Report on Audits of Financial Statements of

Chester County First Steps

to School Readiness Partnership

for the years ended June 30, 2011 and 2010

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Independent Auditors' Report

To the Board of Directors
Chester County First Steps to School Readiness Partnership
Chester, South Carolina

We have audited the accompanying statements of revenues, expenses, and changes in net assets - modified cash basis of Chester County First Steps to School Readiness Partnership, a South Carolina non-profit corporation, (the "Partnership"), as of and for the years ended June 30, 2011 and 2010 and the related statements of functional expenses - modified cash basis, for the years then ended. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1, these financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets of Chester County First Steps to School Readiness Partnership as of June 30, 2011 and 2010, and its revenues and expenses for the years then ended, on the basis of accounting described in Note 1.

Scott and Company LLP

Columbia, South Carolina
March 23, 2012

Scott and Company LLP
CERTIFIED PUBLIC ACCOUNTANTS

scottandco.com

1441 Main Street, Suite 800
Post Office Box 8388
Columbia, South Carolina 29202

TEL (803) 256-6021 | FAX (803) 256-8346

702 Pettigru Street
Greenville, South Carolina 29601

TEL (864) 236-4400 | FAX (864) 236-4402

Chester 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:	2011	2010
Revenues:		
Grant revenues - South Carolina Office of First Steps to School Readiness:		
State allocation	$ 53,067	$ 76,125
Education Improvement Act	10,943	9,625
Federal revenue	66,470	67,047
Interest income	114	121
Contribution income	7,727	273
Total revenues	138,321	153,191
Net assets released from temporary restrictions	(153,971)	(160,890)
Change in temporarily restricted net assets	(15,650)	(7,699)
Unrestricted net assets:		
Net assets released from temporary restrictions	153,971	160,890
Expenses:		
County operations	52,891	69,530
Family strengthening	93,727	72,261
Child care quality	7,353	19,099
Total expenses	153,971	160,890
Change in unrestricted net assets	-	-
Change in net assets	(15,650)	(7,699)
Net assets at beginning of the year:		
Cash	29,868	41,091
Accounts payable	(3,354)	(6,878)
	26,514	34,213
Net assets at end of the year:		
Cash	18,980	29,868
Accounts payable	(8,116)	(3,354)
	$ 10,864	$ 26,514

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

Chester County First Steps to School Readiness Partnership
Statement of Functional Expenses - Modified Cash Basis
for the year ended June 30, 2011

	Administrative	Program		
	County operations	Family strengthening	Child care quality	Total
Salaries	$ 38,395	$ 56,067	$ 4,085	$ 98,547
Payroll taxes	2,992	4,316	230	7,538
Fringe benefits	3,763	10,449	525	14,737
Professional development	1,040	1,035	70	2,145
Telephone	2,433	3,148	154	5,735
Office equipment-rent	964	245	68	1,277
Office supplies	833	214	21	1,068
Insurance (non-health)	777	-	-	777
Travel	1,694	14,950	452	17,096
Equipment and Furniture - Purchased	-	800	-	800
Program purchased supplies	-	2,503	1,323	3,826
Program purchased services	-	-	425	425
	$ 52,891	$ 93,727	$ 7,353	$ 153,971

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

Chester County First Steps to School Readiness Partnership
Statement of Functional Expenses- Modified Cash Basis
for the year ended June 30, 2010

	Administrative	Program		
	County operations	Family strengthening	Child care quality	Total
Salaries	$ 49,672	$ 45,927	$ 6,850	$ 102,449
Payroll taxes	3,811	3,502	524	7,837
Fringe benefits	6,452	8,560	1,568	16,580
Professional development	446	330	532	1,308
Telephone	2,380	3,421	468	6,269
Office equipment-rent	1,002	125	188	1,315
Office supplies	1,734	113	199	2,046
Insurance (non-health)	875	-	-	875
Board expense	67	-	-	67
Travel	2,889	8,940	575	12,404
Miscellaneous	202	-	-	202
Program purchased supplies	-	1,149	2,088	3,237
Program purchased services	-	194	6,107	6,301
	$ 69,530	$ 72,261	$ 19,099	$ 160,890

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.

Note 1. Summary of Significant Accounting Policies (continued)

Support and Revenue (continued) - 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.

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 in excess of FDIC limits.

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.

Reclassifications – Prior year salary expenses have been reclassified from salaries to payroll taxes in the family strengthening program to conform to current year presentation. In addition, prior year professional development expenses have been reclassified to program purchased services, and prior year program purchased supplies have been reclassified to program purchased services in the child care quality program to conform to current year presentation.

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 Chester County School District. 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 $26,000 and $22,000 as expenses for the years ended June 30, 2011 and 2010, respectively, related to the services provided by these contractors.

The Partnership has also contracted with the Chester County School District to provide the individuals that work for the Partnership with the opportunity to participate in employee benefits programs that are otherwise not available through the Partnership.

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. Due to the general economic environment within the State of South Carolina, the overall availability of funding from the South Carolina General Assembly is expected to remain level during fiscal year ending June 30, 2012.

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, 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, for the benefit of improving early childhood development on behalf of the Partnership.

Note 4. Subsequent Events

The Partnership has evaluated events and transactions occurring subsequent to the balance sheet date of June 30, 2011, for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through March 23, 2012, the date these financial statements were available to be issued, and there were no subsequent events that required disclosure in these financial statements.