First Steps Kent

Financial Report
September 30, 2017

First Steps Kent

Contents

Plante & Moran, PLLC
Suite 400
634 Front Avenue N.W.
Grand Rapids, MI 49504
Tel: 616.774.8221
Fax: 616.774.0702
plantemoran.com

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, 2017 and 2016 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, 2017 and 2016 and the changes in its net assets, functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

March 2, 2018

First Steps Kent

Statement of Financial Position

	September 30, 2017	September 30, 2016
Assets		
Cash and cash equivalents	$ 252,557	$ 385,315
Receivables:		
Contributions and grants receivable (Note 2)	856,764	233,319
Other receivables	2,063	82,000
Prepaid expenses and other	3,652	24,923
Furniture and equipment - Less accumulated depreciation of $137,521 in 2017 and $129,502 in 2016	29,857	39,594
Total assets	**$ 1,144,893**	**$ 765,151**
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	$ 99,389	$ 88,790
Payable to United Way (Note 7)	-	15,537
Total liabilities	99,389	104,327
Net Assets		
Unrestricted - Undesignated	(91,786)	155,826
Temporarily restricted (Note 6)	1,137,290	504,998
Total net assets	1,045,504	660,824
Total liabilities and net assets	**$ 1,144,893**	**$ 765,151**

First Steps Kent

Statement of Activities and Changes in Net Assets

	Year Ended					
	September 30, 2017			September 30, 2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue and Support						
Contributions and grants	$ 436,475	$ 1,284,691	$ 1,721,166	$ 479,286	$ 719,439	$ 1,198,725
Other revenue	134	-	134	2,812	-	2,812
Loss on sale of fixed assets	(397)	-	(397)	(4,424)	-	(4,424)
Total revenue and support	436,212	1,284,691	1,720,903	477,674	719,439	1,197,113
Net assets released from restriction	652,399	(652,399)	-	792,575	(792,575)	-
Total revenue, support, and net assets released from restriction	1,088,611	632,292	1,720,903	1,270,249	(73,136)	1,197,113
Expenses						
Program services:						
Great Start Collaborative and Parent Liaisons	423,850	-	423,850	427,338	-	427,338
Early Learning	258,866	-	258,866	171,027	-	171,027
Welcome Home Baby	113,825	-	113,825	269,040	-	269,040
Data Projects	17,836	-	17,836	-	-	-
Education Campaign	220,588	-	220,588	-	-	-
Total program services	1,034,965	-	1,034,965	867,405	-	867,405
Support services:						
Administration	179,454	-	179,454	324,408	-	324,408
Fundraising	121,804	-	121,804	75,325	-	75,325
Total support services	301,258	-	301,258	399,733	-	399,733
Total expenses	1,336,223	-	1,336,223	1,267,138	-	1,267,138
(Decrease) Increase in Net Assets	(247,612)	632,292	384,680	3,111	(73,136)	(70,025)
Net Assets - Beginning of year	155,826	504,998	660,824	152,715	578,134	730,849
Net Assets - End of year	**$ (91,786)**	**$ 1,137,290**	**$ 1,045,504**	**$ 155,826**	**$ 504,998**	**$ 660,824**

See Notes to Financial Statements.

First Steps Kent

Statement of Functional Expenses
Year Ended September 30, 2017

	Program Services						Support Services		
	Great Start Collaborative and Parent Liaisons	Early Learning	Welcome Home Baby	Data Projects	Education Campaign	Total	Administration	Fundraising	Total
Salaries	$ 210,599	$ 155,491	$ 24,943	$ 1,500	$ 13,811	$ 406,344	$ 90,969	$ 37,432	$ 534,745
Payroll taxes and employee benefits	20,450	32,405	3,211	173	1,726	57,965	12,966	5,339	76,270
Total salaries and related expenses	231,049	187,896	28,154	1,673	15,537	464,309	103,935	42,771	611,015
Grants - Pass through	-	30,000	76,020	-	-	106,020	-	-	106,020
Professional fees	10,793	29,532	5,000	11,511	200,399	257,235	38,298	16,032	311,565
Office supplies	14,649	1,487	-	-	-	16,136	2,986	1,279	20,401
Telephone	305	521	-	-	-	826	6,968	2,986	10,780
Postage and shipping	-	70	-	-	-	70	500	214	784
Minor equipment	2,447	2,546	-	-	-	4,993	-	-	4,993
Occupancy	32,185	1,821	1,821	1,821	1,821	39,469	8,033	3,362	50,864
Printing, publications, and promotion	7,250	1,606	-	-	-	8,856	2,156	2,858	13,870
Conferences, workshops, and meetings	123,748	556	-	-	-	124,304	3,291	-	127,595
Miscellaneous	695	2,102	2,102	2,102	2,103	9,104	9,271	3,882	22,257
Depreciation	729	729	728	729	728	3,643	4,016	1,681	9,340
Bad debt	-	-	-	-	-	-	-	46,739	46,739
Total functional expenses	**$ 423,850**	**$ 258,866**	**$ 113,825**	**$ 17,836**	**$ 220,588**	**$ 1,034,965**	**$ 179,454**	**$ 121,804**	**$ 1,336,223**

First Steps Kent

Statement of Functional Expenses
Year Ended September 30, 2016

	Program Services						Support Services		
	Great Start Collaborative and Parent Liaisons	Early Learning	Welcome Home Baby	Data Projects	Education Campaign	Total	Administration	Fundraising	Total
Salaries	$ 207,493	$ 90,185	$ 110,303	$ -	$ -	$ 407,981	$ 91,225	$ 35,904	$ 535,110
Payroll taxes and employee benefits	49,727	14,794	36,638	-	-	101,159	29,184	13,151	143,494
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 Cash Flows

	Year Ended September 30, 2017	Year Ended September 30, 2016
Cash Flows from Operating Activities		
Increase (decrease) in net assets	$ 384,680	$ (70,025)
Adjustments to reconcile increase (decrease) in net assets to net cash and cash equivalents from operating activities:		
Depreciation	9,340	11,331
Loss on disposal of fixed assets	397	4,424
Bad debt expense	46,739	-
Changes in operating assets and liabilities which (used) provided cash and cash equivalents:		
Contributions and grants receivable	(630,184)	373,430
Other receivables	39,937	(42,000)
Prepaid expenses and other	21,271	(7,805)
Accounts payable and accrued expenses	10,599	(32,331)
Payable to United Way	(15,537)	(11,417)
Net cash and cash equivalents (used in) provided by operating activities	(132,758)	225,607
Cash Flows from Capital and Related Financing Activities		
Purchase of property and equipment	-	(9,591)
Proceeds from sale of property and equipment	-	2,000
Net cash and cash equivalents used in financing activities	-	(7,591)
Net (Decrease) Increase in Cash and Cash Equivalents	(132,758)	218,016
Cash and Cash Equivalents - Beginning of year	385,315	167,299
Cash and Cash Equivalents - End of year	**$ 252,557**	**$ 385,315**

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 comprised of interdisciplinary stakeholders who represent service providers, business, funders, government, elected officials and parents. They work to define systems needs and gaps and convene stakeholders to research best practice and recommend systems alignments and changes.

  GSC in conjunction with First Steps, assesses the needs of young children and families in their communities, identifies community assets for addressing those needs, and plans for systemic change. They implement efforts to address the gaps, strengthen what works, and knock down barriers that impede young children from arriving at kindergarten healthy and ready to succeed in school and in life.

  Our collaborative is part of a network of 54 Great Start Collaboratives working in every county in Michigan, funded by The Office of Great Start and Michigan Department of Education. Technical assistance is provided by the Early Childhood Investment Corporation.

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

- Early Learning - Early Learning Communities (ELC) is a collaborative, community-based initiative to enrich the quality early learning experiences of young children by strengthening the skills of early childhood caregivers and educators. First Steps and the Grand Rapids Public Schools have worked together with other community partners to demonstrate the effectiveness of this model.

  The Early Learning Communities are focused on the neighborhoods around Martin Luther King, Jr. Leadership Academy, Harrison Park, Burton Coit, Congress and Mulick Park Schools.

  Caregivers and parents have the opportunity to attend Play & Learn groups in which children participate in literacy-based activities and providers watch coaches model best-practice instruction. The curriculum for the Play & Learn groups is aligned with Michigan Department of Education expectations for kindergarten readiness. ELC has also developed a variety of strategies to teach caregivers how to access community resources and strengthen the transition to kindergarten for participating preschool-aged children.

  ELC had between 300-400 children and 200-300 adults participating in program services per month.

  As of the summer of 2017 First Steps no longer directly operates this program but contracts with Grand Rapids Community College to operate this program. First Steps continues to provide funding for the Early Learning Communities program.

- Welcome Home Baby - Welcome Home Baby (WHB) is available to all first-time parents and parents with Medicaid benefits in Kent County. WHB consists of contact by a social worker or RN who screens for social determinants of health needs and offers a referral to a maternal child home visiting program based on the mother's eligibility and preferences with programs. As of the January 2017, First Steps no longer directly operates this program but contracts with Health Net of West Michigan to operate this program. First Steps continues to provide funding for the WHB program.

- Data Projects - First Steps Kent supports community-wide data initiatives to support and understand the early childhood landscape within Kent County. Projects specifically examine how all early childhood services collectively reach children (prenatally to age 5) within Kent County, understand the gaps with services, and launch collective initiatives to improve outcomes for children.

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

- Education Campaign - First Steps Kent seeks to increase the community's awareness by voicing how research-based investments in high-quality, early childhood services positively impact later school success and ultimately contribute to a higher-skilled local workforce. This campaign seeks to reach two main audiences: (a) the greater Kent County "public," including parents, grandparents, advocates, family members, and professionals involved with early childhood, and (b) community leaders who have influence to create meaningful change.

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.

Contributions and Grants Receivable - The Organization's contributions and grants receivable are composed 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.

Other Receivables - First Steps values its other receivables at net realizable value and accounts for uncollectible accounts by the allowance method (none at September 30, 2017 or 2016). 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 other receivables past due when they have not been paid within the contracted terms granted. Other receivables are charged off when it is probable that the amounts will not be collected.

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.

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

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.

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 1 - 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).

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 March 2, 2018, which is the date the financial statements were available to be issued.

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 is currently analyzing its revenue streams to determine the impact and disclosures required by this standard. The Organization does expect to have an increase in disclosures surrounding revenue recognition.

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 gathering the required information for the additional disclosures required by this standard, specifically the liquidity and allocation of expenses.

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.

Note 2 - Contributions and Grants Receivable

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

	2017	2016
Gross promises to give before unamortized discount	$ 861,582	$ 233,319
Less unamortized discount using 2 percent discount rate	(4,818)	-
Net contributions receivable	$ 856,764	$ 233,319
Amounts due in:		
Less than one year	$ 601,958	$ 213,319
One to five years	254,806	20,000
Total	$ 856,764	$ 233,319

Note 3 - Line of Credit

The Organization has a $150,000 line of credit available from a bank which expires in July 2018. There were no borrowings on this line of credit at September 30, 2017 and 2016. 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 former office space, used for part of the year through July 31, 2016, was leased through Heart of West Michigan United Way, which was 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
2018	$ 33,892
2019	28,770
2020	3,900
2021	3,250
Total	$ 69,812

Total rent expense on these leases for 2017 and 2016 was approximately $53,000 and $47,000, respectively.

Note 5 - Employee Benefit Plan

The Organization sponsors a 401(k) defined contribution retirement plan covering substantially all employees of First Steps Kent. All employees who have reached the age of 21 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 $13,400 and $18,400 to the plan for the years ended September 30, 2017 and 2016, respectively. Up until June 30, 2016, First Steps was 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, 2017 and 2016 are restricted for the following purposes:

	2017	2016
Purpose restricted:		
Education campaign	$ 69,033	$ 116,259
Diaper drive	8,086	278
Early Learning	75,547	145,097
Welcome Home Baby	9,119	46,525
Operations	42,823	-
GAP campaign	87,682	-
Time restricted	265,000	20,383
Time and purpose restricted:		
Early learning	155,000	-
Data Projects	235,000	-
Operations	190,000	-
GAP campaign	-	176,456
Total temporarily restricted net assets	$ 1,137,290	$ 504,998

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 were paid on behalf of the Organization. The Organization also used United Way as a fiscal sponsor for certain grants. At September 30, 2016, the Organization had accounts payable to United Way totaling $15,537. As disclosed in Note 4, office space lease expenses of $35,615 for the year ended September 30, 2016, 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 terminated during the year ended September 30, 2016.

In addition, $641,600 and $366,100 of revenue earned during fiscal year 2017 and 2016, respectively, is from related parties of members of the commission. Receivable balances of $525,000 and $20,000 at year end for fiscal years 2017 and 2016, respectively, are from related parties of members of the commission.