Educational First Steps

Financial Statements
May 31, 2016 and 2015

Educational First Steps

Contents

Independent Auditors' Report

To the Board of Directors
Educational First Steps

We have audited the accompanying financial statements of Educational First Steps (Organization) which comprise the statement of financial position as of May 31, 2016 and the related statements of activities, functional expenses and cash flows for the year 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 audit. We conducted our audit in accordance with U.S. generally accepted accounting standards. 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 misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider 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.

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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, 2016 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.

The prior period financial statements of the Organization as of and for the year ended May 31, 2015 were audited by other auditors whose report dated August 11, 2015 expressed an unmodified opinion on those statements.

Sutton Frost Cary

A Limited Liability Partnership

November 21, 2016
Arlington, Texas

Educational First Steps
Statements of Financial Position
May 31, 2016 and 2015

	2016	2015
Assets		
Current assets:		
Cash	$ 619,609	$ 1,324,432
Unconditional promises to give	802,972	522,593
Investments - other	360,701	1,708,081
Prepaid expenses	46,087	33,548
Inventory and other current assets	17,250	343
Total current assets	1,846,619	3,588,997
Noncurrent assets:		
Unconditional promises to give	644,887	530,000
Investments	4,011,068	1,088,749
Property and equipment, net	1,457,975	1,474,260
Total noncurrent assets	6,113,930	3,093,009
Total assets	$ 7,960,549	$ 6,682,006
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	$ 63,488	$ 40,198
Accrued expenses	104,848	68,744
Total current liabilities	168,336	108,942
Net assets:		
Unrestricted	5,341,462	5,601,750
Temporarily restricted	2,450,751	971,314
Total net assets	7,792,213	6,573,064
Total liabilities and net assets	$ 7,960,549	$ 6,682,006

See accompanying notes to financial statements.

Educational First Steps
Statement of Activities
Year Ended May 31, 2016

	Unrestricted	Temporarily Restricted	Total
Support and revenue:			
Contributions and grants	$ 1,136,506	$ 2,879,669	$ 4,016,175
Special event revenue (net of direct expense of $133,379)	440,587	-	440,587
Donated goods, services and facilities	7,201	-	7,201
Program service fees	18,790	-	18,790
Investment earnings	22,740	-	22,740
Net assets released from restrictions	1,400,232	(1,400,232)	-
Total support and revenue	3,026,056	1,479,437	4,505,493
Expenses:			
Program expenses - education and training	2,538,626	-	2,538,626
Management and general	356,580	-	356,580
Fundraising	391,138	-	391,138
Total expenses	3,286,344	-	3,286,344
Change in net assets	(260,288)	1,479,437	1,219,149
Net assets at beginning of the year	5,601,750	971,314	6,573,064
Net assets at the end of the year	$ 5,341,462	$ 2,450,751	$ 7,792,213

See accompanying notes to financial statements.

Educational First Steps
Statement of Activities
Year Ended May 31, 2015

	Unrestricted	Temporarily Restricted	Total
Support and revenue			
Contributions and grants	$ 2,305,588	$ 971,314	$ 3,276,902
Special event revenue (net of direct expense of $86,953)	403,622	-	403,622
Donated goods, services and facilities	56,908	-	56,908
Program service fees	1,947	-	1,947
Investment earnings	31,058	-	31,058
Net assets released from restrictions	1,515,000	(1,515,000)	-
Total support and revenue	4,314,123	(543,686)	3,770,437
Expenses:			
Program expenses - education and training	2,091,115	-	2,091,115
Management and general	245,761	-	245,761
Fundraising	389,307	-	389,307
Total expenses	2,726,183	-	2,726,183
Change in net assets	1,587,940	(543,686)	1,044,254
Net assets at beginning of the year	4,013,810	1,515,000	5,528,810
Net assets at the end of the year	$ 5,601,750	$ 971,314	$ 6,573,064

See accompanying notes to financial statements.

Educational First Steps
Statement of Functional Expenses
Year Ended May 31, 2016

	Education and training	Management and general	Fundraising	Total
Salaries and wages	$ 1,412,822	$ 150,713	$ 267,913	$ 1,831,448
Payroll taxes	110,093	12,156	16,714	138,963
Employee benefits	63,476	111,939	6,949	182,364
Total compensation	1,586,391	274,808	291,576	2,152,775
Contractual services	58,736	35,416	15,062	109,214
Office supplies	18,375	6,771	3,451	28,597
Communications	24,356	1,829	1,613	27,798
Occupancy	33,761	16,682	3,704	54,147
Conference, meeting and travel	4,233	-	46	4,279
Equipment maintenance	11,748	2,609	967	15,324
Materials provided to centers	246,370	2,781	29,417	278,568
Enrichment field trips and events	21,518	-	-	21,518
EFS Academy expenses	161,346	247	990	162,583
Enrollment	325,147	-	31	325,178
Insurance	2,529	1,132	267	3,928
Marketing	9,915	2,754	28,186	40,855
Other	2,497	3,416	12,183	18,096
Total operating expenses before depreciation	2,506,922	348,445	387,493	3,242,860
Depreciation	31,704	8,135	3,645	43,484
Total	$ 2,538,626	$ 356,580	$ 391,138	$ 3,286,344

See accompanying notes to financial statements.

Educational First Steps
Statement of Functional Expenses
Year ended May 31, 2015

	Education and training	Management and general	Fundraising	Total
Salaries and wages	$ 1,191,556	$ 145,430	$ 240,947	$ 1,577,933
Payroll taxes	105,689	10,043	18,026	133,758
Employee benefits	87,794	34,337	8,594	130,725
Total compensation	1,385,039	189,810	267,567	1,842,416
Contractual services	59,936	19,264	7,681	86,881
Office supplies	20,722	3,752	3,124	27,598
Communications	20,683	2,123	1,388	24,194
Occupancy	45,780	7,683	3,691	57,154
Conference, meeting and travel	3,468	74	197	3,739
Equipment maintenance	5,768	950	549	7,267
Materials provided to centers	247,404	2,050	5,234	254,688
Enrichment field trips and events	51,334	-	-	51,334
EFS Academy expenses	73,736	-	-	73,736
Enrollment	49,447	-	145	49,592
Insurance	9,850	1,129	1,363	12,342
Marketing	19,553	1,279	85,894	106,726
Other special events	53,775	-	3,178	56,953
Other expenses	5,685	6,523	3,734	15,942
Total operating expenses before depreciation	2,052,180	234,637	383,745	2,670,562
Depreciation	38,935	11,124	5,562	55,621
Total	$ 2,091,115	$ 245,761	$ 389,307	$ 2,726,183

See accompanying notes to financial statements.

Educational First Steps
Statements of Cash Flows
Years Ended May 31, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Change in net assets	$ 1,219,149	$ 1,044,254
Adjustments to reconcile change in net assets to		
net cash provided by operating activities:		
Depreciation	43,484	55,621
Unrealized (gain) loss on investments	13,404	(3,115)
Changes in operating assets and liabilities:		
Promises to give	(395,266)	469,165
Inventory	(17,250)	-
Prepaid expenses	(12,539)	(60,411)
Other current assets	343	(131)
Accounts payable	23,290	(38,467)
Accrued expenses	36,104	16,862
Net cash provided by operating activities	910,719	1,483,778
Cash flows from investing activities:		
Purchases of property and equipment	(27,199)	(24,415)
Proceeds from sales and maturities of investments	1,350,668	-
Purchases of investments	(2,939,011)	(622,904)
Net cash used by investing activities	(1,615,542)	(647,319)
Increase (decrease) in cash	(704,823)	836,459
Cash at beginning of year	1,324,432	487,973
Cash at end of year	$ 619,609	$ 1,324,432

See accompanying 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 increase availability of quality early childhood education for economically disadvantaged children.

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 the most at-risk 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.

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

> *Unrestricted net assets* - Net assets not subject to donor-imposed stipulations.
>
> *Temporarily restricted net assets* - Net assets subject to donor-imposed stipulations that will be met by actions of the Organization and/or the passage of time.
>
> *Permanently restricted net assets* - Net assets subject to donor-imposed stipulations that will never lapse thus requiring the funds to be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purpose. There are no permanently restricted net assets at May 31, 2016 and 2015.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (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.

Contributions

Contributions are generally recorded only upon receipt, unless evidence of an unconditional promise to give (pledge) has been 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 and reduced by an allowance for uncollectable amounts. Conditional promises to give are recognized when the conditions to which they are subject are met. If funds are received related to the conditional promise, the amounts received are accounted for as a refundable advance.

Donated materials, equipment and use of facilities are reflected as contributions at their estimated fair values at date of receipt. Contributions of services are recorded at estimated fair value if the services received create or enhance nonfinancial assets or require specialized skills and would typically need to be purchased if not provided by donation. Numerous individuals donate significant amounts of time to the Organization.

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, certificates of deposit and unconditional promises to give. Cash, which may at times exceed federally insured limits, and certificates of deposit are placed with high credit quality financial institutions to minimize credit risk. Accounts are insured by the Federal Deposit Insurance Corporation up to $250,000. The Organization evaluates the collectability of unconditional promises to give and maintains allowances for potential losses, if considered necessary.

Investments - Other

Certificates of deposit held for investment that are not debt securities are included in investments – other in the accompanying statements of financial position. Certificates of deposit are stated at cost plus accrued interest, which approximates market value. Certificates of deposits with original maturities greater than ninety days and remaining maturities less than one year are classified as current assets. Changes in fair market values are reported in the statements of activities.

Investments

The Organization's investments consist of mutual funds and are stated at fair market value based upon quoted market prices.

At the discretion of the Board of Directors, various investments are identified to be held for long-term purposes.

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 $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. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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, 2015 and 2014. 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 (IRS). Management has analyzed the tax positions taken by the Organization, and has concluded that as of May 31, 2015 and 2014, 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 Values Measurement

The Organization categorizes its assets and liabilities 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.

3. Investments

Investments - other consist of certificates of deposit with maturities of greater than 90 days and totaled $360,701 and $1,708,081 at May 31, 2016 and 2015, respectively.

Long term investments consist of mutual funds reported at fair value using level 1 inputs. Below are the Organization's investments at May 31:

	2016	2015
Mutual funds:		
Bond funds	$ 4,011,068	$ 785,655
Equity funds	-	303,094
	$ 4,011,068	$ 1,088,749

For the years ended May 31, 2016 and 2015 the components of investment earnings are:

	2016	2015
Interest and dividends	$ 36,144	$ 27,943
Loss on investments	(13,404)	3,115
Total investment earnings	$ 22,740	$ 31,058

The following represents mutual funds comprising 10% or more of long-term investments at May 31:

	2016	2015
Vanguard Admiral - Short-Term Investment	40%	22%
Vanguard Admiral - Short-Term Tax Exempt	60%	33%
Vanguard 500 Index Fund	-	15%

4. Unconditional Promises to Give

As of May 31, 2016 and 2015, unconditional promises to give are expected to be collected as follows:

	2016	2015
Within one year	$ 802,972	$ 522,593
One - two years	616,944	260,000
Three - five years	27,943	270,000
	$ 1,447,859	$ 1,052,593

Due to current interest rates, the present value discount for pledges due in more than one year is nominal.

Of the total promises to give, approximately 90% were due from two donors and 65% were due from one donor as of May 31, 2016 and 2015, respectively.

5. Property and Equipment

Property and equipment consist of the following at May 31:

	2016	2015
Computer equipment	$ 96,533	$ 78,864
Office equipment, furniture and fixtures	34,353	34,353
Building	1,260,625	1,251,095
Land	201,778	201,778
Accumulated depreciation	(135,314)	(91,830)
	$ 1,457,975	$ 1,474,260

Depreciation expense totaled $43,484 and $55,621 for the years ended May 31, 2016 and 2015, respectively.

6. 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 $7,607 and $4,938 for the years ended May 31, 2016 and 2015, respectively.

7. Lease Commitments

The Organization leases an office facility in Tarrant County. Monthly payments totaling $1,046 are required. This lease expires July 31, 2016. The Organization also leases office equipment under operating leases that expire at various times through 2019. Rental payments under non-cancelable operating leases totaled $15,324 and $7,267 for the years ended May 31, 2016 and 2015, respectively. The remaining minimum lease commitments pursuant to these leases is as follows for the years ended May 31:

2016	$ 11,800
2017	9,708
2018	2,616
2019	218
Total	$ 24,342

Subsequent to year end, the Organization extended the office lease through July 31, 2019 with monthly payments totaling $1,046. These payments are not included in the above table.

8. Restrictions on Net Assets

Net assets are temporarily restricted for the following purposes at May 31:

	2016	2015
"Bridge" program	$ 946,342	$ 87,371
"Leaders Taking Action" program	-	18,693
Future operations/program support	1,282,859	675,000
Future operations/program support - Dallas	2,750	15,250
Future operations/program support - Tarrant	218,800	125,000
Tarrant County enrollment	-	50,000
	$ 2,450,751	$ 971,314

9. Revenue Concentration

For the years ended May 31, 2016 and 2015, respectively, approximately 46% and 18% of total support and revenue were from two contributors.

10. Subsequent Events

The Organization evaluated subsequent events after the statement of financial position date of May 31, 2016 through November 21, 2016, which was the date the financial statements were available to be issued, and concluded that no additional disclosures are required.