First Steps Kent

Financial Report

September 30, 2018

Contents

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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 (the "Organization"), which comprise the statement of financial position as of September 30, 2018 and 2017 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.

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, 2018 and 2017 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

January 18, 2019

Statement of Financial Position

September 30, 2018 and 2017

	2018	2017
Assets		
Cash and cash equivalents	$ 468,626	$ 252,557
Receivables:		
Contributions and grants receivable (Note 3)	888,005	856,764
Other receivables	231	2,063
Prepaid expenses and other	2,375	3,652
Furniture and equipment - Less accumulated depreciation of $133,920 in 2018 and $137,521 in 2017	20,243	29,857
Total assets	**$ 1,379,480**	**$ 1,144,893**
Liabilities and Net Assets (Deficit)		
Liabilities - Accounts payable and accrued expenses	$ 146,508	$ 99,389
Net Assets (Deficit)		
Unrestricted - Undesignated	141,654	(91,786)
Temporarily restricted (Note 7)	1,091,318	1,137,290
Total net assets (deficit)	1,232,972	1,045,504
Total liabilities and net assets (deficit)	**$ 1,379,480**	**$ 1,144,893**

See notes to financial statements.

Statement of Activities and Changes in Net Assets

Years Ended September 30, 2018 and 2017

	2018			2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue and Support						
Contributions and grants	$ 1,256,728	$ 626,673	$ 1,883,401	$ 436,475	$ 1,284,691	$ 1,721,166
Other revenue	8,998	-	8,998	134	-	134
Loss on sale of fixed assets	(763)	-	(763)	(397)	-	(397)
Total revenue, and other support	1,264,963	626,673	1,891,636	436,212	1,284,691	1,720,903
Net Assets Released from Restrictions	672,645	(672,645)	-	652,399	(652,399)	-
Total revenue, support, and net assets released from restrictions	1,937,608	(45,972)	1,891,636	1,088,611	632,292	1,720,903
Expenses						
Program services:						
Great Start Collaborative and Parent Liaisons	513,745	-	513,745	423,850	-	423,850
Early Learning	524,608	-	524,608	258,866	-	258,866
Welcome Home Baby	-	-	-	113,825	-	113,825
Data Projects	61,212	-	61,212	17,836	-	17,836
Education Campaign	383,708	-	383,708	220,588	-	220,588
Total program services	1,483,273	-	1,483,273	1,034,965	-	1,034,965
Support services:						
Administration	153,936	-	153,936	179,454	-	179,454
Fundraising	66,959	-	66,959	121,804	-	121,804
Total support services	220,895	-	220,895	301,258	-	301,258
Total expenses	1,704,168	-	1,704,168	1,336,223	-	1,336,223
Increase (Decrease) in Net Assets	233,440	(45,972)	187,468	(247,612)	632,292	384,680
Net Assets (Deficit) - Beginning of year	(91,786)	1,137,290	1,045,504	155,826	504,998	660,824
Net Assets (Deficit) - End of year	**$ 141,654**	**$ 1,091,318**	**$ 1,232,972**	**$ (91,786)**	**$ 1,137,290**	**$ 1,045,504**

Statement of Functional Expenses

Year Ended September 30, 2018

	Program Services						Support Services		Total
	Great Start Collaborative and Parent Liaisons	Early Learning	Welcome Home Baby	Data Projects	Education Campaign	Total	Administration	Fundraising	Total
Salaries	$ 198,716	$ 205,181	$ -	$ 6,000	$ 5,000	$ 414,897	$ 48,356	$ 19,911	$ 483,164
Payroll taxes and employee benefits	25,406	50,808	-	615	1,382	78,211	13,069	5,227	96,507
Total salaries and related expenses	224,122	255,989	-	6,615	6,382	493,108	61,425	25,138	579,671
Grants - Pass through	-	225,000	-	-	160,000	385,000	-	-	385,000
Professional fees	23,001	38,543	-	49,521	171,866	282,931	47,922	25,391	356,244
Office supplies	22,208	-	-	-	-	22,208	5,150	1,630	28,988
Telephone	3,220	-	-	-	-	3,220	9,693	4,090	17,003
Postage and shipping	-	-	-	-	5,193	5,193	723	310	6,226
Minor equipment	10,056	-	-	-	-	10,056	933	-	10,989
Occupancy	26,310	2,689	-	2,689	2,688	34,376	8,893	3,723	46,992
Printing, publications, and promotion	21,920	-	-	-	8,001	29,921	2,311	2,957	35,189
Conferences, workshops, and meetings	180,708	-	-	-	27,191	207,899	8,000	-	215,899
Miscellaneous	1,300	1,488	-	1,488	1,488	5,764	4,921	2,060	12,745
Depreciation	900	899	-	899	899	3,597	3,965	1,660	9,222
Total functional expenses	**$ 513,745**	**$ 524,608**	**$ -**	**$ 61,212**	**$ 383,708**	**$ 1,483,273**	**$ 153,936**	**$ 66,959**	**$ 1,704,168**

See notes to financial statements.

Statement of Functional Expenses

Year Ended September 30, 2017

	Program Services						Support Services		Total
	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**

Statement of Cash Flows

Years Ended September 30, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Increase in net assets	$ 187,468	$ 384,680
Adjustments to reconcile increase in net assets to net cash and cash equivalents from operating activities:		
Depreciation	9,222	9,340
Loss on disposal of fixed assets	763	397
Bad debt expense	-	46,739
Changes in operating assets and liabilities which (used) provided cash and cash equivalents:		
Contributions and grants receivable	(31,241)	(630,184)
Other receivables	1,832	39,937
Prepaid expenses and other	1,277	21,271
Accounts payable and accrued expenses	47,119	10,599
Payable to United Way	-	(15,537)
Net cash and cash equivalents provided by (used in) operating activities	216,440	(132,758)
Cash Flows Used in Investing Activities - Purchase of property and equipment	(371)	-
Net Increase (Decrease) in Cash and Cash Equivalents	216,069	(132,758)
Cash and Cash Equivalents - Beginning of year	252,557	385,315
Cash and Cash Equivalents - End of year	**$ 468,626**	**$ 252,557**

See notes to financial statements.

Note 1 - Nature of Business

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 composed of interdisciplinary stakeholders that 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, surveys 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 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. The Memorandum of Understanding between KISD, GSC, and FSK expired on September 30, 2018. The fiduciary and employer of record duties are transitioning to Heart of West Michigan United Way, with a transition period to be completed by January 11, 2019.

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 Aberdeen, Burton, Coit Creative Arts Academy, Congress, Harrison Park, and Martin Luther King, Jr. 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 443 children and 300 adults participate in program services this year.

As of summer 2017, First Steps no longer directly operates this program, but rather 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 January 2017, First Steps no longer directly operates this program, but rather contracts with Health Net of West Michigan to operate this program. First Steps Kent will continue to provide funding to Health Net to continue operating the Welcome Home Baby program. Per the contract in place, the final payment was made October 1, 2018 and covered the services provided through December 31, 2018.

Note 1 - Nature of Business (Continued)

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 support collective initiatives to improve outcomes for children.

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.

Note 2 - Significant Accounting Policies

Basis of Presentation

The financial statements of the Organization have been prepared on the basis of generally accepted accounting principles (GAAP).

Cash and Cash Equivalents

Cash and cash equivalents consist of highly liquid investments purchased with an original maturity of 90 days.

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.

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

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Classification of Net Assets

Net assets of the Organization are classified based on the presence or absence of donor-imposed restrictions.

Unrestricted net assets are not restricted by donors, or the donor-imposed restrictions have expired or been fulfilled.

Note 2 - Significant Accounting Policies (Continued)

Temporarily restricted net assets consist of contributions received with donor-imposed restrictions that expire with the passage of time or that can be removed by meeting certain requirements.

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. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are released to unrestricted net assets.

Contributions and Grants

Unconditional promises to give cash and other assets to the Organization are reported at fair value on the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value on the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor 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 changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying financial statements.

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

Costs of providing the program and support services have been reported on a functional basis in the statement of activities. Costs have been allocated between the various programs and support services on several bases and estimates. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

Income Taxes

The Organization is a not-for-profit corporation and is exempt from tax under the provisions of Internal Revenue Code Section 501(c)(3).

Concentration of Credit Risk

First Steps maintained demand deposits in one bank, which are 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

The financial statements and related disclosures include evaluation of events up through and including January 18, 2019, which is the date the financial statements were available to be issued.

Note 2 - Significant Accounting Policies (Continued)

Upcoming Accounting Pronouncements

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 using one of two retrospective application methods. The Organization has not yet determined which application method it will use.

The Financial Accounting Standards Board (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 Organization's leases for office space and equipment that will be reported on the balance sheet at adoption. Upon adoption, the Organization will recognize a lease liability and corresponding right-to-use asset based on the present value of the minimum lease payments. The effects on the results of operations are not expected to be significant, as recognition and measurement of expenses and cash flows for leases will be substantially the same under the new standard.

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. 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 gathering relevant information to timely implement this standard, including information for the enhanced liquidity and functional allocation disclosures.

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which provides enhanced guidance to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal transactions) and (2) determining whether a contribution is conditional. The accounting guidance will result in more governmental contracts being accounted for as contributions and may delay revenue recognition for certain grants and contributions that no longer meet the definition of unconditional. The new guidance will be effective for the Organization’s year ending September 30, 2020 and will be applied on a modified prospective basis. The Organization does not expect the standard to have a significant impact on the timing of revenue recognition for government grants and contracts, but has not yet determined the impact on the timing of recognition of foundation and individual grants and contributions.

Note 3 - Contributions and Grants Receivable

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

	2018	2017
Gross promises to give before unamortized discount	$ 892,605	$ 861,582
Less unamortized discount using 2 percent discount rate	(4,600)	(4,818)
Net contributions receivable	$ 888,005	$ 856,764
Amounts due in:		
Less than one year	$ 662,515	$ 601,958
One to five years	225,490	254,806
Total	$ 888,005	$ 856,764

Note 4 - Line of Credit

Under a line of credit agreement with a bank, the Organization has available borrowings of approximately $150,000. There were no borrowings on this line of credit at September 30, 2018 and 2017. 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, and matures during July 2019. The line of credit is secured by substantially all assets.

Note 5 - Operating Leases

The Organization leases office space and certain equipment under operating lease agreements that expire through July 2021. The Organization leased office space managed by a nonrelated party beginning on December 1, 2018 and continuing through December 31, 2023. The following is a schedule of future minimum payments for the years ending September 30 under the new lease agreement:

Years Ending September 30	Amount
2019	$ 61,277
2020	65,052
2021	66,440
2022	65,484
2023	66,771
Total	$ 325,024

Total rent expense on the leases for 2018 and 2017 was approximately $47,000 and $53,000, respectively.

Note 6 - 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 $13,700 and $13,400 to the plan for the years ended September 30, 2018 and 2017, respectively.

Note 7 - Net Assets

Temporarily restricted net assets as of September 30 are restricted for the following purposes:

	2018	2017
Purpose restrictions:		
Education Campaign	$ 78,136	$ 69,033
Diaper drive	1,409	8,086
Early Learning	-	75,547
Welcome Home Baby	-	9,119
Operations	-	42,823
GAP campaign	-	87,682
Data Projects	5,453	-
Total purpose restrictions	84,998	292,290
Time restrictions	440,000	265,000
Time and purpose restrictions:		
Early Learning	20,000	155,000
Data Projects	316,320	235,000
Operations	-	190,000
Education Campaign	230,000	-
Total time and purpose restrictions	566,320	580,000
Total temporarily restricted net assets	$ 1,091,318	$ 1,137,290

Note 8 - Related Party Transactions

Revenue in the amount of $532,072 and $641,600 was earned from related parties of members of the commission during the fiscal years ended Sepetember 30, 2018 and 2017, respectively. Receivable balances of $160,000 and $525,000 at year end for fiscal years 2018 and 2017, respectively, are from related parties of members of the commission.