



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

CONSOLIDATED FINANCIAL REPORT

DECEMBER 31, 2019 AND 2018

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

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TABLE OF CONTENTS

Page

INDEPENDENT AUDITOR'S REPORT	1-2
CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated statements of financial position.....	3
Consolidated statements of activities.....	4
Consolidated statements of functional expenses	5 and 6
Consolidated statements of cash flows.....	7
Notes to consolidated financial statements.....	8-15
SUPPLEMENTAL INFORMATION	
Consolidated supplemental schedules of operations	16

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, 2019 and 2018, 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, 2019 and 2018, 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 16 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
August 28, 2020

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

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018**

<u>Assets</u>	<u>2019</u>	<u>2018</u>
Current assets:		
Cash and cash equivalents	\$ 4,260,594	\$ 1,256,752
Accounts receivable, net	6,409,420	4,799,482
Grants receivable, net	1,502,210	616,618
Prepaid expenses	246,296	212,135
Other assets	148,373	289,576
	12,566,893	7,174,563
TOTAL CURRENT ASSETS		
Property and equipment, net	160,724	218,841
Noncurrent assets:		
Grants receivable, net	332,700	-
Intangible assets, net	15,009,304	10,573,344
	15,342,004	10,573,344
TOTAL NONCURRENT ASSETS		
TOTAL ASSETS	\$ 28,069,621	\$ 17,966,748
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable and other current liabilities	\$ 2,681,211	\$ 135,673
Accrued payroll	697,536	873,842
Accrued interest	8,750	20,000
Deferred grant revenue	1,639,719	-
Line of credit	1,043,451	-
Current portion of notes payable	1,687,053	2,049,145
	7,757,720	3,078,660
TOTAL CURRENT LIABILITIES		
Noncurrent liabilities:		
Line of credit	-	2,243,451
Notes payable, less current portion, net of unamortized debt issuance costs	15,520,615	9,550,517
	15,520,615	11,793,968
TOTAL NONCURRENT LIABILITIES		
TOTAL LIABILITIES	23,278,335	14,872,628
Net assets:		
Without donor restrictions	4,091,286	2,894,120
With donor restrictions	700,000	200,000
	4,791,286	3,094,120
TOTAL NET ASSETS		
TOTAL LIABILITIES AND NET ASSETS	\$ 28,069,621	\$ 17,966,748

See Notes to Consolidated Financial Statements.

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

**CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	2019			2018		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Revenues and support:						
Program fees	\$ 45,489,067	\$ -	\$ 45,489,067	\$ 39,112,244	\$ -	\$ 39,112,244
Grant income	2,927,058	1,375,083	4,302,141	1,466,837	806,000	2,272,837
Contributions	47,951	-	47,951	65,716	-	65,716
In-kind contributions	83,469	-	83,469	49,793	-	49,793
Other revenues	120,012	-	120,012	-	-	-
Interest income	7,501	-	7,501	6,840	-	6,840
TOTAL REVENUES AND SUPPORT	48,675,058	1,375,083	50,050,141	40,701,430	806,000	41,507,430
Net assets released from restrictions	875,083	(875,083)	-	706,000	(706,000)	-
NET REVENUES AND SUPPORT	49,550,141	500,000	50,050,141	41,407,430	100,000	41,507,430
Expenses:						
Program services	47,221,706	-	47,221,706	39,911,270	-	39,911,270
Supporting services						
Management and general	841,678	-	841,678	901,479	-	901,479
Fundraising	289,591	-	289,591	341,715	-	341,715
TOTAL EXPENSES	48,352,975	-	48,352,975	41,154,464	-	41,154,464
CHANGE IN NET ASSETS	1,197,166	500,000	1,697,166	252,966	100,000	352,966
Net assets at beginning of year	2,894,120	200,000	3,094,120	2,641,154	100,000	2,741,154
Net assets at end of year	<u>\$ 4,091,286</u>	<u>\$ 700,000</u>	<u>\$ 4,791,286</u>	<u>\$ 2,894,120</u>	<u>\$ 200,000</u>	<u>\$ 3,094,120</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**

	Program Services	Supporting Services		Total Expenses
		Management and General	Fundraising	
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	468,354	-	-	468,354
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 STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Program Services	Supporting Services		Total Expenses
		Management and General	Fundraising	
Client wages	\$ 32,138,031	\$ -	\$ -	\$ 32,138,031
Enhanced wrap-around services	1,228,415	-	30,669	1,259,084
Other direct program expenses	1,893,688	-	135	1,893,823
Payroll expense	2,285,699	189,750	247,597	2,723,046
Insurance	312,779	6,360	5,849	324,988
Telephone	48,544	4,363	1,637	54,544
Professional fees	59,176	551,595	5,687	616,458
In-kind professional fees	49,793	-	-	49,793
Supplies	33,486	3,010	1,128	37,624
Occupancy	127,775	11,485	4,307	143,567
Operations	54,675	5,018	3,029	62,722
Equipment rental and maintenance	38,001	3,416	1,281	42,698
Travel and meetings	130,006	11,769	5,337	147,112
Expansion expenses	53,000	-	-	53,000
Other	107,066	10,032	5,303	122,401
Bad debt expense	-	25,330	-	25,330
Total expenses before interest, depreciation, and amortization	<u>38,560,134</u>	<u>822,128</u>	<u>311,959</u>	<u>39,694,221</u>
Interest expense	829,502	74,562	27,960	932,024
Depreciation of property and equipment	53,280	4,789	1,796	59,865
Amortization of intangible assets	<u>468,354</u>	-	-	<u>468,354</u>
Total expenses	<u>\$ 39,911,270</u>	<u>\$ 901,479</u>	<u>\$ 341,715</u>	<u>\$ 41,154,464</u>

See Notes to Consolidated Financial Statements.

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	2019	2018
OPERATING ACTIVITIES		
Change in net assets	\$ 1,697,166	\$ 352,966
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by (used in) operating activities:		
Depreciation and amortization	531,568	528,219
Bad debt expense	182,656	25,330
(Gain) on sale of property and equipment	(1,789)	-
Interest expense from amortization of debt issuance costs	8,650	37,324
Changes in assets and liabilities:		
(Increase) in accounts receivable	(1,792,594)	(2,201,814)
(Increase) in grants receivable	(1,218,292)	(41,507)
(Increase) decrease in prepaid expenses	(34,161)	370,661
Decrease (increase) in other assets	141,203	(136,720)
Increase (decrease) in accounts payable	2,545,538	(33,246)
(Decrease) increase in accrued payroll	(176,306)	471,740
(Decrease) in accrued interest	(11,250)	(16,000)
Increase (decrease) in deferred revenue	1,639,719	(500,000)
Net cash and cash equivalents provided by (used in) operating activities	3,512,108	(1,143,047)
INVESTING ACTIVITIES		
Purchase of intangible assets	(4,904,314)	(6,113,324)
Proceeds from sale of property and equipment	32,407	-
Purchases of property and equipment	(35,715)	(47,261)
Net cash and cash equivalents (used in) investing activities	(4,907,622)	(6,160,585)
FINANCING ACTIVITIES		
Proceeds from line of credit	12,830,000	17,253,451
Payments on line of credit	(14,030,000)	(17,020,000)
Proceeds from notes payable	10,000,000	7,850,000
Payments on notes payable	(4,307,889)	(954,006)
Payments for debt issuance costs	(92,755)	(19,000)
Net cash and cash equivalents provided by financing activities	4,399,356	7,110,445
Net increase (decrease) in cash and cash equivalents	3,003,842	(193,187)
Cash and cash equivalents, beginning of year	1,256,752	1,449,939
Cash and cash equivalents, end of year	\$ 4,260,594	\$ 1,256,752
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	\$ 997,492	\$ 910,701

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, 2019 and 2018, the allowance for uncollectible receivables was recorded at \$38,496 and \$41,742, respectively.

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, 2019 and 2018 a discount on the present value of unconditional promises to give expected to be collected in future years was recorded of \$17,300 and \$-, respectively. As of December 31, 2019 and 2018 management did not consider any amounts to be uncollectible.

FIRST STEP STAFFING, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 \$700,000 and \$200,000 in net assets with donor restrictions at December 31, 2019 and 2018, respectively.

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.

In May 2014, FASB issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606), which affects contracts with customers to transfer goods or services and contracts for the transfer of non-financial assets (unless those contracts are within the scope of other standards). The core principle of this ASU is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the good or services. This ASU requires entities to make new judgements and estimates and provide expanded disclosures about revenue.

For the year ending December 31, 2019, the Organization adopted ASU 2014-09 and has adjusted the presentation in these financial statements accordingly. 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. The adoption of ASU 2014-09 did not have an impact on the timing of the revenue recognition of program fees.

FIRST STEP STAFFING, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 \$83,469 and \$49,793 for the years ended December 31, 2019 and 2018, respectively.

Many individuals volunteer their time and perform a variety of tasks that assist the Organization. The Organization received approximately 4,000 volunteer hours for each of the years ended December 31, 2019 and 2018 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.

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. The expenses that are allocated include payroll expense and professional fees, which are allocated on the basis of estimates of time and effort.

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.

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Pronouncements

In June 2018, FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made, which clarifies and establishes standards for characterizing contributions (nonreciprocal) subject to ASC Topic 958 or as exchange transactions (reciprocal) subject to ASC Topic 606. For the year ending December 31, 2019, the Organization adopted ASU 2018-08 and has adjusted the presentation in these financial statements accordingly. The adoption of ASU 2018-08 did not have an impact on the timing of the revenue recognition related to contribution revenue.

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, 2019 and 2018:

	2019	2018
Cash and cash equivalents	\$ 3,610,594	\$ 539,602
Accounts receivable, net	6,409,420	4,799,482
Grants receivable, net	1,134,910	416,618
	\$ 11,154,924	\$ 5,755,702

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, 2019 and 2018 consist of \$650,000 and \$717,500, respectively, of cash held by a financial institution as collateral for funded debt, and \$700,000 and \$200,000, respectively, of grants receivable restricted due to timing of the receipt of the receivables.

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.

On December 6, 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, 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.

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

NOTE 5. PROPERTY AND EQUIPMENT

As of December 31, 2019 and 2018, property and equipment consisted of the following:

	<u>2019</u>	<u>2018</u>
Vehicles	\$ 87,999	\$ 140,573
Computers and office equipment	137,426	110,049
Furniture	30,302	25,465
Computer software	51,115	47,615
Leasehold improvements	58,098	58,098
	<u>364,940</u>	<u>381,800</u>
Less accumulated depreciation and amortization	204,216	162,959
Property and equipment, net	<u>\$ 160,724</u>	<u>\$ 218,841</u>

Depreciation and amortization expense for property and equipment for the years ended December 31, 2019 and 2018 was \$63,214 and \$59,865, respectively.

NOTE 6. INTANGIBLE ASSETS

As of December 31, 2019 and 2018, intangible assets consisted of the following:

	<u>2019</u>	<u>2018</u>
Service contracts and customer lists	\$ 14,271,388	\$ 9,367,074
Goodwill	2,000,000	2,000,000
Less accumulated amortization	(1,262,084)	(793,730)
Intangible assets, net	<u>\$ 15,009,304</u>	<u>\$ 10,573,344</u>

Amortization expense for intangible assets totaled \$468,354 for each of the years ended December 31, 2019 and 2018. Estimated future amortization is as follows for the years ending December 31:

2020	\$ 699,484
2021	699,484
2022	699,484
2023	699,484
2024	699,484
Thereafter	9,511,884
	<u>\$ 13,009,304</u>

NOTE 7. LEASE COMMITMENTS

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

2020	\$ 148,714
2021	140,759
2022	53,172
	<u>\$ 342,645</u>

Rent expense was \$122,709 and \$121,552 for the years ended December 31, 2019 and 2018, respectively.

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

NOTE 8. LONG-TERM DEBT

Notes payable consisted of the following at December 31, 2019 and 2018:

	2019	2018
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	\$ 6,500,000	\$ -
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.	4,303,643	4,694,612
Note payable with interest at 6.59%; principal and interest monthly payments of \$34,202 through maturity; unpaid principal matures December 2026.	2,982,538	-
Note payable with interest at 3.0% + institution's prime rate (prime: 5.0% at 12/31/19); principal and interest monthly payments of \$37.5k through maturity; note paid off in November 2019.	-	2,140,601
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.	1,320,833	1,550,000
Note payable with interest at 8.0%; interest-only monthly payments of \$6,801 through maturity; unpaid principal paid in entirety December 2019.	-	1,000,000
Note payable with interest at 10.0%; interest-only quarterly payments of \$23,750 through maturity; unpaid principal due at maturity; matures January 2024; unsecured.	1,450,000	950,000
Note payable with interest at 7.5%; monthly payments of interest and principal of \$5,472 through maturity; unpaid principal matures December 2022; unsecured.	331,859	374,387
Note payable with interest at 2%; note paid off in November 2019.	-	500,000
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.	218,750	250,000
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.	218,750	250,000
	17,326,373	11,709,600
Less current maturities	(1,687,053)	(2,049,145)
Unamortized debt issuance costs	(118,705)	(109,938)
	\$ 15,520,615	\$ 9,550,517

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

NOTE 8. LONG-TERM DEBT (Continued)

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

2020	\$	1,687,053
2021		1,857,913
2022		2,509,942
2023		4,547,126
2024		5,020,305
Thereafter		1,704,034
Unamortized debt issuance costs		(118,705)
		<u>\$ 17,207,668</u>

First Step has agreed to certain restrictive and financial covenants relating to the debt.

NOTE 9. 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 (5.20% at December 31, 2019). First Step also pays an annual commitment fee totaling 0.35% of the average unused amount of the line. The line matures in September 2020 and is secured by all property of the Organization. The balance outstanding at December 31, 2019 and 2018 was \$1,043,451 and \$2,243,451, respectively.

NOTE 10. NET ASSETS WITH DONOR RESTRICTIONS

For the years ended December 31, 2019 and 2018, 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:

	2019	2018
Satisfaction of purpose restrictions:		
Transportation	\$ -	\$ 425,000
Staffing and benefits	875,083	281,000
	\$ 875,083	\$ 706,000

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

	2019	2018
Subject to expenditure for specified purpose:		
Transportation	\$ -	\$ 200,000
Staffing and benefits	700,000	-
	\$ 700,000	\$ 200,000

Net assets with donor restrictions consist of the following at December 31, 2019 and 2018:

	2019	2018
Grants receivable	\$ 700,000	\$ 200,000

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

NOTE 11. GRANT INCOME

Grant income in the consolidated statements of activities was awarded from the following sources for the years ended December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
State and local governments	\$ 1,083,809	\$ 862,487
Charitable organizations	<u>3,218,332</u>	<u>1,410,350</u>
	<u>\$ 4,302,141</u>	<u>\$ 2,272,837</u>

NOTE 12. 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 13. SUBSEQUENT EVENTS

First Step has evaluated subsequent events through August 28, 2020, the date that the consolidated financial statements were available to be issued. 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.

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

**CONSOLIDATED SUPPLEMENTAL SCHEDULES OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	2019	2018
Revenues and support		
Program fees	\$ 45,489,067	\$ 39,112,244
Grant income	4,302,141	2,272,837
Contributions	47,951	65,716
In-kind contributions	83,469	49,793
Other revenues	120,012	-
Interest income	7,501	6,840
	50,050,141	41,507,430
TOTAL REVENUES AND SUPPORT		
Operating expenses		
Client wages	38,220,741	32,138,031
Enhanced wrap-around services	1,678,507	1,259,084
Other direct program expenses	1,561,124	1,893,823
Payroll expense	3,197,286	2,723,046
Insurance	375,473	324,988
Telephone	59,334	54,544
Professional fees	383,453	616,458
In-kind professional fees	390,974	49,793
Supplies	38,646	37,624
Occupancy	152,687	143,567
Operations	66,504	62,722
Equipment rental and maintenance	46,630	42,698
Travel and meetings	147,585	147,112
Expansion expenses	51,873	53,000
Other	272,734	122,401
Bad debt expense	182,656	25,330
	46,826,207	39,694,221
TOTAL OPERATING EXPENSES		
CHANGE IN NET ASSETS FROM OPERATIONS	\$ 3,223,934	\$ 1,813,209

See Independent Auditor's Report on Supplemental Information.