Educational First Steps

Financial Statements
May 31, 2021 and 2020

SFC
Sutton Frost Cary LLP
Certified Public Accountants

Educational First Steps

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Sutton Frost Cary LLP
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To the Board of Directors
Educational First Steps

We have audited the accompanying financial statements of Educational First Steps, which comprise the statements of financial position as of May 31, 2021 and 2020 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 U.S. generally accepted accounting principles; 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with U.S. generally accepted accounting standards. 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 misstatements 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 Educational First Steps as of May 31, 2021 and 2020 and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Sutton Frost Cary

A Limited Liability Partnership

Arlington, Texas
August 13, 2021

Educational First Steps
Statements of Financial Position
May 31, 2021 and 2020

	2021	2020
Assets		
Current assets:		
Cash	$ 256,555	$ 354,724
Current portion of unconditional promises to give, net	919,410	270,287
Prepaid expenses	16,859	13,094
Inventory	20,119	6,647
Total current assets	1,212,943	644,752
Noncurrent assets:		
Unconditional promises to give, net of current portion	45,377	152,891
Investments	5,448,759	5,303,999
Property and equipment, net	1,318,766	1,404,969
Total noncurrent assets	6,812,902	6,861,859
Total assets	$ 8,025,845	$ 7,506,611
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	$ 27,045	$ 43,040
Accrued expenses	64,129	75,114
Refundable advance	26,848	128,534
Total current liabilities	118,022	246,688
Net assets:		
Without donor restrictions	7,026,800	6,568,701
With donor restrictions	881,023	691,222
Total net assets	7,907,823	7,259,923
Total liabilities and net assets	$ 8,025,845	$ 7,506,611

See notes to financial statements.

Educational First Steps
Statement of Activities
Year Ended May 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:			
Contributions and grants	$ 2,465,180	$ 881,023	$ 3,346,203
Special event revenue (net of direct costs of $93,029)	145,981	-	145,981
Donated goods and services	44,318	-	44,318
Program service fees	187,025	-	187,025
Investment income, net	119,968	-	119,968
Net assets released from restrictions	691,222	(691,222)	-
Total support and revenue	3,653,694	189,801	3,843,495
Expenses:			
Program expenses - education and training	2,260,667	-	2,260,667
Management and general	602,596	-	602,596
Fundraising	332,332	-	332,332
Total expenses	3,195,595	-	3,195,595
Change in net assets	458,099	189,801	647,900
Net assets at beginning of the year	6,568,701	691,222	7,259,923
Net assets at the end of the year	$ 7,026,800	$ 881,023	$ 7,907,823

See notes to financial statements.

Educational First Steps
Statement of Activities
Year Ended May 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:			
Contributions and grants	$ 3,497,237	$ 953,478	$ 4,450,715
Special event revenue (net of direct costs of $121,485)	506,363	-	506,363
Donated goods and services	11,017	-	11,017
Program service fees	73,525	-	73,525
Investment income, net	164,913	-	164,913
Net assets released from restrictions	1,652,664	(1,652,664)	-
Total support and revenue	5,905,719	(699,186)	5,206,533
Expenses:			
Program expenses - education and training	3,487,190	-	3,487,190
Management and general	500,791	-	500,791
Fundraising	424,405	-	424,405
Total expenses	4,412,386	-	4,412,386
Change in net assets	1,493,333	(699,186)	794,147
Net assets at beginning of the year	5,075,368	1,390,408	6,465,776
Net assets at the end of the year	$ 6,568,701	$ 691,222	$ 7,259,923

See notes to financial statements.

Educational First Steps
Statement of Functional Expenses
Year Ended May 31, 2021

	Education and training	Management and general	Fundraising	Total
Salaries and wages	$ 882,788	$ 413,529	$ 199,564	$ 1,495,881
Payroll taxes	69,215	31,539	15,591	116,345
Other personnel costs	102,476	57,750	24,707	184,933
Total compensation	1,054,479	502,818	239,862	1,797,159
Child development trainings	64,958	-	-	64,958
Childcare subsidies	349,293	-	-	349,293
Contract services	-	16,000	6,280	22,280
Relief fund grants	269,751	-	-	269,751
Depreciation	66,359	12,661	7,183	86,203
Equipment	9,108	1,304	1,475	11,887
Events and networking	849	9,105	111,920	121,874
Insurance	14,333	4,409	2,567	21,309
Marketing	466	1,589	17,413	19,468
Materials and assistance to centers	296,819	-	520	297,339
Occupancy	46,447	12,682	9,369	68,498
Other	14,871	4,847	11,960	31,678
Professional fees	36,891	31,749	11,214	79,854
Supplies	1,963	1,610	452	4,025
Telephone/communications	32,987	3,603	4,851	41,441
Transportation	1,093	219	295	1,607
Total expenses	2,260,667	602,596	425,361	3,288,624
Less expenses included with revenues on the statement of activities - Direct costs of special events	-	-	(93,029)	(93,029)
Total expenses included in the expense section on the statement of activities	$ 2,260,667	$ 602,596	$ 332,332	$ 3,195,595

See notes to financial statements.

Educational First Steps
Statement of Functional Expenses
Year Ended May 31, 2020

	Education and training	Management and general	Fundraising	Total
Salaries and wages	$ 1,747,728	$ 312,485	$ 278,203	$ 2,338,416
Payroll taxes	144,159	25,693	22,557	192,409
Other personnel costs	204,942	77,207	19,727	301,876
Total compensation	2,096,828	415,386	320,487	2,832,701
Child development trainings	209,860	495	64	210,418
Childcare subsidies	366,408	-	-	366,408
Contract services	-	1,498	2,765	4,263
Relief fund grants	240,907	-	-	240,907
Depreciation	68,351	10,563	6,932	85,846
Equipment	8,782	1,676	1,199	11,657
Events and networking	2,669	10,294	135,516	148,479
Insurance	17,469	1,887	2,567	21,923
Marketing	7,045	916	18,402	26,362
Materials and assistance to centers	256,780	199	171	257,150
Occupancy	48,120	11,616	10,267	70,003
Other	5,149	4,879	21,286	31,314
Professional fees	52,464	29,689	15,403	97,556
Supplies	17,828	3,070	2,941	23,839
Telephone/communications	39,026	3,587	3,893	46,506
Transportation	49,504	5,037	3,997	58,538
Total expenses	3,487,190	500,791	545,890	4,533,871
Less expenses included with revenues on the statement of activities - Direct costs of special events	-	-	(121,485)	(121,485)
Total expenses included in the expense section on the statement of activities	$ 3,487,190	$ 500,791	$ 424,405	$ 4,412,386

See notes to financial statements.

Educational First Steps
Statements of Cash Flows
Years Ended May 31, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Change in net assets	$ 647,900	$ 794,147
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	86,203	85,846
Unrealized and realized gains on investments	(45,362)	(36,314)
Allowance for bad debt	1,690	8,500
Discount on long term unconditional promises to give	4,623	-
Changes in operating assets and liabilities:		
Unconditional promises to give	(547,922)	958,731
Prepaid expenses	(3,765)	32,152
Inventory	(13,472)	(5,697)
Accounts payable	(15,995)	5,365
Accrued expenses	(10,985)	(76,170)
Refundable advance	(101,686)	(121,370)
Net cash provided by operating activities	1,229	1,645,190
Cash flows from investing activities:		
Purchases of property and equipment	-	(110,593)
Proceeds from sales and maturities of investments	250,000	1,100,040
Purchases of investments	(349,398)	(2,477,547)
Net cash used by investing activities	(99,398)	(1,488,100)
Change in cash	(98,169)	157,090
Cash at beginning of year	354,724	197,634
Cash at end of year	$ 256,555	$ 354,724

See notes to financial statements.

1. Organization

Educational First Steps (Organization) was formed in May 1990 in the state of Texas as a nonprofit organization. Its mission is to create and support high-quality early learning environments that ignite the minds of children from birth to age five.

Through its own work and collaborations with community partners, the Organization teaches caregivers how to create high-quality early learning environments to start these children on a path to academic success. Working principally with childcare centers in under resourced neighborhoods of North Texas, the Organization equips center directors and teachers with proven tools and techniques that transform basic caregiving into effective social-emotional and educational preparation. The ultimate goal of each center is to meet nationally-accredited quality standards. These services are delivered through a research-based program of professional development offered at the Organization itself and in local childcare center classrooms throughout North Texas. The Organization offers supporting programs that supply age-appropriate learning tools, materials and curricula that provide student enrichment opportunities at local cultural and academic venues and that encourage higher student enrollment at centers that have achieved its quality objective.

The Organization is supported primarily through contributions, grants and fundraising activities.

2. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements are presented on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP).

Financial Statement Presentation

Net assets, revenues, gains and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

> *Net assets without donor restrictions* - Net assets not subject to donor or grantor imposed restrictions. Net assets without donor or grantor restrictions may be designated for specific purposes by action of the board of directors.
>
> *Net assets with donor restrictions* - Net assets subject to donor or grantor restrictions that will be met by actions of the Organization and/or the passage of time.

Some net assets with donor restrictions include a stipulation that assets provided be maintained permanently (perpetual in nature) while permitting the Organization to expend the income generated by the assets in accordance with the provisions of additional donor-imposed stipulations or a board of directors approved spending policy. As of May 31, 2021 and 2020, no such net asset restrictions existed.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Contributions whose restrictions are met in the same year the contributions are received are reported as net assets without donor restrictions. Expirations of net assets with donor restrictions (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Revenue Recognition

The Organization recognizes contributions when cash, securities or other assets or an unconditional promise to give is received. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the amounts expected to be collected. All contributions are considered available for unrestricted use unless specifically restricted by the donor.

Conditional promises to give, those with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been met. Amounts received prior to meeting measurable performance or other barriers are reported as refundable advances, which totaled $26,848 and $128,534 at May 31, 2021 and 2020, respectively.

Event sponsorship revenue is recognized at the date the event occurs. Advanced payments for the event sponsorships are reported as deferred revenue until the date of the event.

Donated materials, event tickets and equipment are reflected as contributions at their estimated fair values at date of receipt. The Organization recognizes contribution revenue for certain services received at the fair value of those services, provided those services create or enhance non-financial assets or require specialized skills which are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

Estimates

The preparation of financial statements in conformity with GAAP 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 revenues and expenses during the reporting period. Actual results could differ from those estimated.

Financial Instruments and Credit Risk Concentrations

Financial instruments which are potentially subject to concentrations of credit risk consist principally of cash, unconditional promises to give and investments. Cash, which may at times exceed federally insured limits is placed with high credit quality financial institutions to minimize risk. Accounts are insured by the Federal Deposit Insurance Corporation up to $250,000. At May 31, 2021, the uninsured balances totaled $5,038. The Organization evaluates the collectability of unconditional promises to give and maintains allowances for potential losses, if considered necessary. Investments are subject to various risks such as interest rate, credit and overall market volatility risks.

Investments

The Organization's investments consist of mutual funds and are stated at fair value in the statements of financial position. Interest, dividends and realized and unrealized gains and losses are reported in the statements of activities as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or by law.

The Organization's investments are subject to various risks, such as interest rate, credit and overall market volatility risks. Further, because of the significance of the investments to the Organization's financial position and the level of risk inherent in most investments, it is reasonably possible that changes in the values of the investments could occur in the near term and such changes could materially affect the amounts reported in the financial statements.

Inventory

The Organization maintains donated inventory consisting of educational supplies available for distribution to partner agencies. Inventory is recorded at estimated fair value.

Property and Equipment

Property and equipment are recorded at cost or, if donated, at estimated fair market value at the date of the donation. All items with a value greater than $1,500 are capitalized. Depreciation is computed using the straight-line method over estimated useful lives of 3 to 40 years.

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 and statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Occupancy and depreciation are allocated on a square footage basis that is in alignment with staff's time and effort. All other expenses are allocated on the basis of estimates of time and effort.

Income Taxes

The Organization is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code (IRC) and has not been classified as a private foundation as defined in the IRC. Income generated from activities unrelated to the Organization's exempt purposes is subject to tax under IRC Section 511. The Organization had no unrelated business income for the years ended May 31, 2021 and 2020. Accordingly, no provision has been made for federal income tax in the accompanying financial statements.

GAAP requires the evaluation of tax positions taken in the course of preparing the Organization's tax return and recognition of a tax liability (or asset) if the Organization has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken by the Organization, and has concluded that as of May 31, 2021 and 2020, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements.

Fair Value Measurement

The Organization categorizes its investments measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the fair value is based on the lowest level input that is significant to the fair value measurement. Assets and liabilities valued at fair value are categorized based on the inputs to the valuation techniques as follows:

> Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access.
>
> Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these

instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

Fair value measurement is based on quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Securities valued using Level 1 inputs include those traded on an active exchange, such as the New York Stock Exchange, as well as U.S. Treasury and other U.S. government and mortgage-backed securities that are traded by dealers or brokers in active over-the-counter markets. The Organization does not have any securities that are valued using Level 2 or 3 inputs.

New Accounting Pronouncements

Changes to GAAP are established by the Financial Accounting Standards Board (FASB) in the form of accounting standards updates (ASU's) to the FASB's Accounting Standards Codification.

The Organization considers the applicability and impact of all ASU's. ASU's not listed below were assessed and determined to be either not applicable or are expected to have minimal impact on the Organization's financial position and changes in net assets.

In 2016, the FASB issued its leasing standard in ASU 2016-02, *Leases*, for both lessees and lessors. Under its core principle, a lessee will recognize right-of-use (ROU) assets and related lease liabilities on the statement of financial position for all lease arrangements with terms longer than 12 months. The pattern of expense recognition in the statement of activities will depend on a leases' classification. For not-for-profit organizations, the standard takes effect for fiscal years beginning after December 15, 2021.

In 2020, the FASB issued ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The Organization will be required to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash or other financial assets, and additional quantitative and qualitative disclosures will be required. The standard takes effect for annual reporting periods beginning after June 15, 2021.

Management is currently evaluating the impact of these ASUs on its financial statements.

3. Investments

Investments consist of mutual funds reported at fair value using level 1 inputs totaling $5,448,759 and $5,303,999 at May 31, 2021 and 2020, respectively.

For the years ended May 31, 2021 and 2020 the components of investment income are:

	2021	2020
Interest and dividends	$ 74,606	$ 128,599
Unrealized/realized gains on investments	45,362	36,314
	$ 119,968	$ 164,913

The investment portfolio as of May 31, 2021 and 2020, is concentrated in the following investments:

	2021	2020
Vanguard Admiral - Short-Term Investment	41%	41%
Vanguard Admiral - Short-Term Bond Fund	59%	59%

4. Unconditional Promises to Give

As of May 31, 2021 and 2020, unconditional promises to give are expected to be collected as follows:

	2021	2020
Within one year	$ 929,600	$ 278,787
One - two years	45,377	152,891
	974,977	431,678
Less:		
Allowance for doubtful accounts	(10,190)	(8,500)
Discount on long term unconditional	(4,623)	-
	$ 960,164	$ 423,178

The present value discount for pledges due in more than one year was nominal at May 31, 2020. Pledges due in more than one year are reflected at the net present value of future cash flows using the rate 3.25% at May 31, 2021.

Of the total unconditional promises to give at May 31, 2021, approximately 89% was due from two donors. Of the total unconditional promises to give at May 31, 2020, approximately 83% was due from three donors.

5. Conditional Promises to Give

The Organization has a conditional grant from an entity that is contingent upon the Organization meeting donor imposed barriers which include carrying out certain activities and incurring qualified expenditures stipulated by the grants. As of May 31, 2020, amounts that may be received from the conditional grant totaled $300,000. As of May 31, 2021 all of the conditional grant had been received.

6. Property and Equipment

Property and equipment consist of the following at May 31:

	2021	2020
Building and improvements	$ 1,295,121	$ 1,295,121
Land	201,778	201,778
Computer equipment	193,053	193,053
Office equipment, furniture and fixtures	44,237	44,237
Less: accumulated depreciation	(415,423)	(329,220)
Total property and equipment	$ 1,318,766	$ 1,404,969

Depreciation expense totaled $86,203 and $85,846 for the years ended May 31, 2021 and 2020, respectively.

7. Net Assets With Donor Restrictions

Net assets with donor restrictions consist of the following at May 31:

	2021	2020
COVID-19 Relief Fund	$ 55,000	$ 203,390
Future operations/program support	111,250	187,322
Future operations/program support - Dallas	-	15,510
Future operations/program support - Tarrant	625,000	225,000
Support specialists	65,430	-
Other	24,343	60,000
	$ 881,023	$ 691,222

8. Donated Goods and Services

The Organization received the following donated goods and services during the years ended May 31, which are reflected in the accompanying financial statements:

	2021	2020
Donated professional services	$ 16,000	$ 2,150
Donated goods for educational programs and centers	28,318	8,867
	44,318	11,017
Donated goods included in special event revenue	-	7,027
	$ 44,318	$ 18,044

9. Retirement Plan

The Organization has a 403(b) defined contribution plan available to employees after eligibility periods are met which is managed by a third-party administrator. Eligible employees can make voluntary contributions, subject to certain limitations, on a pretax basis. The Organization may make a discretionary employer contribution to the plan on an annual basis. Vesting is full and immediate. Plan assets are held in separate employee owned and directed accounts.

The Organization elected to make a 2% matching contribution to the plan totaling $14,532 and $13,480 for the years ended May 31, 2021 and 2020, respectively.

10. Lease Commitments

Effective August 1, 2019, the Organization entered into a five year non-cancellable operating lease agreement for office space in Tarrant County. This lease requires monthly payments of $1,838 and includes fixed rent escalations and a five year renewal option. The Organization also leases office equipment under operating leases that expire at various times through 2025. Rental payments under non-cancelable operating leases totaled $40,567 and $37,813 for the years ended May 31, 2021 and 2020, respectively. The remaining minimum lease payments pursuant to these leases are as follows for the years ending May 31:

2022	$ 36,841
2023	35,175
2024	24,398
2025	4,083

11. Revenue Concentration

Approximately 40% and 42% of total support and revenue was from one donor for the years ended May 31, 2021 and 2020, respectively.

12. Liquidity and Availability of Resources

The Organization's financial assets available within one year of the statements of financial position date for general expenditure are as follows as of May 31:

	2021	2020
Cash	$ 256,555	$ 354,724
Unconditional promises to give	964,787	423,178
Investments	5,448,759	5,303,999
Total financial assets	6,670,101	6,081,901
Less amounts not available for general expenditure within one year, due to donor imposed time and purpose restrictions:	(881,023)	(691,222)
Financial assets available to meet cash needs for general expenditure within one year	$ 5,789,078	$ 5,390,679

The Organization receives significant contributions restricted by donors. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Organization must maintain sufficient resources to meet those responsibilities to its donors. Accordingly, financial assets may not be available for general expenditure within one year. The Organization considers contributions restricted for programs that are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures within one year. The Organization strives to maintain liquid financial assets sufficient to cover near-term operating needs, and to maintain sufficient reserves to provide reasonable assurance that long-term obligations will be fulfilled. To achieve this, the Organization forecasts its future cash flows and monitors its liquidity monthly and quarterly. During the years ended May 31, 2021 and 2020, the level of liquidity was managed within the Organization's expectations.

13. Uncertainties

In March 2020, the World Health Organization recognized the novel strain of coronavirus, COVID-19, as a pandemic. Due to the pandemic, the Organization cancelled various events for 2021. The coronavirus outbreak has severely restricted the level of economic activity in Texas. The Organization has adjusted operational plans to protect the employees and individuals served while still meeting client needs for essential services. The Organization continues to closely monitor the impact of COVID-19 on all aspects of our business. Given the uncertainty of the spread of the coronavirus, the related financial impact to the Organization, if any, cannot be determined at this time.

14. Subsequent Events

The Organization evaluated subsequent events through the date the financial statements were available to be issued and concluded that no additional disclosures are required.