Report on Audits of Financial Statements of

Cherokee County First Steps

to School Readiness Partnership

for the years ended June 30, 2013 and 2012

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Independent Auditor's Report

To Board of Directors
Cherokee County First Steps to School Readiness Partnership
Gaffney, South Carolina

We have audited the accompanying financial statements of Cherokee County First Steps to School Readiness Partnership, a South Carolina non-profit corporation, (the "Partnership"), which comprise the statements of revenues, expenses, and changes in net assets - modified cash basis as of June 30, 2013 and 2012, and the related statements of functional expenses - modified cash basis 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 the modified cash basis of accounting as described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 financial statements are free from material misstatement.

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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 misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets of Cherokee County First Steps to School Readiness Partnership as of June 30, 2013 and 2012, and its revenues and expenses for the years then ended in accordance with the modified cash basis of accounting as described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Scott and Company LLC

Columbia, South Carolina
April 4, 2014

Cherokee County First Steps to School Readiness Partnership
Statements of Revenues, Expenses, and Changes in Net Assets - Modified Cash Basis
for the years ended June 30,

Temporarily restricted net assets:	2013	2012
Revenues:		
Grant revenues - South Carolina Office of First Steps to School Readiness:		
State allocation	$ 185,315	$ 168,854
State private	-	163
Education Improvement Act	-	15,137
Interest income	7	9
Contribution income	16,656	19,344
Total revenues	201,978	203,507
Net assets released from temporary restrictions	(212,034)	(192,195)
Change in temporarily restricted net assets	(10,056)	11,312
Unrestricted net assets:		
Net assets released from temporary restrictions	212,034	192,195
Expenses:		
County operations	73,053	65,489
Family strengthening	27,668	27,153
Child care quality	111,313	99,553
Total expenses	212,034	192,195
Change in unrestricted net assets	-	-
(Decrease) increase in net assets	(10,056)	11,312
Net assets at beginning of the year:		
Cash	68,423	56,020
Accounts payable	(6,586)	(5,495)
	61,837	50,525
Net assets at end of the year:		
Cash	61,139	68,423
Accounts receivable	128	-
Accounts payable	(9,486)	(6,586)
	$ 51,781	$ 61,837

The accompanying notes are an integral part of these financial statements.

Cherokee County First Steps to School Readiness Partnership
Statement of Functional Expenses - Modified Cash Basis
for the year ended June 30, 2013

	Administrative	Program		
	County operations	Family strengthening	Child care quality	Total
Salaries	$ 39,704	$ -	$ 39,704	$ 79,408
Payroll taxes	3,037	-	3,037	6,074
Fringe benefits	2,748	-	2,748	5,496
Consultants	2,708	-	2,708	5,416
Office rent	3,600	-	3,600	7,200
Utilities	1,245	-	1,105	2,350
Professional development	1,527	-	-	1,527
Telephone	2,833	-	2,834	5,667
Office equipment-rent	32	-	32	64
Office equipment-purchase	31	-	30	61
Office supplies	1,720	-	1,720	3,440
Insurance (non-health)	1,684	-	-	1,684
Board expense	4,673	-	-	4,673
Travel	4,750	-	4,244	8,994
Miscellaneous	1,191	-	-	1,191
Program purchased supplies	-	27,668	3,700	31,368
Program purchased services	1,570	-	45,851	47,421
	$ 73,053	$ 27,668	$ 111,313	$ 212,034

The accompanying notes are an integral part of these financial statements.

Cherokee County First Steps to School Readiness Partnership
Statement of Functional Expenses- Modified Cash Basis
for the year ended June 30, 2012

	Administrative	Program		
	County operations	Family strengthening	Child care quality	Total
Salaries	$ 39,610	$ -	$ 39,611	$ 79,221
Payroll taxes	3,378	-	2,667	6,045
Fringe benefits	2,096	-	2,716	4,812
Office rent	3,600	-	3,600	7,200
Utilities	1,270	-	985	2,255
Professional development	1,935	-	-	1,935
Telephone	2,291	-	2,291	4,582
Office equipment-purchase	199	-	199	398
Office supplies	939	-	921	1,860
Insurance (non-health)	1,652	-	-	1,652
Board expense	3,041	-	-	3,041
Travel	3,034	-	2,810	5,844
Miscellaneous	740	-	-	740
Program purchased supplies	-	27,153	2,878	30,031
Program purchased services	1,704	-	40,875	42,579
	$ 65,489	$ 27,153	$ 99,553	$ 192,195

The accompanying notes are an integral part of these financial statements.

Note 1. Summary of Significant Accounting Policies

Organization and Purpose – The Partnership is a non-profit entity organized under the laws of South Carolina with the intent of improving early childhood development. The Partnership provides services directly or contracts with third parties to provide services and support to children and their families to enable children to reach school ready to learn; to establish goals for this initiative; and to provide programs and services which impact children and families during the first years of a child's life.

The Partnership's stated goals are to (1) provide parents with access to the support they might seek and want to strengthen their families and to promote the optimal development of their preschool children; (2) increase comprehensive services so children have reduced risk for major physical, developmental, and learning problems; (3) promote high quality preschool programs that provide a healthy environment that will promote normal growth and development; (4) provide services so all children receive the protection, nutrition, and health care needed to thrive in the early years of life so they arrive at school ready to learn; and (5) mobilize communities to focus efforts on providing enhanced services to support families and their young children so as to enable every child to reach school healthy and ready to learn.

Basis of Accounting – The accompanying financial statements have been prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. The basis of accounting determines when the Partnership recognizes revenue and expenses, and related assets and liabilities. The Partnership uses the cash receipts and disbursements basis of accounting, modified by including program revenue and expenses to the extent that such transactions are settled in cash or invoiced to the Partnership timely after year-end.

The basis of accounting adopted by the Partnership differs from generally accepted accounting principles primarily because it recognizes long lived assets and other costs which benefit more than one period as expenses in the year purchased, and it recognizes certain expenses when paid such as vacation and sick time for employees.

Support and Revenue – Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction.

A restriction expires when a stipulated time restriction ends or purpose restriction is accomplished. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Substantially all the support and revenue received by the Partnership is considered to be temporarily restricted as the Partnership is obligated to spend the amounts received consistent with the instructions from the contributor, including South Carolina First Steps State Board of Trustees, as to their intended use. Revenues are shown net of any amounts refunded to the funding source.

Note 1. Summary of Significant Accounting Policies (continued)

Income Tax – The Partnership is organized as a nonprofit organization under Section 501(c) (3) of the Internal Revenue Code, and is exempt from federal and state income tax.

Use of Estimates – The preparation of the financial statements in conformity with accounting principles generally accepted in the United States 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 estimates.

Cash – The Partnership maintains its cash in bank deposit accounts at high quality financial institutions and generally limits its exposure to credit risk from balances on deposit with the financial institutions in excess of the Federal Deposit Insurance Corporation ("FDIC") insured limit. At times, such deposits may be in excess of FDIC insured limits. The Partnership has additional insurance/security in place for deposits should they exceed FDIC limits.

Accounts Receivable – The Partnership's accounts receivable are due solely from the Federal Government, the South Carolina State Office of First Steps and/or other contributors.

Contributed Services – Contributed services normally would be recorded under generally accepted accounting principles that (a) create or enhance non-financial assets or require specialized skills, (b) are provided by individuals possessing those skills, and (c) would typically need to be purchased if not provided by donation. A substantial number of unpaid volunteers have made significant contributions of their time to develop the Partnership's programs. The value of this contributed time is not reflected in these financial statements since it does not meet the revenue recognition criteria as defined by the modified cash basis of accounting.

Note 2. Related Party Transactions

The board members of the Partnership are representative of various organizations that in certain instances benefit from actions taken by the Board. It is the policy of the Partnership that board members not be involved with decisions regarding organizations they represent.

Certain board members are also members of management of certain of the Partnership's contractors, one of which is the South Carolina Department of Social Services. The Partnership consummated arm's length transactions with these entities to provide certain services related to the mission of the Partnership. The Partnership has recognized approximately $400 and $39,000 as expenses for the years ended June 30, 2013 and 2012, respectively, related to the services provided by these contractors.

Note 3. Concentrations of Risks

The Partnership receives substantially all of its funding through the South Carolina Office of First Steps to School Readiness. Future funding is dependent upon annual evaluation of the Partnership's effectiveness and availability of amounts as appropriated by the South Carolina General Assembly to the South Carolina Office of First Steps to School Readiness for distribution to county First Steps Partnerships, of which the Partnership is one of forty-six partnerships receiving funding. The South Carolina First Steps to School Readiness 7-year legislative authorization ended June 30, 2013 (fiscal year 2013). However, the South Carolina General Assembly approved South Carolina First Steps to School Readiness in the fiscal year 2014 (July 2013 – June 2014) budget appropriation thereby extending it for one fiscal year. The South Carolina First Steps to School Readiness' management is currently working with the South Carolina General Assembly to extend its legislative authorization past June 30, 2014.

The Partnership enters into various contracts with third parties for the performance of certain services consistent with the organization and purpose of the Partnership. The contracts vary in length, however are generally one year or less and are subject to annual renegotiation. Substantially all amounts as shown in the Statements of Functional Expense, with the exception of those amounts expensed for administrative functions, were expenses associated with services and goods contracted for by the Partnership and provided by third parties, for the benefit of improving early childhood development on behalf of the Partnership.

Note 4. Future Minimum Lease Payments

Future minimum lease payments for leased office space total $7,200 for the fiscal year ending June 30, 2014. Under the same office space rental agreement, rent expense was $7,200 for the years ended June 30, 2013 and 2012.

Note 5. Subsequent Events

The Partnership has evaluated events and transactions occurring subsequent to the balance sheet date of June 30, 2013, for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through April 4, 2014, the date these financial statements were available to be issued, and there were no subsequent events that required disclosure in these financial statements.