



**FIRST STEP STAFFING, INC.
AND SUBSIDIARIES**

CONSOLIDATED FINANCIAL REPORT

DECEMBER 31, 2020

**FIRST STEP STAFFING, INC.
AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL REPORT
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INDEPENDENT AUDITOR'S REPORT

**To the Board of Directors of
First Step Staffing, Inc. and Subsidiaries
Atlanta, Georgia**

We have audited the accompanying consolidated financial statements of **First Step Staffing, Inc. and Subsidiaries** (a nonprofit organization), which comprise the consolidated statements of financial position as of December 31, 2020 and 2019, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of First Step Staffing, Inc. and Subsidiaries as of December 31, 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.

Report on Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidated supplemental schedules of operations on page 17 is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

Mauldin & Jenkins, LLC

Atlanta, Georgia
October 6, 2021

**FIRST STEP STAFFING, INC.
AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2020 AND 2019**

<u>Assets</u>	<u>2020</u>	<u>2019</u>
Current assets:		
Cash and cash equivalents	\$ 2,409,861	\$ 4,260,594
Accounts receivable, net	5,337,664	6,409,420
Grants receivable, net	1,005,353	1,502,210
Prepaid expenses	340,799	246,296
Other assets	26,094	148,373
	<hr/>	<hr/>
TOTAL CURRENT ASSETS	9,119,771	12,566,893
	<hr/>	<hr/>
Property and equipment, net	200,513	160,724
Noncurrent assets:		
Grants receivable, net	-	332,700
Intangible assets, net	14,568,306	15,009,304
	<hr/>	<hr/>
TOTAL NONCURRENT ASSETS	14,568,306	15,342,004
	<hr/>	<hr/>
TOTAL ASSETS	\$ 23,888,590	\$ 28,069,621
	<hr/> <hr/>	<hr/> <hr/>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable and other current liabilities	\$ 232,306	\$ 2,681,211
Accrued payroll	667,441	697,536
Accrued interest	7,500	8,750
Deferred grant revenue	1,000,000	1,639,719
Line of credit	1,510,000	1,043,451
Current portion of notes payable	1,845,610	1,687,053
	<hr/>	<hr/>
TOTAL CURRENT LIABILITIES	5,262,857	7,757,720
	<hr/>	<hr/>
Noncurrent liabilities:		
Notes payable, less current portion, net of unamortized debt issuance costs	14,289,325	15,520,615
	<hr/>	<hr/>
TOTAL NONCURRENT LIABILITIES	14,289,325	15,520,615
	<hr/>	<hr/>
TOTAL LIABILITIES	19,552,182	23,278,335
	<hr/>	<hr/>
Net assets:		
Without donor restrictions	3,986,408	4,091,286
With donor restrictions	350,000	700,000
	<hr/>	<hr/>
TOTAL NET ASSETS	4,336,408	4,791,286
	<hr/>	<hr/>
TOTAL LIABILITIES AND NET ASSETS	\$ 23,888,590	\$ 28,069,621
	<hr/> <hr/>	<hr/> <hr/>

See Notes to Consolidated Financial Statements.

**FIRST STEP STAFFING, INC.
AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

	2020			2019		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Revenues and support:						
Program fees	\$ 55,949,835	\$ -	\$ 55,949,835	\$ 45,489,067	\$ -	\$ 45,489,067
Grant income	2,385,897	22,356	2,408,253	2,927,058	1,375,083	4,302,141
Contributions	94,008	-	94,008	47,951	-	47,951
In-kind contributions	177,289	-	177,289	83,469	-	83,469
Other revenues	-	-	-	118,223	-	120,012
Interest income	-	-	-	7,501	-	7,501
Gain (loss) on disposal of asset	(7,041)	-	(7,041)	1,789	-	-
Gain on extinguishment of debt	631,420	-	631,420	-	-	-
TOTAL REVENUES AND SUPPORT	59,231,408	22,356	59,253,764	48,675,058	1,375,083	50,050,141
Net assets released from restrictions	372,356	(372,356)	-	875,083	(875,083)	-
NET REVENUES AND SUPPORT	59,603,764	(350,000)	59,253,764	49,550,141	500,000	50,050,141
Expenses:						
Program services	58,847,214	-	58,847,214	47,221,706	-	47,221,706
Supporting services						
Management and general	578,458	-	578,458	841,678	-	841,678
Fundraising	282,970	-	282,970	289,591	-	289,591
TOTAL EXPENSES	59,708,642	-	59,708,642	48,352,975	-	48,352,975
CHANGE IN NET ASSETS	(104,878)	(350,000)	(454,878)	1,197,166	500,000	1,697,166
Net assets at beginning of year	4,091,286	700,000	4,791,286	2,894,120	200,000	3,094,120
Net assets at end of year	<u>\$ 3,986,408</u>	<u>\$ 350,000</u>	<u>\$ 4,336,408</u>	<u>\$ 4,091,286</u>	<u>\$ 700,000</u>	<u>\$ 4,791,286</u>

See Notes to Consolidated Financial Statements.

**FIRST STEP STAFFING, INC.
AND SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2020**

	Program Services	Supporting Services		Total Expenses
		Management and General	Fundraising	
Client wages	\$ 46,377,431	\$ -	\$ -	\$ 46,377,431
Enhanced wrap-around services	633,750	-	-	633,750
Other direct program expenses	4,727,175	16,545	177	4,743,897
Payroll expense	3,706,385	268,322	229,222	4,203,929
Insurance	420,220	4,026	9,685	433,931
Telephone	97,902	2,338	2,389	102,629
Professional fees	152,637	231,428	2,628	386,693
In-kind professional fees	177,289	-	-	177,289
Supplies	58,094	1,834	1,260	61,188
Occupancy	289,458	5,354	3,697	298,509
Operations	57,051	2,227	1,195	60,473
Equipment rental and maintenance	45,091	729	867	46,687
Travel and meetings	87,988	2,809	5,596	96,393
Expansion expenses	99,000	-	-	99,000
Other	220,319	9,081	6,757	236,157
Bad debt expense	40,500	16,900	-	57,400
Total expenses before interest, depreciation, and amortization	<u>57,190,290</u>	<u>561,593</u>	<u>263,473</u>	<u>58,015,356</u>
Interest expense	869,599	15,183	18,656	903,438
Depreciation of property and equipment	59,409	1,682	841	61,932
Amortization of intangible assets	<u>727,916</u>	-	-	<u>727,916</u>
Total expenses	<u>\$ 58,847,214</u>	<u>\$ 578,458</u>	<u>\$ 282,970</u>	<u>\$ 59,708,642</u>

See Notes to Consolidated Financial Statements.

**FIRST STEP STAFFING, INC.
AND SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019**

	<u>Program Services</u>	<u>Supporting Services</u>		<u>Total Expenses</u>
		<u>Management and General</u>	<u>Fundraising</u>	
Client wages	\$ 38,220,741	\$ -	\$ -	\$ 38,220,741
Enhanced wrap-around services	1,678,507	-	-	1,678,507
Other direct program expenses	1,561,008	-	116	1,561,124
Payroll expense	2,817,869	157,281	222,136	3,197,286
Insurance	373,636	500	1,337	375,473
Telephone	57,155	766	1,413	59,334
Professional fees	77,692	299,639	6,122	383,453
In-kind professional fees	83,469	307,505	-	390,974
Supplies	35,478	1,455	1,713	38,646
Occupancy	143,502	3,985	5,200	152,687
Operations	62,577	1,579	2,348	66,504
Equipment rental and maintenance	43,625	1,374	1,631	46,630
Travel and meetings	142,826	3,846	913	147,585
Expansion expenses	51,873	-	-	51,873
Other	265,025	2,580	5,129	272,734
Bad debt expense	182,656	-	-	182,656
Total expenses before interest, depreciation, and amortization	<u>45,797,639</u>	<u>780,510</u>	<u>248,058</u>	<u>46,826,207</u>
Interest expense	900,634	57,914	36,652	995,200
Depreciation of property and equipment	55,079	3,254	4,881	63,214
Amortization of intangible assets	<u>468,354</u>	<u>-</u>	<u>-</u>	<u>468,354</u>
Total expenses	<u>\$ 47,221,706</u>	<u>\$ 841,678</u>	<u>\$ 289,591</u>	<u>\$ 48,352,975</u>

See Notes to Consolidated Financial Statements.

**FIRST STEP STAFFING, INC.
AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

	2020	2019
OPERATING ACTIVITIES		
Change in net assets	\$ (454,878)	\$ 1,697,166
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by (used in) operating activities:		
Depreciation and amortization	790,340	531,568
Bad debt expense	33,400	182,656
Loss (gain) on sale of property and equipment	7,041	(1,789)
(Gain) on forgiveness of PPP loan	(631,420)	-
Interest expense from amortization of debt issuance costs	26,170	8,650
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	1,038,356	(1,792,594)
Decrease (increase) in grants receivable	829,557	(1,218,292)
(Increase) in prepaid expenses	(94,503)	(34,161)
Decrease in other assets	122,279	141,203
(Decrease) increase in accounts payable	(2,448,905)	2,545,538
(Decrease) in accrued payroll	(30,095)	(176,306)
(Decrease) in accrued interest	(1,250)	(11,250)
(Decrease) increase in deferred revenue	(639,719)	1,639,719
Net cash and cash equivalents (used in) provided by operating activities	(1,453,627)	3,512,108
INVESTING ACTIVITIES		
Purchase of intangible assets	(286,918)	(4,904,314)
Proceeds from sale of property and equipment	14,419	32,407
Purchases of property and equipment	(123,673)	(35,715)
Net cash and cash equivalents (used in) investing activities	(396,172)	(4,907,622)
FINANCING ACTIVITIES		
Proceeds from line of credit	11,860,000	12,830,000
Payments on line of credit	(11,393,451)	(14,030,000)
Proceeds from notes payable	756,420	10,000,000
Payments on notes payable	(1,219,396)	(4,307,889)
Payments for debt issuance costs	(4,507)	(92,755)
Net cash and cash equivalents (used in) provided by financing activities	(934)	4,399,356
Net (decrease) increase in cash and cash equivalents	(1,850,733)	3,003,842
Cash and cash equivalents, beginning of year	4,260,594	1,256,752
Cash and cash equivalents, end of year	\$ 2,409,861	\$ 4,260,594
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	\$ 893,675	\$ 997,492

See Notes to Consolidated Financial Statements.

FIRST STEP STAFFING, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. ORGANIZATION

First Step Staffing, Inc. (“First Step Atlanta”) was incorporated in Georgia in 2006 as a not-for-profit organization for the purpose of providing companies with a socially responsible alternative to typical staffing agencies, while offering meaningful employment opportunities for individuals who are in transition. First Step Atlanta is the sole owner of First Step Staffing Philadelphia, LLC (“First Step Philadelphia”), organized on November 3, 2017 under the laws of the State of Delaware and First Step Los Angeles, LLC (“First Step Los Angeles”), organized on December 6, 2019 under the laws of the State of Delaware.

First Step Atlanta, First Step Philadelphia, and First Step Los Angeles help people obtain income through two signature programs - First Step Staffing, a program that contracts with employers for jobs and then hires people with barriers to workforce reentry to fill the positions, providing them with supportive services such as transportation, coaching, uniforms, etc., and First Step Benefits - a fast track to securing Social Security Disability income and Medicaid.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of First Step Staffing, Inc. and its wholly-owned subsidiaries First Step Staffing Philadelphia, LLC and First Step Los Angeles, LLC. All significant inter-organization accounts and transactions have been eliminated in consolidation. First Step Staffing, Inc. and Subsidiaries are collectively referred to as “First Step” or the “Organization.”

Basis of Presentation

First Step prepares its consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP). This basis of presentation involves the application of accrual accounting; consequently, revenues are recognized when earned, and expenses are recognized when incurred.

Cash and Cash Equivalents

For purposes of reporting cash flows, First Step considers all highly liquid debt instruments purchased with an initial maturity of three months or less to be cash equivalents. At times, cash and cash equivalent balances may exceed federally insured amounts. The Organization believes it mitigates any risks by depositing cash and investing in cash equivalents with major financial institutions.

Accounts Receivable

Accounts receivable represents amounts due to First Step for program and operating costs from various funding sources. An allowance for uncollectible receivables is provided based on management’s evaluation of potential uncollectible amounts at year end following write-offs. At December 31, 2020 and 2019, the allowance for uncollectible receivables was recorded at \$78,451 and \$38,496, respectively.

FIRST STEP STAFFING, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Grants Receivable and Promises to Give

Grants receivable represent amounts due from grantors. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met. At December 31, 2020 and 2019 a discount on the present value of unconditional promises to give expected to be collected in future years was recorded of \$- and \$17,300, respectively. As of December 31, 2020 and 2019 management did not consider any amounts to be uncollectible.

Property and Equipment

Fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets ranging from three to seven years. First Step capitalizes all expenditures for fixed assets in excess of \$1,000. Gains and losses on disposals are included in other revenues and expenses on the consolidated statement of activities.

Intangible Assets and Goodwill

First Step amortizes intangible assets on a straight-line basis over their estimated useful lives. Intangible assets include service contracts and customer lists resulting from the business and asset acquisitions outlined in Note 4, which are being amortized using the straight-line method over twenty years. Goodwill is reviewed for impairment annually or more frequently when an event occurs or circumstances change that indicate that the carrying value may not be recoverable.

Net Assets

Net assets, revenues, and support are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, 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 grantor restrictions. At times, the governing board may review its financial standing and designate sums from net assets without donor restrictions for specific operating activities.

Net Assets With Donor Restrictions – Net assets subject to donor or 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. There were \$350,000 and \$700,000 in net assets with donor restrictions at December 31, 2020 and 2019, respectively.

FIRST STEP STAFFING, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

Revenue is recognized when earned. Program fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively. Contributions are recognized when cash, securities or other assets, or an unconditional promise to give is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

The Organization recognizes program fees and payments, included in program fees, in the accompanying statements of activities, in accordance with FASB ASC Topic 606. Program fees and payments are recognized in the period the services occur.

Donated Materials and Services

Contributed goods and services are recognized if they create or enhance nonfinancial assets or if they require specialized skills and would typically be purchased if not provided by donation. The Organization received in kind legal services totaling \$177,289 and \$83,469 for the years ended December 31, 2020 and 2019, respectively.

Many individuals volunteer their time and perform a variety of tasks that assist the Organization. The Organization received approximately 150 and 4,000 volunteer hours for each of the years ended December 31, 2020 and 2019 which are not reflected in the financial statements because the criteria for recognition of such efforts under GAAP have not been satisfied.

Income Taxes

First Step Atlanta is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, First Step is not required to pay federal taxes on income, and contributions to First Step qualify for the charitable contributions deduction to the extent provided by Section 170 of the Internal Revenue Code. First Step Philadelphia and First Step Los Angeles are included in the consolidated tax return of First Step Atlanta.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires First Step to report information regarding its exposure to various tax positions taken by First Step. Management believes that First Step has adequately addressed all relevant tax positions and that there are no unrecorded tax liabilities. Management is not aware of any circumstances or transactions that would jeopardize its tax exempt status.

All tax exempt entities are subject to review and audit by federal, state and other applicable agencies. Such agencies may review the taxability of unrelated business income, or the qualification of the tax-exempt entity under the Internal Revenue Code and applicable state statutes. There currently are no audits of First Step's returns in progress.

FIRST STEP STAFFING, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Allocation of Expenses

The cost of providing various programs and other activities has been summarized on a functional basis in the consolidated statements of activities. The consolidated statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Program services includes Staffing and Benefits activities and Strategic and Programmatic Growth activities.

Certain categories of expenses are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Expenses that are allocated include payroll expense, operations, equipment rental and maintenance, travel, and professional fees, which are allocated on the basis of estimates of time and effort. Occupancy, operations, supplies, and interest are allocated y estimated usage of office space.

Use of Estimates

Consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect reported amounts of assets and liabilities at the date of the consolidated financial statements, as well as the amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3. LIQUIDITY AND AVAILABILITY

The Organization manages its liquidity by developing and adopting annual operating budgets that provide sufficient funds for general expenditures and meeting its liabilities and other obligations as they become due. Cash needs of the Organization are expected to be met on a monthly basis from the staffing revenues generated, as well as public support and other grants and contracts. 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 December 31, 2020 and 2019:

	2020	2019
Cash and cash equivalents	\$ 1,759,861	\$ 3,610,594
Accounts receivable, net	5,337,664	6,409,420
Grants receivable, net	655,353	1,134,910
	\$ 7,752,878	\$ 11,154,924

The Organization maintains all cash balances, including amounts in excess of daily requirements, in deposit accounts at major financial institutions. Balances included on the consolidated statements of financial position that are excluded from the above table as of December 31, 2020 and 2019 consist of \$650,000, of cash held by a financial institution as collateral for funded debt, and \$350,000 and \$700,000, respectively, of grants receivable that are subject to donor-imposed restrictions.

FIRST STEP STAFFING, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4. ACQUISITIONS

In 2015, First Step Atlanta acquired the Atlanta, GA operations of a staffing agency for \$7,170,000, including equipment, accounts receivable, employees, and intangible assets, which included service contracts and customer lists. The transaction constituted a business combination. To assist with the financing of the purchase, First Step Atlanta obtained debt financing from financial institutions, enterprise funds, and charitable organizations, and First Step Atlanta also received purpose-restricted contributions and grants from individuals and charitable organizations.

In 2018, First Step Philadelphia acquired a customer list and accounts receivable from a staffing agency in Philadelphia, PA for \$7,250,000. The transaction constituted an asset acquisition. To assist with financing the purchase, First Step Philadelphia obtained debt financing from social impact lenders, a community development financial institution, and secured seller financing. First Step Philadelphia also received purpose-restricted contributions from individuals and charitable organizations.

In 2019, First Step Los Angeles acquired a customer list and accounts receivable from a staffing agency in Los Angeles, CA for approximately \$6,000,000. The transaction constituted an asset acquisition. To assist with financing the purchase, First Step Los Angeles obtained \$6,500,000 in debt financing from a community development financial institutions fund. At December 31, 2020, assets included in the consolidated statement of financial position related to the transaction include \$4,627,794 of intangible assets and \$650,000 of cash held as a debt service reserve. At December 31, 2019, assets included in the consolidated statement of financial position related to the transaction include \$1,747,485 of accounts receivable, \$4,622,595 of intangible assets, and \$650,000 of cash held as a debt service reserve.

NOTE 5. PROPERTY AND EQUIPMENT

As of December 31, 2020 and 2019, property and equipment consisted of the following:

	<u>2020</u>	<u>2019</u>
Vehicles	\$ 42,757	\$ 87,999
Computers and office equipment	171,468	137,426
Furniture	34,971	30,302
Computer software	64,662	51,115
Leasehold improvements	<u>131,343</u>	<u>58,098</u>
	445,201	364,940
Less accumulated depreciation and amortization	<u>244,688</u>	<u>204,216</u>
Property and equipment, net	<u>\$ 200,513</u>	<u>\$ 160,724</u>

Depreciation and amortization expense for property and equipment for the years ended December 31, 2020 and 2019 was \$61,932 and \$63,214, respectively.

NOTE 6. INTANGIBLE ASSETS

As of December 31, 2020 and 2019, intangible assets consisted of the following:

Service contracts and customer lists	\$ 14,558,306	\$ 14,271,388
Goodwill	2,000,000	2,000,000
Less accumulated amortization	(1,990,000)	(1,262,084)
Intangible assets, net	\$ 14,568,306	\$ 15,009,304

FIRST STEP STAFFING, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6. INTANGIBLE ASSETS (Continued)

Amortization expense for intangible assets totaled \$727,916 and \$468,354 for each of the year ended December 31, 2020 and 2019, respectively. Estimated future amortization is as follows for the years ending December 31:

2021	\$	727,916
2022		727,916
2023		727,916
2024		727,916
2025		727,916
Thereafter		8,928,726
		\$ 12,568,306

NOTE 7. LEASE COMMITMENTS

First Step entered into operating agreements for office spaces in Atlanta, GA, Nashville, TN, Philadelphia, PA, California, corporate housing, and for office equipment. Future minimum lease payments are as follows for the years ending December 31:

2021	\$	259,837
2022		178,344
2023		121,433
2024		57,456
2025		14,364
		\$ 631,434

Rent expense was \$137,724 and \$122,709 for the years ended December 31, 2020 and 2019, respectively.

NOTE 8. PAYROLL PROTECTION PROGRAM LOAN

On March 27, 2020, President Trump signed into law the Coronavirus Aid, Relief, and Economic Security Act commonly referred to as the CARES Act. One component of the CARES Act was the paycheck protection program (“PPP”) which provides small businesses with the resources needed to maintain their payroll and cover applicable overhead. The PPP is implemented by the Small Business Administration (“SBA”) with support from the Department of Treasury. The PPP provides funds to pay up to 24 weeks of payroll costs including benefits. Funds can also be used to pay interest on mortgages, rent, and utilities. First Step applied for and was accepted to participate in this program. On May 6, 2020, First Step received funding for \$631,420.

The loan is a 2 year loan with an interest rate of 1%. The loan shall be payable monthly with the first six payments deferred. Subject to the sole approval of the SBA, First Step is eligible for loan forgiveness in an amount equal to payments made during the 24 week period beginning on the loan date, with the exception that no more than 40% of the amount of loan forgiveness may be for expenses other than payroll expenses.

First Step has spent all of the funds on eligible expenses in 2020 and under the guidance of FASB ASC 958-605, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, has recorded a gain on extinguishment of debt of \$631,420 in the statement of income.

FIRST STEP STAFFING, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9. LONG-TERM DEBT

Notes payable consisted of the following at December 31, 2020 and 2019:

	2020	2019
Note payable with interest at 6.50% interest; principal and interest monthly payments of \$96.5k through maturity; unpaid principal due at maturity; matures December 2024; secured by all assets	\$ 6,089,623	\$ 6,500,000
Note payable with interest at 6.56%; principal and interest monthly payments of \$57.2k through maturity; unpaid principal due at maturity; matures February 2023; secured by all assets.	4,025,346	4,303,643
Note payable with interest at 6.59%; principal and interest monthly payments of \$34,202 through maturity; unpaid principal matures December 2026.	2,855,429	2,982,538
Note payable with interest at 8.0%; variable monthly payments through maturity, ranging from \$29,656 to \$63,089; matures February 2023; secured by all property.	1,025,000	1,320,833
Note payable with interest at 10.0%; interest-only quarterly payments of \$40,999 through maturity; unpaid principal due at maturity; matures January 2024; unsecured.	1,575,000	1,450,000
Note payable with interest at 7.5%; monthly payments of interest and principal of \$5,472 through maturity; unpaid principal matures December 2022; unsecured.	286,579	331,859
Note payable with interest at 2%; interest-only annual payments and scheduled principal payments (\$31.25k/yr 2019 to 2022, \$125k at maturity); matures January 2023; unsecured.	187,500	218,750
Note payable with interest at 2%; interest-only annual payments and scheduled principal payments (\$31.25k/yr 2019 to 2022, \$125k at maturity); matures January 2023; unsecured.	187,500	218,750
	16,231,977	17,326,373
Less current maturities	(1,845,610)	(1,687,053)
Unamortized debt issuance costs	(97,042)	(118,705)
	\$ 14,289,325	\$ 15,520,615

FIRST STEP STAFFING, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9. LONG-TERM DEBT (Continued)

Annual principal payments for the notes payable are as follows for the years ending December 31:

2021	\$	1,845,610
2022		2,510,491
2023		4,660,334
2024		5,393,717
2025		306,113
Thereafter		1,515,712
Unamortized debt issuance costs		(97,042)
		\$ 16,134,935

First Step has agreed to certain restrictive and financial covenants relating to the debt. Due to economic conditions surrounding the COVID-19 pandemic, lenders have passed on financial covenant requirements for the year ended December 31, 2020.

NOTE 10. LINE OF CREDIT

First Step has a \$3,250,000 revolving line of credit with a financial institution to provide for working capital. Interest is payable monthly at 3.5% plus LIBOR (4.50% at December 31, 2020). First Step also pays an annual commitment fee totaling 0.35% of the average unused amount of the line. The line matures in September 2021 and is secured by all property of the Organization. The balance outstanding at December 31, 2020 and 2019 was \$1,510,000 and \$1,043,451, respectively.

NOTE 11. NET ASSETS WITH DONOR RESTRICTIONS

For the years ended December 31, 2020 and 2019, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of the passage of time or other events specified by the donors as follows:

	2020	2019
Satisfaction of purpose restrictions:		
Staffing and benefits	\$ 372,356	\$ 875,083

Net assets with donor restrictions are restricted for the following purposes or periods:

	2020	2019
Subject to expenditure for specified purpose:		
Staffing and benefits	\$ 350,000	\$ 700,000

FIRST STEP STAFFING, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11. NET ASSETS WITH DONOR RESTRICTIONS (Continued)

Net assets with donor restrictions consist of the following at December 31, 2020 and 2019:

	2020	2019
Grants receivable	\$ 350,000	\$ 700,000

NOTE 12. GRANT INCOME

Grant income in the consolidated statements of activities was awarded from the following sources for the years ended December 31, 2020 and 2019:

	2020	2019
State and local governments	\$ 1,420,206	\$ 1,083,809
Charitable organizations	988,047	3,218,332
	\$ 2,408,253	\$ 4,302,141

NOTE 13. COMMITMENTS AND CONTINGENCIES

First Step may be party to legal proceedings and claims that arise in the ordinary course of business. In the opinion of management, the ultimate outcome of the claims and litigation, if any, will not have a material adverse effect on the Organization's financial position.

NOTE 14. EFFECTS OF COVID-19 CORONAVIRUS

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which are likely to negatively impact the change in net assets. Other financial impacts could occur though the extent of potential impact is unknown at this time.

NOTE 15. SUBSEQUENT EVENTS

The Organization has evaluated subsequent events occurring through October 6, 2021, the date on which the financial statements were available to be issued.

On April 15, 2021 the PPP loan described in Note 8, and related accrued interest, were forgiven by the SBA.

**FIRST STEP STAFFING, INC.
AND SUBSIDIARIES**

**CONSOLIDATED SUPPLEMENTAL SCHEDULES OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

	2020	2019
Revenues and support		
Program fees	\$ 55,949,835	\$ 45,489,067
Grant income	2,408,253	4,302,141
Contributions	94,008	47,951
In-kind contributions	177,289	83,469
Other revenues	-	120,012
Interest income	-	7,501
Gain (loss) on disposal of asset	(7,041)	-
Gain on extinguishment of debt	631,420	-
	59,253,764	50,050,141
TOTAL REVENUES AND SUPPORT		
Operating expenses		
Client wages	46,377,431	38,220,741
Enhanced wrap-around services	633,750	1,678,507
Other direct program expenses	4,743,897	1,561,124
Payroll expense	4,203,929	3,197,286
Insurance	433,931	375,473
Telephone	102,629	59,334
Professional fees	386,693	383,453
In-kind professional fees	177,289	390,974
Supplies	61,188	38,646
Occupancy	298,509	152,687
Operations	60,473	66,504
Equipment rental and maintenance	46,687	46,630
Travel and meetings	96,393	147,585
Expansion expenses	99,000	51,873
Other	236,157	272,734
Bad debt expense	57,400	182,656
	58,015,356	46,826,207
TOTAL OPERATING EXPENSES		
CHANGE IN NET ASSETS FROM OPERATIONS	\$ 1,238,408	\$ 3,223,934

See Independent Auditor's Report on Supplemental Information.