Educational First Steps

Financial Statements
May 31, 2018 and 2017

Sutton Frost Cary LLP
Certified Public Accountants

Educational First Steps

Contents

Sutton Frost Cary LLP
Certified Public Accountants

Independent Auditors' Report

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, 2018 and 2017 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.

Sutton Frost Cary LLP
Certified Public Accountants and Consultants
600 Six Flags Drive, Suite 600 Arlington, Texas 76011
www.sfcllp.com
Phone 817.649.8083
Fax 817.649.3202

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, 2018 and 2017 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 28, 2018

Educational First Steps
Statements of Financial Position
May 31, 2018 and 2017

	2018	2017
Assets		
Current assets:		
Cash	$ 214,822	$ 157,768
Current portion of unconditional promises to give	163,727	1,609,805
Prepaid expenses	20,744	30,089
Inventory	-	19,633
Total current assets	399,293	1,817,295
Noncurrent assets:		
Unconditional promises to give, net of current portion	22,500	89,107
Investments	4,063,642	4,299,573
Property and equipment, net	1,412,167	1,418,043
Total noncurrent assets	5,498,309	5,806,723
Total assets	$ 5,897,602	$ 7,624,018
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	$ 62,365	$ 52,342
Accrued expenses	128,946	124,322
Refundable advance	100,000	-
Total current liabilities	291,311	176,664
Net assets:		
Unrestricted	4,389,130	5,005,228
Temporarily restricted	1,217,161	2,442,126
Total net assets	5,606,291	7,447,354
Total liabilities and net assets	$ 5,897,602	$ 7,624,018

See notes to financial statements.

Educational First Steps
Statement of Activities
Year Ended May 31, 2018

	Unrestricted	Temporarily Restricted	Total
Support and revenue:			
Contributions and grants	$ 471,815	$ 837,354	$ 1,309,169
Special event revenue (net of direct costs of $166,855)	492,701	-	492,701
Donated goods and services	16,702	-	16,702
Program service fees	61,619	-	61,619
Investment earnings	39,210	-	39,210
Net assets released from restrictions	2,062,319	(2,062,319)	-
Total support and revenue	3,144,366	(1,224,965)	1,919,401
Expenses:			
Program expenses - education and training	3,022,058	-	3,022,058
Management and general	326,835	-	326,835
Fundraising	411,571	-	411,571
Total expenses	3,760,464	-	3,760,464
Change in net assets	(616,098)	(1,224,965)	(1,841,063)
Net assets at beginning of the year	5,005,228	2,442,126	7,447,354
Net assets at the end of the year	$ 4,389,130	$ 1,217,161	$ 5,606,291

See notes to financial statements.

Educational First Steps
Statement of Activities
Year Ended May 31, 2017

	Unrestricted	Temporarily Restricted	Total
Support and revenue:			
Contributions and grants	$ 689,583	$ 2,100,513	$ 2,790,096
Special event revenue (net of direct costs of $254,498)	465,856	-	465,856
Donated goods and services	27,909	-	27,909
Program service fees	39,654	-	39,654
Investment earnings	65,602	-	65,602
Net assets released from restrictions	2,109,138	(2,109,138)	-
Total support and revenue	3,397,742	(8,625)	3,389,117
Expenses:			
Program expenses - education and training	3,158,182	-	3,158,182
Management and general	236,494	-	236,494
Fundraising	339,300	-	339,300
Total expenses	3,733,976	-	3,733,976
Change in net assets	(336,234)	(8,625)	(344,859)
Net assets at beginning of the year	5,341,462	2,450,751	7,792,213
Net assets at the end of the year	$ 5,005,228	$ 2,442,126	$ 7,447,354

See notes to financial statements.

Educational First Steps
Statement of Functional Expenses
Year Ended May 31, 2018

	Education and training	Management and general	Fundraising	Total
Salaries and wages	$ 1,712,768	$ 195,609	$ 289,559	$ 2,197,936
Payroll taxes	123,098	5,037	21,444	149,579
Employee benefits	178,984	20,007	18,005	216,996
Total compensation	2,014,850	220,653	329,008	2,564,511
Contractual services	41,160	67,883	25,396	134,439
Office supplies	15,046	4,579	4,017	23,642
Communications	32,764	1,701	3,371	37,836
Occupancy	32,551	8,296	4,929	45,776
Conference, meeting and travel	884	5	-	889
Equipment maintenance	8,446	791	1,851	11,088
Materials provided to centers	294,968	8,501	7,884	311,353
Enrichment field trips and events	22,246	-	-	22,246
EFS Academy expenses	188,424	37	-	188,461
Enrollment	305,276	-	-	305,276
Insurance	13,222	2,144	2,512	17,878
Marketing	5,507	1,434	19,692	26,633
Other	7,964	1,214	6,272	15,450
Total expenses before depreciation	2,983,308	317,238	404,932	3,705,478
Depreciation	38,750	9,597	6,639	54,986
Total	$ 3,022,058	$ 326,835	$ 411,571	$ 3,760,464

See notes to financial statements.

Educational First Steps
Statement of Functional Expenses
Year ended May 31, 2017

	Education and training	Management and general	Fundraising	Total
Salaries and wages	$ 1,559,961	$ 134,626	$ 248,713	$ 1,943,300
Payroll taxes	112,215	10,611	18,769	141,595
Employee benefits	159,911	32,803	10,297	203,011
Total compensation	1,832,087	178,040	277,779	2,287,906
Contractual services	57,745	16,861	16,967	91,573
Office supplies	13,393	2,773	1,380	17,546
Communications	31,782	2,028	2,330	36,140
Occupancy	34,081	9,696	4,222	47,999
Conference, meeting and travel	2,073	129	10	2,212
Equipment maintenance	9,598	1,075	1,240	11,913
Materials provided to centers	258,738	4,320	12,259	275,317
Enrichment field trips and events	24,157	-	-	24,157
EFS Academy expenses	196,049	80	139	196,268
Enrollment	635,727	100	74	635,901
Insurance	9,190	1,659	1,915	12,764
Marketing	6,397	931	5,878	13,206
Other	6,905	8,933	8,153	23,991
Total expenses before depreciation	3,117,922	226,625	332,346	3,676,893
Depreciation	40,260	9,869	6,954	57,083
Total	$ 3,158,182	$ 236,494	$ 339,300	$ 3,733,976

See notes to financial statements.

Educational First Steps
Statements of Cash Flows
Years Ended May 31, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	$ (1,841,063)	$ (344,859)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	54,986	57,083
Unrealized and realized losses on investments	52,394	2,463
Changes in operating assets and liabilities:		
Unconditional promises to give	1,512,685	(251,053)
Inventory	19,633	(2,383)
Prepaid expenses	9,345	15,998
Accounts payable	10,023	(11,146)
Accrued expenses	4,624	19,474
Refundable advance	100,000	-
Net cash used by operating activities	(77,373)	(514,423)
Cash flows from investing activities:		
Purchases of property and equipment	(49,110)	(17,151)
Proceeds from sales and maturities of investments	800,020	1,410,701
Purchases of investments	(616,483)	(1,340,968)
Net cash provided by investing activities	134,427	52,582
Increase (decrease) in cash	57,054	(461,841)
Cash at beginning of year	157,768	619,609
Cash at end of year	$ 214,822	$ 157,768

See notes to financial statements.

Educational First Steps
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 the 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.

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 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, 2018 and 2017.

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. Pledges 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, 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. 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.

Inventory

Inventory consists primarily of donated goods and is stated at estimated fair market value in the accompanying financial statements.

Investments

At May 31, 2018 and 2017, the Organization's noncurrent 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 unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law.

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

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.

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. 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, 2018 and 2017. 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, 2018 and 2017, 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

In February 2016, the FASB issued new accounting guidance related to leases, which requires that the Organization recognize the assets and liabilities for the rights and obligations created by leased assets. The new guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018 for public companies and December 15, 2019 for all other entities.

In August 2016, the FASB issued new accounting guidance on the presentation of financial statements for not-for-profit entities. The objective of this ASU is to improve the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit's liquidity, financial performance, and cash flows. The key provisions include net asset classes, investment return, expenses, liquidity and availability of resources, and statement of cash flows. The amendments in this ASU are effective for fiscal years beginning after December 15, 2017. Early application of the amendments is permitted. The Organization is currently assessing the impact that adopting this new guidance will have on the Organization's financial statements.

3. Investments

Noncurrent investments consist of bond-based mutual funds reported at fair value using level 1 inputs totaling $4,063,642 and $4,299,573 at May 31, 2018 and 2017, respectively.

For the years ended May 31, 2018 and 2017 the components of investment earnings are:

	2018	2017
Interest and dividends	$ 91,604	$ 68,065
Unrealized/realized losses on investments	(52,394)	(2,463)
	$ 39,210	$ 65,602

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

	2018	2017
Vanguard Admiral - Short-Term Investment	40%	40%
Vanguard Admiral - Short-Term Bond Fund	60%	60%

4. Unconditional Promises to Give

As of May 31, 2018 and 2017, unconditional promises to give are expected to be collected as follows:

	2018	2017
Within one year	$ 163,727	$ 1,609,805
One - two years	22,500	89,107
	$ 186,227	$ 1,698,912

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

Of the total unconditional promises to give, approximately 58% and 77% was due from three donors as of May 31, 2018 and 2017, respectively.

5. Conditional Promises to Give

During the year ended May 31, 2018, the Organization received two grants totaling $1,220,000 for assistance in covering child care costs. The amount the grantor promises to give is conditioned upon specific provisions mandated by the grantor. At May 31, 2018, these conditional promises to give totaled approximately $1,070,000. These promises to give will be recognized as revenue when the respective conditions are met in future years.

6. Property and Equipment

Property and equipment consist of the following at May 31:

	2018	2017
Building and improvements	$ 1,265,166	$ 1,260,625
Land	201,778	201,778
Computer equipment	148,368	110,540
Office equipment, furniture and fixtures	44,237	37,497
Less: accumulated depreciation	(247,382)	(192,397)
Total property and equipment	$ 1,412,167	$ 1,418,043

Depreciation expense totaled $54,986 and $57,083 for the years ended May 31, 2018 and 2017, respectively.

7. Refundable Advance

Refundable advance at May 31, 2018 relates to certain grant receipts for which the Organization has not yet performed the required program activities.

8. Restrictions on Net Assets

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

	2018	2017
"Bridge" program	$ 150,243	$ 373,802
Future operations/program support	670,600	1,755,579
Future operations/program support - Dallas	40,000	-
Future operations/program support - Tarrant	30,000	150,000
Future operations/program support - Grayson and Collin	275,000	120,000
Other	51,318	42,745
	$ 1,217,161	$ 2,442,126

9. 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:

	2018	2017
Donated professional services	$ 7,750	$ 2,052
Donated goods for educational programs and centers	8,952	25,857
	16,702	27,909
Donated goods included in special event revenue	12,822	89,985
	$ 29,524	$ 117,894

10. 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 $10,321 and $9,537 for the years ended May 31, 2018 and 2017, respectively.

11. Lease Commitments

The Organization leases an office facility in Tarrant County. Monthly payments totaling $1,046 are required. This lease expires July 31, 2019. The Organization also leases office equipment under operating leases that expire at various times through 2019. Rental payments under non-cancelable operating leases totaled $11,913 and $15,324 for the years ended May 31, 2018 and 2017, respectively. The remaining minimum lease payments pursuant to these leases are as follows for the years ending May 31:

2019	$	15,769
2020		3,567
Total	$	19,336

12. Revenue Concentration

Approximately 10% and 42% of total support and revenue was from one contributor for the years ended May 31, 2018 and 2017, respectively.

13. 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.