

Report on Audits of Financial Statements of  
Dorchester County First Steps  
to School Readiness Partnership  
*for the years ended June 30, 2013 and 2012*

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Independent Auditor's Report

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To Board of Directors  
Dorchester County First Steps to School Readiness Partnership  
Summerville, South Carolina

We have audited the accompanying financial statements of Dorchester 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.

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 Dorchester 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  
February 21, 2014

**Dorchester 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,**

<u>Temporarily restricted net assets:</u>	2013	2012
Revenues:		
Grant revenues - South Carolina Office of First Steps to School Readiness:		
State allocation	\$ 285,730	\$ 263,217
Education Improvement Act	1,913	26,712
Interest income	27	4
Contribution income	1,180	1,315
Total revenues	288,850	291,248
Net assets released from temporary restrictions	(313,056)	(234,551)
Change in temporarily restricted net assets	(24,206)	56,697
<u>Unrestricted net assets:</u>		
Net assets released from temporary restrictions	313,056	234,551
Expenses:		
County operations	37,059	60,172
Family strengthening	83,313	55,537
Early education programs	98,903	99,176
School transition	10,074	8,336
Child care quality	60,712	11,330
Healthy start	22,995	-
Total expenses	313,056	234,551
Change in unrestricted net assets	-	-
Change in net assets	(24,206)	56,697
<u>Net assets at beginning of the year:</u>		
Cash	267,320	204,258
Accounts payable	(52,011)	(45,646)
	215,309	158,612
<u>Net assets at end of the year:</u>		
Cash	282,475	267,320
Accounts payable	(91,372)	(52,011)
	\$ 191,103	\$ 215,309

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

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

	Administrative	Program							Total
	County operations	Family strengthening	Early education	School transition	Child care quality	Healthy Start		Total	
	\$	\$	\$	\$	\$	\$	\$	\$	
Salaries	-	13,363	-	-	-	13,363	-	52,808	
Payroll taxes	-	1,022	-	-	-	1,022	-	4,039	
Office rent	4,080	1,530	-	-	3,060	1,530	-	10,200	
Utilities	301	113	-	-	226	113	-	753	
Professional development	41	2,563	-	-	30	15	-	2,649	
Telephone	1,173	496	-	-	991	496	-	3,156	
Office equipment-purchase	3,213	414	-	-	580	1,541	-	5,748	
Office supplies	2,164	25	-	-	51	179	-	2,419	
Insurance (non-health)	3,631	-	-	-	-	-	-	3,631	
Food	305	-	-	-	-	-	-	305	
Travel	828	2,664	-	-	476	165	-	4,133	
Miscellaneous	2,099	-	-	-	-	-	-	2,099	
Program purchased supplies	5,043	3,549	2,989	4,291	16,222	1,367	-	33,461	
Program purchased services	14,181	57,574	95,914	5,783	10,999	3,204	-	187,655	
	<u>\$ 37,059</u>	<u>\$ 83,313</u>	<u>\$ 98,903</u>	<u>\$ 10,074</u>	<u>\$ 60,712</u>	<u>\$ 22,995</u>	<u>\$</u>	<u>\$ 313,056</u>	

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

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

	Administrative		Program					Total
	County operations		Family strengthening	Early education	School transition	Child care quality		
Salaries	\$ 15,322		\$ -	\$ -	\$ -	\$ 4,623	\$ 19,945	
Payroll taxes	1,172		-	-	-	354	1,526	
Consultants	16,875		-	-	-	-	16,875	
Office rent	6,482		-	-	-	2,478	8,960	
Utilities	1,031		-	-	-	210	1,241	
Professional development	20		-	-	-	-	20	
Telephone	3,391		-	-	-	637	4,028	
Office equipment-purchase	116		-	-	-	1,395	1,511	
Office supplies	1,095		-	-	-	276	1,371	
Insurance (non-health)	1,950		-	-	-	-	1,950	
Travel	809		-	-	-	-	809	
Miscellaneous	11,909		-	-	-	-	11,909	
Program purchased supplies	-		-	1,136	3,472	-	4,608	
Program purchased services	-		55,537	98,040	4,864	1,357	159,798	
	\$ 60,172		\$ 55,537	\$ 99,176	\$ 8,336	\$ 11,330	\$ 234,551	

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

Dorchester County First Steps to School Readiness Partnership  
Notes to 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 in order 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.

Dorchester County First Steps to School Readiness Partnership  
Notes to Financial Statements

**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 the South Carolina First Steps State Board of Trustees, as to their intended use.

**Income Tax** – The Partnership is organized as a nonprofit organization under Section 501(c) (3) of the Internal Revenue Code, and therefore 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. The Partnership had deposits in excess of FDIC limits of approximately \$37,300 and \$17,400 at June 30, 2013 and 2012, respectively.

**Contributed Services** – Contributed services normally would be recorded under generally accepted accounting principles that (a) create or enhance nonfinancial 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.

## Dorchester County First Steps to School Readiness Partnership Notes to Financial Statements

### **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 some of the Partnership's contractors, such as the Dorchester County School Districts. 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 \$158,000 as expense for the years ended June 30, 2013 and 2012, related to the services provided by these contractors.

The Partnership has also contracted with Dorchester School District Two to employ individuals whose main goal is to work for the Partnership. The purpose of this contractual arrangement is to provide the individuals with the opportunity to participate in employee benefit programs that are 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. 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. However, 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 Expenses, 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.

Dorchester County First Steps to School Readiness Partnership  
Notes to Financial Statements

**Note 4. Commitments and Contingencies**

*Operating Lease* – The Partnership leases office space under a lease renewal agreement that expires June 30, 2015. Future minimum lease payments under this agreement are approximately \$10,000 per year.

**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 February 21, 2014, the date these financial statements were available to be issued, and there were no subsequent events that required disclosure in these financial statements.