Report on Audits of Financial Statements of

Horry County First Steps

to School Readiness Partnership

for the years ended June 30, 2012 and 2011

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Independent Auditor's Report

To the Board of Directors
Horry County First Steps to School Readiness Partnership
Myrtle Beach, South Carolina

We have audited the accompanying statements of revenues, expenses, and changes in net assets - modified cash basis of Horry County First Steps to School Readiness Partnership, a South Carolina non-profit corporation, (the "Partnership"), as of and for the years ended June 30, 2012 and 2011 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 Horry County First Steps to School Readiness Partnership as of June 30, 2012 and 2011, and its revenues and expenses for the years then ended, on the basis of accounting described in Note 1.

Scott and Company LLC

Columbia, South Carolina
April 30, 2013

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Horry 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,

	2012	2011
Temporarily restricted net assets:		
Revenues:		
Grant revenues - South Carolina Office of First Steps to School Readiness:		
State allocation	$ 467,868	$ 191,044
State private	-	950
Education Improvement Act	41,959	36,567
Federal	20,845	250,282
Interest income	50	183
Contribution income	388,703	445,386
Total revenues	919,425	924,412
Net assets released from temporary restrictions	(844,386)	(902,451)
Change in temporarily restricted net assets	75,039	21,961
Unrestricted net assets:		
Net assets released from temporary restrictions	844,386	902,451
Expenses:		
County operations	137,235	117,374
Family strengthening	575,139	110,376
Child care quality	132,012	213,644
Healthy start	-	461,057
Total expenses	844,386	902,451
Change in unrestricted net assets	-	-
Change in net assets	75,039	21,961
Net assets at beginning of the year:		
Cash	362,187	269,209
Accounts receivable	6,770	-
Accounts payable	(108,157)	(30,370)
	260,800	238,839
Net assets at end of the year:		
Cash	333,214	362,187
Accounts receivable	5,256	6,770
Accounts payable	(2,631)	(108,157)
	$ 335,839	$ 260,800

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

Horry 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	
Salaries	$ 78,432	$ 50,621	$ 68,588	$ 197,641
Payroll taxes	5,441	3,559	5,267	14,267
Fringe benefits	26,132	18,138	16,492	60,762
Office rent	3,420	2,280	5,700	11,400
Utilities	453	302	755	1,510
Professional development	20	3,705	-	3,725
Telephone	4,060	1,414	2,145	7,619
Office equipment-rent	1,066	710	1,776	3,552
Office equipment-purchase	347	-	-	347
Office supplies	3,076	943	2,633	6,652
Insurance (non-health)	2,030	-	-	2,030
Board expense	261	16	-	277
Travel	1,463	6,765	2,389	10,617
Miscellaneous	11,034	50	-	11,084
Program purchased supplies	-	29,978	10,390	40,368
Program purchased services	-	455,846	14,289	470,135
Program purchased equipment	-	812	1,588	2,400
	$ 137,235	$ 575,139	$ 132,012	$ 844,386

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

Horry 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	Healthy start	Total
Salaries	$ 64,500	$ 46,480	$ 67,903	$ -	$ 178,883
Payroll taxes	4,529	3,247	4,906	-	12,682
Fringe benefits	21,262	15,135	17,949	-	54,346
Office rent	3,420	2,280	5,700	-	11,400
Utilities	605	403	1,008	-	2,016
Professional development	535	2,150	225	-	2,910
Telephone	4,274	1,254	2,585	-	8,113
Office equipment-rent	1,017	697	1,798	-	3,512
Office equipment-purchase	3,670	3,958	2,309	-	9,937
Office supplies	895	1,155	2,179	-	4,229
Insurance (non-health)	2,030	-	-	-	2,030
Board expense	181	-	-	-	181
Travel	1,947	6,994	5,312	158	14,411
Miscellaneous	8,509	-	-	-	8,509
Program purchased supplies	-	26,623	9,714	29,193	65,530
Program purchased services	-	-	92,056	430,893	522,949
Program purchased equipment	-	-	-	813	813
	$ 117,374	$ 110,376	$ 213,644	$ 461,057	$ 902,451

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.

Accounts Receivable – Accounts receivable consists of amounts due from the South Carolina Office of First Steps to School Readiness and/or private 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 members of management of the Partnership's contractors, one of which is the Horry 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 $757,000 and $711,000 as expense for the years ended June 30, 2012 and 2011, respectively, related to the services provided by these contractors.

The Partnership has also contracted the Horry County School District to employee 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 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 the fiscal year ending June 30, 2013.

Approximately $380,000 (41%) and $442,000 (48%) of total revenues are from the Children's Trust Fund of South Carolina at June 30, 2012 and 2011, respectively.

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, 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.

Note 4. Lease Commitments

The Partnership leases equipment under an agreement that expires May 31, 2014. Future minimum lease payments under this agreement are as follows:

For the years ended June 30,		
2013	$	2,580
2014		2,365
	$	4,945

Lease expense for equipment was approximately $3,600 during the year ended June 30, 2012.

Note 5. Subsequent Events

The Partnership has evaluated events and transactions occurring subsequent to the balance sheet date of June 30, 2012, for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through April 30, 2013, the date these financial statements were available to be issued, and there were no subsequent events that required disclosure in these financial statements.