

First Steps Kent



Years Ended
September 30,
2020 and 2019

Financial
Statements
and
Supplementary
Information

Rehmann

FIRST STEPS KENT

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INDEPENDENT AUDITORS' REPORT

January 19, 2021

To the Commission of
First Steps Kent
Grand Rapids, Michigan

We have audited the accompanying financial statements of **First Steps Kent** (the "Organization"), a Michigan not-for-profit organization, which comprise the statements of financial position as of September 30, 2020 and 2019, and the related statements of activities, 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.

Independent Auditors' Responsibility

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

Rehmann is an independent member of Nexia International.



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, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 1 to the financial statements, in 2019 the Organization adopted Accounting Standards Update (ASU) No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*. Our opinion is not modified with respect to this matter.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information listed in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the 2020 basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2020 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the 2020 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2020 basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the 2020 basic financial statements as a whole.

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FIRST STEPS KENT

Statements of Financial Position

	September 30,	
	2020	2019
Assets		
Cash and cash equivalents	\$ 1,593,054	\$ 464,110
Pledges and grants receivables, net	563,986	819,782
Ready by Five Millage receivable	365,809	135,446
Prepaid expenses and other assets	7,094	6,256
Property and equipment, net	33,789	40,747
Total assets	\$ 2,563,732	\$ 1,466,341
Liabilities		
Accounts payable	\$ 402,599	\$ 33,246
Accrued liabilities	71,019	32,609
Advance from Ready by Five millage	398,583	-
Deferred revenue - CARES Act	450,000	-
Total liabilities	1,322,201	65,855
Net assets		
Without donor restrictions		
Undesignated	412,231	323,253
Board designated funds	63,000	-
With donor restrictions	766,300	1,077,233
Total net assets	1,241,531	1,400,486
Total liabilities and net assets	\$ 2,563,732	\$ 1,466,341

The accompanying notes are an integral part of these financial statements.

FIRST STEPS KENT

Statement of Activities

For the Year Ended September 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenues			
Contributions and grants	\$ 374,334	\$ 267,091	\$ 641,425
Ready by Five Millage Contract	2,782,613	-	2,782,613
Other revenue	59,293	-	59,293
Paycheck Protection Program loan forgiveness (Note 10)	104,870	-	104,870
Total support and revenues	3,321,110	267,091	3,588,201
Net assets released from restrictions	578,024	(578,024)	-
Total support, revenues and net assets released from restrictions	3,899,134	(310,933)	3,588,201
Expenses			
Program services:			
Early Childhood Development	2,854,389	-	2,854,389
Early Learning Initiative	293,489	-	293,489
Shared Services	118,681	-	118,681
Data Projects	191,293	-	191,293
Total program services	3,457,852	-	3,457,852
Support services:			
Administration	206,920	-	206,920
Fundraising	82,384	-	82,384
Total support services	289,304	-	289,304
Total expenses	3,747,156	-	3,747,156
Change in net assets	151,978	(310,933)	(158,955)
Net assets, beginning of year	323,253	1,077,233	1,400,486
Net assets, end of year	\$ 475,231	\$ 766,300	\$ 1,241,531

The accompanying notes are an integral part of these financial statements.

FIRST STEPS KENT

Statement of Activities

For the Year Ended September 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenues			
Contributions and grants	\$ 471,649	\$ 733,184	\$ 1,204,833
Ready by Five Millage Contract	255,743	-	255,743
Other revenue	111,301	-	111,301
Loss on disposal of property and equipment	(14,843)	-	(14,843)
Total support and revenues	823,850	733,184	1,557,034
Net assets released from restrictions	747,269	(747,269)	-
Total support, revenues and net assets released from restrictions	1,571,119	(14,085)	1,557,034
Expenses			
Program services:			
Early Childhood Development	178,779	-	178,779
Early Learning Initiative	400,187	-	400,187
Shared Services	5,150	-	5,150
Data Projects	187,725	-	187,725
Education Campaign	164,849	-	164,849
Great Start Collaborative and Parent Liaisons	115,657	-	115,657
Total program services	1,052,347	-	1,052,347
Support services:			
Administration	242,050	-	242,050
Fundraising	95,123	-	95,123
Total support services	337,173	-	337,173
Total expenses	1,389,520	-	1,389,520
Change in net assets	181,599	(14,085)	167,514
Net assets, beginning of year	141,654	1,091,318	1,232,972
Net assets, end of year	\$ 323,253	\$ 1,077,233	\$ 1,400,486

The accompanying notes are an integral part of these financial statements.

FIRST STEPS KENT

Statement of Functional Expenses

For the Year Ended September 30, 2020

	Program Services		
	Early Childhood Development	Early Learning Initiatives	Shared Services
Salaries	\$ 253,500	\$ 222,807	\$ 56,141
Payroll taxes and employee benefits	75,457	39,335	18,411
Total salaries and related expenses	328,957	262,142	74,552
Grants - pass through	2,333,716	-	-
Contractual and professional fees	151,667	-	430
Office supplies	5,269	-	406
Telephone	2,583	-	1,082
Minor equipment	837	3,881	-
Occupancy	27,042	16,415	-
Printing, publications, and promotion	1,082	559	-
Conferences, workshops, and meetings	2,820	10,492	42,211
Miscellaneous	416	-	-
Depreciation	-	-	-
Bad debt	-	-	-
Total expenses	\$ 2,854,389	\$ 293,489	\$ 118,681

The accompanying notes are an integral part of these financial statements.



Program Services		Support Services		
Data Projects	Total Program Services	Administration	Fundraising	Total
\$ 27,211	\$ 559,659	\$ 49,839	\$ 20,522	\$ 630,020
4,643	137,846	14,563	5,996	158,405
31,854	697,505	64,402	26,518	788,425
-	2,333,716	-	-	2,333,716
157,939	310,036	90,831	38,928	439,795
-	5,675	8,558	3,667	17,900
-	3,665	2,200	943	6,808
-	4,718	4,279	1,791	10,788
-	43,457	18,098	7,576	69,131
-	1,641	618	258	2,517
1,500	57,023	611	-	57,634
-	416	6,617	1,451	8,484
-	-	5,706	1,252	6,958
-	-	5,000	-	5,000
\$ 191,293	\$ 3,457,852	\$ 206,920	\$ 82,384	\$ 3,747,156

FIRST STEPS KENT

Statement of Functional Expenses

For the Year Ended September 30, 2019

	Program Services			
	Early Childhood Development	Early Learning Initiatives	Shared Services	Data Projects
Salaries	\$ 7,784	\$ 255,420	\$ -	\$ 8,970
Payroll taxes and employee benefits	1,297	47,614	-	2,001
Total salaries and related expenses	9,081	303,034	-	10,971
Grants - pass through	-	88,868	-	-
Contractual and Professional fees	149,185	-	5,150	167,900
Office supplies	722	-	-	-
Telephone	-	-	-	-
Postage and shipping	11,214	237	-	237
Minor equipment	476	476	-	476
Occupancy	4,442	4,441	-	4,441
Printing, publications, and promotion	-	600	-	600
Conferences, workshops, and meetings	2,394	-	-	-
Miscellaneous	910	1,820	-	1,820
Depreciation	355	711	-	1,280
Total expenses	\$ 178,779	\$ 400,187	\$ 5,150	\$ 187,725

The accompanying notes are an integral part of these financial statements.

Program Services			Support Services		
Education Campaign	Great Start Collaborative and Parent Liaisons	Total Program Services	Administration	Fundraising	Total
\$ 7,785	\$ 59,572	\$ 339,531	\$ 62,620	\$ 25,786	\$ 427,937
1,298	13,262	65,472	16,015	7,297	88,784
9,083	72,834	405,003	78,635	33,083	516,721
-	-	88,868	-	-	88,868
128,398	4,334	454,967	83,609	35,886	574,462
-	4,444	5,166	7,564	3,450	16,180
-	-	-	4,911	2,105	7,016
15,964	-	27,652	239	237	28,128
-	-	1,428	2,574	876	4,878
4,443	5,282	23,049	33,650	14,057	70,756
5,325	100	6,625	1,976	823	9,424
370	28,663	31,427	16,064	-	47,491
910	-	5,460	9,849	3,360	18,669
356	-	2,702	2,979	1,246	6,927
\$ 164,849	\$ 115,657	\$ 1,052,347	\$ 242,050	\$ 95,123	\$ 1,389,520

FIRST STEPS KENT

Statements of Cash Flows

	Year Ended September 30,	
	2020	2019
Cash flows from operating activities		
Change in net assets	\$ (158,955)	\$ 167,514
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	6,958	6,927
Loss on disposal of property and equipment	-	14,843
Changes in operating assets and liabilities that provided (used) cash:		
Contributions and grants receivables	255,796	68,223
Other receivables	(230,363)	(135,215)
Prepaid expenses and other	(838)	(3,881)
Accounts payable	369,353	(78,803)
Accrued liabilities	38,410	(1,850)
Advance from Ready by Five millage	398,583	-
Deferred revenue - CARES Act	450,000	-
Net cash provided by operating activities	1,128,944	37,758
Cash flows used in investing activities		
Purchases and construction of property and equipment	-	(42,274)
Net increase (decrease) in cash and cash equivalents	1,128,944	(4,516)
Cash and cash equivalents, beginning of year	464,110	468,626
Cash and cash equivalents, end of year	\$ 1,593,054	\$ 464,110

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

FIRST STEPS KENT

Notes to Financial Statements

1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

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

First Steps Kent provided the following programs in 2020:

Early Childhood Development

First Steps Kent administers and oversees the Ready by Five Early Childhood Millage (the "Ready by Five Millage") for programs that improve the health, school readiness, and well-being of children through age five. It allows more children and families from across Kent County to participate in programs that are proven to increase their likelihood of success in school and beyond. Community-based organizations apply for funding to provide services such as home visiting, play and learn groups, developmental screening, and navigation support to help families access the help they need and want. Decisions about which organizations to fund are based on community needs assessments and the recommendations of the Resident Proposal Review Board, which includes parents, Kent County Commissioners and staff, a community early childhood expert, and a First Steps Kent Commissioner.

Early Learning Initiatives

First Steps Kent was established to be the systems level organization for Early Childhood in Kent County, born out of planning between community leaders, funders and the Kent County administration in 2009. Although terms and the vernacular has shifted over several years, promotion and advocacy for Early Learning focused on children and families covering the age continuum from pre-natal to 5 years of age is a large part of the work of First Steps Kent. The measurable outcomes associated with this work ensures that children are born healthy and are referred to services to assist them and their families with developmentally appropriate resources and services, so that they are able to enter kindergarten ready to learn and reach their full potential. First Steps Kent is a lead convener in Kent County, statewide and even nationally to promote and advocate for evidenced-based models to enhance the healthy development of young children. These initiatives include dozens of meetings, convenings and contributions to the latest research documents created by partners like the Build Initiative, the Pritzker Children's Initiative, the National League of Cities and the Center for the Study of Social Policy. First Steps Kent strives to advocate for services and resources for our youngest children and their families by providing impact reports and needs assessments showing where gaps exist in the early childhood landscape.

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Notes to Financial Statements

Shared Services

In 2019, First Steps Kent was selected as the convening entity to incubate and implement a quality childcare service model for Kent County that will increase access to affordable, quality childcare for working families with young children by maximizing early childcare provider capacity. Once established, the shared services initiative will offer resources to increase business sustainability through supports such as: technical assistance from experts on small business management, professional development webinars and workshops on best practices in quality childcare, and developing a coordinated purchasing system to ensure providers receive volume discounts that will increase their buying power for supplies.

Data Projects

First Steps Kent supports community-wide data collection initiatives from service providers to support understanding the needs of expectant parents and families with young children in Kent County. This project tracks the progress of programs and initiatives aligning in three key areas that contribute to kindergarten readiness, including: children are born healthy, children are developmentally on track and child health. Projects have included a formal process to collect feedback from the community with the identifying of contributing indicators that add a measurable context to the early childhood vision for Kent County, development of a systems stakeholder map showing the connections and relationships among early childhood programs, as well as designing performance-based metrics that have been included in the agreements executed with agencies receiving Ready by Five Millage funding.

First Steps Kent provided the following additional programs in 2019:

Great Start Collaborative and Parent Liaisons (GSC)

Funded by Michigan's Office of Great Start and Michigan Department of Education, The Great Start Collaborative (GSC) is part of a network of 54 Great Start Collaboratives working in every Michigan county. Kent County's GSC is composed of interdisciplinary stakeholders that represent service providers, business, funders, government, elected officials and parents working to implement State level goals at the local level by convening stakeholders to research best practice and recommend systems alignments and changes. First Steps Kent no longer houses GSC, the fiduciary and employer of record duties fully transitioned to Heart of West Michigan United Way during fiscal year 2019.

Education Campaign

First Steps Kent sought 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. The campaign objective was 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.

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Notes to Financial Statements

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.

Basis of Presentation

Net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The Board has designated an unrestricted donation for future data projects.

Net assets with donor restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits in banks, cash on hand, and deposits in money market funds. The Organization maintains demand deposits in banks that are insured by the Federal Deposit Insurance Corporation up to \$250,000 per bank. At times during 2020 and 2019, the Organization's bank balance in these accounts may have exceeded the insured limit. Management believes the Organization is not exposed to any significant interest rate or other risk on these deposits.

Pledges and Grants Receivable

The Organization's 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. Pledges receivable are recorded at the net present value of the expected future cash flows using a discount rate of 2%. No allowance for uncollectible pledges was considered necessary as of September 30, 2020 or 2019.

FIRST STEPS KENT

Notes to Financial Statements

Property and Equipment

Furniture and equipment and leasehold improvements 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 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, or the lease term if shorter, which generally range from 5 to 10 years.

Advance from Ready by Five millage

The contract with Kent County for the administration of the Ready by Five Millage provides that First Steps Kent annually receive a cash advance to be used for working capital. The amount of the cash advance will be equal to 1/12th of the annual millage and is repaid each year whereupon a new advance is provided by the county based on the then current years millage.

Deferred Revenue - CARES Act

Kent County awarded First Steps Kent \$450,000 of CARES Act – Coronavirus Relief Funds to be distributed to licensed child care providers in the county to meet the needs as a result of new health and safety requirements. The funds will be used by the child care providers to purchase relief supplies such as easy-to-clean toys, activities, curriculum, food, cleaning and sanitation supplies along with technical assistance such as tax preparation and human resource consulting. The County's intent in providing this funding is to help ensure that providers remain open during the pandemic, especially to serve children of essential workers.

Under the terms of the award, all of the funds must be disbursed by December 31, 2020. Revenue and an offsetting expense, less an administrative fee, will be recognized as the funds are disbursed.

Donations and Unconditional Promises to Give

Donations received are recorded as support with or without donor restrictions, depending on the existence and/or nature of any donor imposed restrictions. Donations are recognized when the donor makes a promise to give that is, in substance, unconditional. Donations that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the year in which the donations are received. All other donor-restricted donations are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. When a restriction has been satisfied or expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received, less an allowance for promises estimated to be uncollectible. The gifts are reported as either net assets without donor restrictions or net assets with donor restrictions if they are received with donor stipulations that limit the use of donated assets.

FIRST STEPS KENT

Notes to Financial Statements

Revenue Recognition

Grant Awards

Grant awards are either recorded as contributions or exchange transactions based on criteria contained in the grant award:

Grant awards that are contributions: Grants that qualify as contributions are recorded as invoiced to the funding sources in accordance with the terms of the award and ASC Topic 958-605, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Revenue is recognized in the accounting period when the related allowable expenses or asset acquisition costs are incurred. Amounts received in excess of expenses or asset acquisitions are reflected as grant funds received in advance.

Grant awards that are exchange transactions: Exchange transactions are typically reimbursement based on a predetermined rate for services performed in accordance with the terms of the award and ASC Topic 606, *Revenue from Contracts with Customers*. The revenue is recognized when control of the promised goods or services is transferred to the customer (grantor) in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. There were no grant awards that were considered exchange transactions during the year ended September 30, 2020.

Ready by Five Millage

On November 16, 2018, Kent County voters approved a 6 year millage for .25 mills that provides funding for community-based early childhood development services for families with children up to age five and expectant mothers. On July 25, 2019 the Kent County Board of Commissioners signed a contract with the Organization to serve as the childhood millage administrator. The contract was effective May 1, 2019. Under terms of the contract, the Organization receives a monthly administration fee which is recorded as revenue as services are provided. For the year ended September 30, 2020 First Steps Kent received \$448,897 of funding from the millage for administration and \$2,333,716 for distribution to the approved service providers. For the year ended September 30, 2019, \$135,446 was received for administration and \$120,327 was received for startup funding. The revenue from this contract is included within the Ready By Five Millage Contract revenue in the 2020 and 2019 statement of activities.

FIRST STEPS KENT

Notes to Financial Statements

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Expenses which apply to more than one functional category have been allocated among the respective functions based upon the time spent on these functions by specific employees as estimated by management and applied on a consistent basis. Other expenses have been allocated between program and support service classifications based upon square footage, estimates of usage and other relevant measures as determined by management. Accordingly, certain costs have been allocated among the programs and supporting services benefited as detailed in the statements of functional expenses. Dedicated program support expenses consist primarily of personnel functions directly associated with several different programs. Although the methods of allocation used are considered reasonable, other methods could be used that would produce different amounts.

Income Taxes

First Steps Kent is a not-for-profit organization exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and are exempt from similar state and local taxes. Although the organization was granted income tax exemption by the Internal Revenue Service, such exemption does not apply to "unrelated business taxable income."

The Organization analyzes its income tax filing positions in the jurisdictions where it is required to file income tax returns, as well as all open tax years in these jurisdictions, to identify potential uncertain tax positions. The Organization concluded that there are no significant uncertain tax positions requiring recognition in these financial statements. The Organization does not expect the total amount of unrecognized tax benefits ("UTB") (e.g. tax deductions, exclusions, or credits claimed or expected to be claimed) to significantly change in the next twelve months. The Organization does not have any amounts accrued for interest and penalties related to UTB at September 30, 2020 or 2019, and is not aware of any claims for such amounts by federal or state income tax authorities.

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Notes to Financial Statements

Risks and Economic Uncertainties

The outbreak of a novel coronavirus (COVID-19), which the World Health Organization declared in March 2020 to be a global pandemic, continues to spread throughout the United States of America and the globe. Many State Governors issued temporary Executive Orders that, among other stipulations, effectively prohibit in-person work activities for most businesses and industries including nonprofit entities, having the effect of suspending or severely curtailing operations. As a result, the COVID-19 outbreak is disrupting and affecting the Organization's normal activities. The extent of the ultimate impact of the pandemic on the Organization's operational and financial performance will depend on various developments, including the duration and spread of the outbreak and its impact on funders, program recipients, employees, vendors, and other constituents, all of which cannot be reasonably predicted at this time. In addition, the current environment may place additional demands on the Organization for providing immediate financial support and/or services to its program recipients. While management reasonably expects the COVID-19 outbreak to negatively impact the Organization's financial position, changes in net assets, and, where applicable, the timing and amounts of cash flows, the related financial consequences and duration is highly uncertain.

As a result, the Organization secured borrowings in the amount of \$104,870 through the Paycheck Protection Program ("PPP") obtained through the federal Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), which was enacted into law on March 28, 2020. See Note 10. The Organization also received \$450,000 from Kent County through the CARES Act that is to be distributed to licensed child care providers in the county to meet the needs as a result of new health and safety requirements, which is deferred as of September 30, 2020.

Change in Accounting Principle

As of October 1, 2019, the Organization adopted Accounting Standards Update (ASU) No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*. The amendments in this ASU provide a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction. The ASU also provides guidance on how to determine whether a contribution is conditional and how to better distinguish a donor-imposed condition from a donor-imposed restriction. The Organization has applied this ASU on a modified prospective basis and elected to apply the provisions only to agreements that were entered into after the effective date. Under this ASU, grants awarded by government agencies are generally considered conditional contributions and are recognized as support when qualifying expenses are incurred. Previously, such awards were deemed to be exchange transactions, through revenue was similarly recognized when qualifying expenses were incurred. As a result, the timing, amount and presentation of revenue from grants has not materially changed as a result of the adoption.

Subsequent Events

In preparing these financial statements, the Organization has evaluated, for potential recognition or disclosure, significant events or transactions that occurred during the period subsequent to September 30, 2020, the most recent statement of financial position presented herein, through January 19, 2021, the date these financial statements were available to be issued. No significant such events or transactions were identified.

FIRST STEPS KENT

Notes to Financial Statements

2. PLEDGES RECEIVABLE

Included in pledges and grants receivable are several unconditional promises to give. They are summarized as follows at September 30:

	2020	2019
Gross grants and promises to give	\$ 566,586	\$ 824,932
Less unamortized discount using 2 percent discount rate	<u>(2,600)</u>	<u>(5,150)</u>
Net pledges and grants receivable	<u>\$ 563,986</u>	<u>\$ 819,782</u>
Net pledges and grants receivable expected to be collected in:		
Less than one year	\$ 433,986	\$ 562,282
One to five years	<u>130,000</u>	<u>257,500</u>
Total	<u>\$ 563,986</u>	<u>\$ 819,782</u>

3. PROPERTY AND EQUIPMENT

Property and equipment, net is summarized as follows at September 30:

	2020	2019
Furniture and equipment	\$ 57,962	\$ 57,962
Leasehold improvements	<u>9,150</u>	<u>9,150</u>
Total	67,112	67,112
Less accumulated depreciation	<u>(33,323)</u>	<u>(26,365)</u>
Property and equipment, net	<u>\$ 33,789</u>	<u>\$ 40,747</u>

4. LINE OF CREDIT

Under a line of credit agreement with a bank, the Organization has available borrowings of up to \$150,000. There were no borrowings on this line of credit at September 30, 2020 and 2019. 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 2021. The line of credit is secured by substantially all assets.

FIRST STEPS KENT

Notes to Financial Statements

5. LEASES

The Organization leases office space and certain equipment under operating lease agreements that expire through July 2021. The Organization leases 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:

Year Ended September 30,	Amount
2021	\$ 66,440
2022	65,484
2023	66,771
2024	<u>16,773</u>
Total	<u>\$ 215,468</u>

Total rent expense on the leases for 2020 and 2019 was approximately \$69,500 and \$71,000, respectively. On November 1, 2018, the Organization entered into a shared space agreement related to a portion of its office space with the nonprofit entity K- Connect. The agreement runs concurrent with the Organization's lease agreement above. Under the terms of the shared space agreement, K-Connect reimburses the Organization for its share of common costs including rent, utilities and other costs. The amount of rent and other shared occupancy costs received under the shared space agreement from K Connect for the year ended September 30, 2020 and 2019 was approximately \$25,400 and \$21,400 respectively. The revenue from this shared space agreement is shown as other revenue on the 2020 and 2019 statement of activities.

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 \$11,373 and \$10,140 to the plan for the years ended September 30, 2020 and 2019, respectively.

FIRST STEPS KENT

Notes to Financial Statements

7. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions as of September 30 are restricted for the following purposes or time:

	2020	2019
Purpose and time restrictions:		
Contributions & grants - time restricted	\$ 342,500	\$ 345,000
Various program restrictions:		
Shared services	280,938	349,850
Data projects	142,862	302,383
Education campaign	-	80,000
	<u> </u>	<u> </u>
Total net assets with donor restrictions	<u>\$ 766,300</u>	<u>\$ 1,077,233</u>

8. RELATED PARTY TRANSACTIONS

Revenue in the amount of \$300,000 and \$205,250 was earned from related parties of members of the commission during the fiscal years ended September 30, 2020 and 2019, respectively. Pledges receivable balances of \$200,000 and \$50,000 at year end for fiscal years 2020 and 2019, respectively, are from related parties of members of the commission.

FIRST STEPS KENT

Notes to Financial Statements

9. LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following at September 30:

	2020	2019
Cash and cash equivalents	\$ 1,593,054	\$ 464,110
Grants, pledges and other receivables	929,795	955,228
Subtotal	2,522,849	1,419,338
Less:		
Amounts unavailable for general expenditures within one year, due to:		
Restricted by donors with time and purpose restrictions	(766,300)	(1,077,233)
Financial assets available to meet cash needs for general expenditures within one year	\$ 1,756,549	\$ 342,105

The Organization has \$1,756,549 and \$342,105, as of September 30, 2020 and 2019, respectively, of financial assets available within one year of the statements of financial position date to meet cash needs for general expenditures. The Organization manages its liquidity required to meet its operating needs while also trying to maximize the investment of its available funds. To help manage unanticipated liquidity needs, the Organization has a line of credit with an available balance of \$150,000, which it could draw upon.

In 2020, the Board has designated certain funds for specified purposes other than general expenditure. However, these amounts could be made available if necessary.

10. PAYCHECK PROTECTION PROGRAM

In May 2020, the Organization received \$104,870 as a loan under the Payroll Protection Program ("PPP") of the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), which was enacted into law on March 28, 2020. The loan has a two year maturity and is subject to a 1.0% interest rate. As of September 30, 2020, \$104,870 of this loan has been spent on eligible expenses and was fully forgiven on November 11, 2020. As such, the Organization has recognized this amount spent as revenue on the statement of activities.



SUPPLEMENTARY INFORMATION

FIRST STEPS KENT

Combining Statement of Financial Position

September 30, 2020

	First Steps Kent	Ready by Five Millage	Total
Assets			
Cash and cash equivalents	\$ 1,162,943	\$ 430,111	\$ 1,593,054
Pledges and grants receivables, net	563,986	-	563,986
Ready by Five Millage receivable	-	365,809	365,809
Prepaid expenses and other assets	7,094	-	7,094
Property and equipment, net	33,789	-	33,789
Total assets	\$ 1,767,812	\$ 795,920	\$ 2,563,732
Liabilities			
Accounts payable	\$ 5,262	\$ 397,337	\$ 402,599
Accrued liabilities	71,019	-	71,019
Advance from Ready by Five millage	-	398,583	398,583
Deferred revenue - CARES Act	450,000	-	450,000
Total liabilities	526,281	795,920	1,322,201
Net assets			
Without donor restrictions	475,231	-	475,231
With donor restrictions	766,300	-	766,300
Total net assets	1,241,531	-	1,241,531
Total liabilities and net assets	\$ 1,767,812	\$ 795,920	\$ 2,563,732

The accompanying notes are an integral part of these financial statements.

FIRST STEPS KENT

Combining Statement of Activities

For the Year Ended September 30, 2020

	First Steps Kent	Ready by 5 Millage	Total
Support and revenues			
Contributions and grants	\$ 641,425	\$ -	\$ 641,425
Ready by Five Millage Contract	448,897	2,333,716	2,782,613
Other revenue	59,293	-	59,293
Paycheck Protection Program loan forgiveness	104,870	-	104,870
	<hr/>	<hr/>	<hr/>
Total support and revenues	1,254,485	2,333,716	3,588,201
Expenses			
Program services:			
Early Childhood Development	520,673	2,333,716	2,854,389
Early Learning Initiative	293,489	-	293,489
Shared Services	118,681	-	118,681
Data Projects	191,293	-	191,293
	<hr/>	<hr/>	<hr/>
Total program services	1,124,136	2,333,716	3,457,852
Support services:			
Administration	206,920	-	206,920
Fundraising	82,384	-	82,384
	<hr/>	<hr/>	<hr/>
Total support services	289,304	-	289,304
	<hr/>	<hr/>	<hr/>
Total expenses	1,413,440	2,333,716	3,747,156
Change in net assets	(158,955)	-	(158,955)
Net assets, beginning of year	1,400,486	-	1,400,486
	<hr/>	<hr/>	<hr/>
Net assets, end of year	\$ 1,241,531	\$ -	\$ 1,241,531
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The accompanying notes are an integral part of these financial statements.