

Reports on Audits of Financial Statements of
Greenville County First Steps
to School Readiness Partnership
for the years ended June 30, 2011 and 2010
and Supplemental Federal Financial Assistance Reports
for the year ended June 30, 2011

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Independent Auditors' Report

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

We have audited the accompanying statements of revenues, expenses, and changes in net assets - modified cash basis of Greenville 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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 Greenville 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.

In accordance with *Government Auditing Standards*, we have also issued our report, dated March 13, 2012 on our consideration of the Partnership's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Scott and Company LLP

Columbia, South Carolina
March 13, 2012

Greenville 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>	<u>2011</u>	<u>2010</u>
<u>Revenues:</u>		
Grant revenues - South Carolina Office of First Steps to School Readiness:		
State allocation	\$ 367,892	\$ 470,322
State private	2,250	25,095
Education Improvement Act	67,387	65,562
Federal	559,916	464,230
Interest income	856	2,077
Contribution income	599,718	602,179
Total revenues	1,598,019	1,629,465
Net assets released from temporary restrictions	(1,638,113)	(1,262,053)
Change in temporarily restricted net assets	(40,094)	367,412
 <u>Unrestricted net assets:</u>		
Net assets released from temporary restrictions	1,638,113	1,262,053
<u>Expenses:</u>		
County operations	68,226	55,506
Family strengthening	320,732	483,048
Early education programs	245,623	212,419
School transition	22,686	26,040
Child care quality	173,080	132,855
Healthy start	807,766	352,185
Total expenses	1,638,113	1,262,053
Change in unrestricted net assets	-	-
Change in net assets	(40,094)	367,412
 <u>Net assets at beginning of the year:</u>		
Cash	992,629	739,795
Accounts receivable	261	20,033
Accounts payable	(170,516)	(304,866)
	822,374	454,962
 <u>Net assets at end of the year:</u>		
Cash	769,774	992,629
Accounts receivable	56,609	261
Accounts payable	(44,103)	(170,516)
	\$ 782,280	\$ 822,374

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

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

	Program										Total	
	Administrative County operations	Family strengthening	Early education	School transition	Child care quality	Healthy start	Family strengthening	Early education	School transition	Child care quality		Healthy start
Salaries	\$ 26,500	\$ 7,000	\$ 35,000	\$ -	\$ 69,923	\$ 29,498	\$ 7,000	\$ 35,000	\$ -	\$ 69,923	\$ 29,498	\$ 167,921
Payroll taxes	2,018	536	2,452	-	5,272	2,219	536	2,452	-	5,272	2,219	12,497
Fringe benefits	4,975	500	2,506	-	19,424	5,902	500	2,506	-	19,424	5,902	33,307
Consultants	7,850	-	-	-	-	-	-	-	-	-	-	7,850
Office rent	7,232	-	3,616	-	7,232	-	-	3,616	-	7,232	-	18,080
Professional development	1,730	-	-	-	-	-	-	-	-	-	-	1,730
Telephone	2,537	-	752	-	-	-	-	752	-	-	-	3,289
Office equipment-rent	704	-	-	-	-	-	-	-	-	-	-	704
Office equipment-purchase	684	-	-	-	-	-	-	-	-	-	-	684
Office supplies	3,689	-	214	-	91	141	-	214	-	91	141	4,135
Insurance (non-health)	6,279	-	-	-	-	-	-	-	-	-	-	6,279
Board expense	35	-	-	-	-	-	-	-	-	-	-	35
Travel	752	-	1,041	-	-	-	-	1,041	-	1,487	-	3,280
Miscellaneous	2,737	-	-	-	-	-	-	-	-	-	-	2,737
Program purchased supplies	504	33,592	7,442	3,265	1,333	54,285	-	7,442	3,265	1,333	54,285	100,421
Program purchased services	-	279,104	192,600	19,421	68,318	715,721	-	192,600	19,421	68,318	715,721	1,275,164
	\$ 68,226	\$ 320,732	\$ 245,623	\$ 22,686	\$ 173,080	\$ 807,766	\$ 320,732	\$ 245,623	\$ 22,686	\$ 173,080	\$ 807,766	\$ 1,638,113

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

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

	Program										Total
	Administrative County operations	Family strengthening	Early education	School transition	Child care quality	Healthy start					
Salaries	\$ 25,000	\$ 12,000	\$ 63,932	\$ -	\$ 102,203	\$ 31,927	\$ -	\$ -	\$ -	\$ -	\$ 235,062
Payroll taxes	1,908	916	4,718	-	7,568	2,429	-	-	-	-	17,539
Fringe benefits	6,575	2,660	19,950	-	12,234	1,336	-	-	-	-	42,755
Office rent	7,280	-	-	-	7,280	-	-	-	-	-	14,560
Professional development	975	-	-	-	-	-	-	-	-	-	975
Telephone	2,479	-	-	-	791	-	-	-	-	-	3,270
Office equipment-rent	590	-	-	-	-	-	-	-	-	-	590
Office supplies	728	-	-	-	132	160	-	-	-	-	1,020
Insurance (non-health)	6,279	-	-	-	-	-	-	-	-	-	6,279
Board expense	955	-	-	-	-	-	-	-	-	-	955
Travel	1,525	-	514	-	2,008	-	-	-	-	-	4,047
Miscellaneous	1,212	-	-	-	-	-	-	-	-	-	1,212
Program purchased supplies	-	22,428	4,939	7,531	639	17,500	-	-	-	-	53,037
Program purchased services	-	445,044	118,366	18,509	-	297,112	-	-	-	-	879,031
Program purchased equipment	-	-	-	-	-	1,721	-	-	-	-	1,721
	\$ 55,506	\$ 483,048	\$ 212,419	\$ 26,040	\$ 132,855	\$ 352,185	\$ -	\$ -	\$ -	\$ -	\$ 1,262,053

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

Greenville 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 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 revenues 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.

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

Income Tax – The Partnership is organized as a non-profit 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.

Accounts Receivable – The Partnership’s accounts receivable are due 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.

Greenville 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. Board members disclosed these relationships and transactions as appropriate under the Partnership's policies and as required by law. It is the policy of the Partnership that board members not be involved with decisions regarding organizations they represent.

Certain board members are members of management of certain of the Partnership's contractors, one of which is the Greenville 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 \$1,115,000 and \$738,000 as expense for the years ended June 30, 2011 and 2010, respectively, related to the services provided by these contractors.

The Partnership has also contracted the Greenville County School District to employ individuals whose main purpose is to work for the Partnership. The purpose of this contractual arrangement is to provide the individuals with the opportunity to participate in employee benefits 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. 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 the 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. However, they 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.

Greenville 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 agreement that expired October 31, 2011. Future minimum lease payments under this agreement are approximately \$6,100 at June 30, 2011.

The Partnership receives grant funds from a federal agency. The grant is subject to audit by agents of the granting agency, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Such audits could result in the possible liability for reimbursement or refund of grant monies to the grantor agency. However, the Partnership's management believes that any liability for reimbursement, which may arise as the result of such audits, would not be material to the financial position of the Partnership.

Note 5. Retirement Plan

The Partnership provides a defined contribution retirement plan for all full-time permanent employees. All full-time employees of the Partnership who are at least eighteen are eligible to participate in the plan and are eligible for employer matching contributions up to 4% of salary. Participant contributions are limited to the lesser of 100% of each participant's annual compensation or \$16,500. Participants who have attained age 50 before the end of the plan year are eligible to make catch-up contributions. Employees are fully vested in the plan immediately. The Partnership made contributions of approximately \$6,700 and \$9,400 for the years ended June 30, 2011 and 2010, respectively.

Note 6. 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 13, 2012, the date these financial statements were issued, and there were no subsequent events that required disclosure in these financial statements.

Greenville County First Steps to School Readiness Partnership
 Schedule of Expenditures of Federal Awards
 Year Ended June 30, 2011

<u>Description</u>	<u>Award #</u>	<u>CFDA#</u>	<u>Expenditures</u>
<u>U. S. Department of Health and Human Services:</u>			
Temporary Assistance for Needy Families (TANF) State Programs Cluster: Pass through the South Carolina Department of Social Services: School Readiness Initiative to Support At-Risk Children and Families	-	93.558	\$ 469,978
Child Care and Development Fund (CCDF) Program Cluster: Pass through the South Carolina Department of Social Services: ARRA – Child Care and Development Block Grant	-	93.713	25,000
<u>U. S. Department of Education:</u>			
Twenty-First Century Community Learning Centers	H63010006911	84.287	64,938
Total Federal Expenditures			<u>\$ 559,916</u>

Greenville County First Steps to School Readiness Partnership
Note to Schedule of Expenditures of Federal Awards
Year ended June 30, 2011

1. Basis of Presentation

The information in the Schedule of Expenditures of Federal Awards is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Partnerships* (as amended).

The activity shown in the Schedule of Expenditures of Federal Awards reflects amounts recorded by Greenville County First Steps to School Readiness Partnership for the period July 1, 2010 through June 30, 2011 on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles, which is the same basis of accounting used in the preparation of the Partnership's financial statements.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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

We have audited the financial statements of Greenville County First Steps to School Readiness Partnership (the "Partnership") as of and for the year ended June 30, 2011, and have issued our report thereon dated March 13, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Partnership's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Partnership's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Partnership's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Partnership's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Scott and Company LLP

Columbia, South Carolina
March 13, 2012

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH *OMB CIRCULAR A-133***

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

Compliance

We have audited the compliance of Greenville County First Steps to School Readiness Partnership (the "Partnership"), with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2011. The Partnership's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Partnership's management. Our responsibility is to express an opinion on the Partnership's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Partnerships*. Those standards and *OMB Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Partnership's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Partnership's compliance with those requirements.

In our opinion, the Partnership complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2011.

Internal Control Over Compliance

Management of the Partnership is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Partnership's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness* in internal control is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Directors, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Scott and Company LLP

Columbia, South Carolina
March 13, 2012

Greenville County First Steps to School Readiness Partnership
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2011

Section I - Summary of Auditors' Results

Financial Statements:

We have issued an unqualified opinion dated March 13, 2012 on the financial statements of Greenville County First Steps to School Readiness Partnership.

Internal control over financial reporting:

- Material weaknesses identified? No
- Significant deficiencies identified that are not considered to be material weaknesses? No
- Noncompliance material to financial statements noted? No

Federal Awards:

We have issued an unqualified opinion dated March 13, 2012 on Greenville County First Steps to School Readiness Partnership's compliance for its major program.

Internal control over major program:

- Material weaknesses identified? No
- Significant deficiencies identified that are not considered to be material weaknesses? No
- Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? No

Identification of Major Program:

<u>CFDA Number</u>	<u>Program</u>
93.558	TANF – Temporary Assistance for Needy Families State Programs Cluster

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? No

Greenville County First Steps to School Readiness Partnership
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

Section II—Financial Statement Findings

NONE

Section III—Federal Award Findings and Questioned Costs

NONE

Summary Schedule of Prior Year Audit Findings

Not applicable. There was no single audit in the prior year.