 304,049**	**$ 515,520**	**$ 1,275,769**	**$ 217,003**	**$ 81,819**	**$ 1,574,591**

Statement of Cash Flows

	Year Ended September 30, 2016	Year Ended September 30, 2015
Cash Flows from Operating Activities		
Decrease in net assets	$ (70,025)	$ (211,042)
Adjustments to reconcile decrease in net assets to net cash and cash equivalents from operating activities:		
Depreciation	11,331	23,734
Loss on disposal of fixed assets	4,424	-
Changes in operating assets and liabilities which provided (used) cash and cash equivalents:		
Contributions and grants receivable	373,430	1,976
United Way allocation receivable	-	45,101
Receivable from United Way	-	1,363
Accounts receivable	(42,000)	(36,151)
Prepaid expenses and other	(7,805)	(139)
Accounts payable and accrued expenses	(32,331)	(7,897)
Payable to United Way	(11,417)	26,954
Deferred revenue	-	(40,000)
Net cash and cash equivalents provided by (used in) operating activities	225,607	(196,101)
Cash Flows from Investing Activities - Proceeds from maturity of certificate of deposit	-	100,337
Cash Flows from Capital and Related Financing Activities		
Purchase of property and equipment	(9,591)	(2,464)
Proceeds from sale of property and equipment	2,000	-
Net cash and cash equivalents used in financing activities	(7,591)	(2,464)
Net Increase (Decrease) in Cash and Cash Equivalents	218,016	(98,228)
Cash and Cash Equivalents - Beginning of year	167,299	265,527
Cash and Cash Equivalents - End of year	**$ 385,315**	**$ 167,299**

Note 1 - 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.

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.

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, 2016 or 2015). 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.

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)

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.

Federal Income Taxes - The Organization is exempt from income tax under provisions of Internal Revenue Code Section 501(c)(3).

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 February 13, 2017, which is the date the financial statements were available to be issued.

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

Upcoming Accounting Change - In May 2014, the Financial Accounting Standards Board (FASB) 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.

Upcoming Accounting Pronouncement - NFP Financial Reporting Model - The FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities,* in August 2016. ASU No. 2016-14 requires significant changes to the financial reporting model of organizations that follow FASB not-for-profit rules, including changing from three classes of net assets to two classes: net assets with donor restrictions and net assets without donor restrictions. The ASU will also require changes in the way certain information is aggregated and reported by the Organization, including required disclosures about the liquidity and availability of resources. The new standard is effective for the Organization's year ending September 30, 2019 and thereafter and must be applied on a retrospective basis. The Organization is currently evaluating the impact this standard will have on the financial statements.

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

Upcoming Accounting Change - In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-of-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the Organization's year ending September 30, 2021 and will be applied using a modified retrospective transition method to the beginning of the earliest period presented. The new lease standard is expected to have a significant effect on the Organization's financial statements as a result of the leases for office space and equipment classified as operating leases. The effect of applying the new lease guidance on the financial statements has not yet been determined.

Note 2 - Contributions and Grants Receivable

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

	2016	2015
Gross promises to give before unamortized discount	$ 233,319	$ 607,069
Less unamortized discount using 5 percent discount rate	-	(320)
Net contributions receivable	$ 233,319	$ 606,749
Amounts due in:		
Less than one year	$ 213,319	$ 557,069
One to five years	20,000	50,000
Total	$ 233,319	$ 607,069

Note 3 - Line of Credit

The Organization has a $150,000 line of credit available from a bank which expires in July 2017. There were no borrowings on this line of credit at September 30, 2016 and 2015. 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 July 2021. The office space, used for part of the year through July 31, 2016, was leased through Heart of West Michigan United Way, which is a related party as disclosed in Note 7. The Organization has subsequently moved into a new office space managed by a nonrelated party, with a new lease agreement beginning on August 1, 2016 and continuing through July 31, 2019. The following is a schedule of future minimum rental payments for the years ending September 30:

Years Ending September 30	Amount
2017	$ 33,080
2018	33,748
2019	28,770
2020	3,900
2021	3,250
Total	$ 102,748

Total rent expense on these leases for 2016 and 2015 was approximately $47,000 and $49,000, respectively.

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 $18,400 and $20,900 to the plan for the years ended September 30, 2016 and 2015, respectively. As of June 30, 2016, First Steps was no longer a participating related employer in the Heart of West Michigan United Way 401(k) Savings and Retirement Plan.

Note 6 - Temporarily Restricted Net Assets

Temporarily restricted net assets at September 30, 2016 and 2015 are restricted for the following purposes:

	2016	2015
Purpose restricted	$ 308,159	$ 200,634
Time restricted	196,839	377,500
Total temporarily restricted net assets	$ 504,998	$ 578,134

Note 7 - Related Party Transactions

The Organization utilized 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 billed the Organization for these services, as well as expenses that are currently paid on behalf of the Organization. The Organization also used United Way as a fiscal sponsor for certain grants. At September 30, 2016 and 2015, the Organization had accounts payable to United Way totaling $15,537 and $26,954, respectively. As disclosed in Note 4, office space lease expenses of $35,615 and $41,580 for the years ended September 30, 2016 and 2015, respectively, were paid to United Way under the lease agreement which was terminated during the year ended September 30, 2016. The relationship between First Steps and United Way to maintain its books and records and to provide human resources services and information technology infrastructure services was also terminated during the year ended September 30, 2016.

In addition, certain revenue earned and receivable balances at year end for fiscal years 2016 and 2015 are from related parties of members of the commission.