Reports on Audits of Financial Statements of

Richland 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
Richland County First Steps to School Readiness Partnership
Columbia, South Carolina

We have audited the accompanying statements of revenues, expenses, and changes in net assets - modified cash basis of Richland 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 Richland 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.

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In accordance with *Government Auditing Standards*, we have also issued our report, dated January 3, 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
January 3, 2012

Richland 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	$ 429,268	$ 395,265
Education Improvement Act	52,217	49,974
Federal revenue	1,211,462	585,145
Interest income	565	723
Contribution income	529,566	180,982
Total revenues	2,223,078	1,212,089
Net assets released from temporary restrictions	(2,115,944)	(1,259,430)
Change in temporarily restricted net assets	107,134	(47,341)
Unrestricted net assets:		
Net assets released from temporary restrictions	2,115,944	1,259,430
Expenses:		
County operations	214,815	202,700
Family strengthening	166,229	214,220
Early education programs	957,006	298,283
Child care quality	206,471	317,127
Healthy start	571,423	227,100
Total expenses	2,115,944	1,259,430
Change in unrestricted net assets	-	-
Change in net assets	107,134	(47,341)
Net assets at beginning of the year:		
Cash	113,162	264,379
Accounts receivable	123,594	3,275
Accounts payable	(99,778)	(83,335)
	136,978	184,319
Net assets at end of the year:		
Cash	301,680	113,162
Accounts receivable	91,913	123,594
Accounts payable	(149,481)	(99,778)
	$ 244,112	$ 136,978

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

Richland 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	Early education	Child care quality	Healthy Start	Total
Salaries	$ 130,717	$ 109,995	$ 340,614	$ 117,786	$ -	$ 699,112
Payroll taxes	10,000	8,415	26,271	9,010	-	53,696
Fringe benefits	28,924	24,370	77,839	27,723	-	158,856
Consultants	3,400	-	43,011	-	-	46,411
Office rent	8,474	-	31,687	11,609	-	51,770
Professional development	3,703	7,415	96,328	4,757	-	112,203
Telephone	5,585	2,931	3,957	3,664	-	16,137
Office equipment-rent	850	1,000	2,139	1,576	-	5,565
Office equipment-purchase	1,000	2,239	-	8,210	-	11,449
Office supplies	8,689	3,081	21,898	1,850	-	35,518
Insurance (non health)	2,825	-	-	-	-	2,825
Board expense	4,920	-	-	-	-	4,920
Travel	1,292	3,500	7,461	2,031	-	14,284
Miscellaneous	3,842	-	605	-	-	4,447
Program purchased supplies	-	2,658	62,994	1,024	18,276	84,952
Program purchased services	594	625	163,824	17,231	553,147	735,421
Program purchased equipment	-	-	3,593	-	-	3,593
Capital improvements	-	-	74,785	-	-	74,785
	$ 214,815	$ 166,229	$ 957,006	$ 206,471	$ 571,423	$ 2,115,944

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

Richland 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	Early education	Child care quality	Healthy start	Total
Salaries	$ 121,839	$ 105,551	$ 119,995	$ 157,899	$ -	$ 505,284
Payroll taxes	10,112	8,133	9,180	12,079	-	39,504
Fringe benefits	28,476	19,746	29,599	39,732	-	117,553
Consultants	10,432	-	14,400	-	-	24,832
Office rent	10,397	-	-	31,243	-	41,640
Professional development	760	5,896	39,245	2,622	-	48,523
Telephone	3,598	1,299	-	8,968	-	13,865
Office equipment-rent	989	958	-	1,999	-	3,946
Office equipment-purchase	170	235	13,408	2,075	-	15,888
Office supplies	6,108	2,193	6,082	5,095	-	19,478
Insurance (non health)	4,155	-	-	-	-	4,155
Board expense	2,738	-	-	-	-	2,738
Travel	544	6,080	2,153	3,826	-	12,603
Miscellaneous	2,000	-	85	-	-	2,085
Program renovations	-	-	55,446	-	-	55,446
Program purchased supplies	-	29,425	3,000	43,979	12,755	89,159
Program purchased services	382	34,704	2,448	7,610	212,095	257,239
Program purchased equipment	-	-	3,242	-	2,250	5,492
	$ 202,700	$ 214,220	$ 298,283	$ 317,127	$ 227,100	$ 1,259,430

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

Richland 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 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.

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 United States Federal government and other contributors such as the local school district.

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.

Reclassification – Prior year program purchased services amounts have been reclassified from the Child Care Quality program to the Healthy Start 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. 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.

Some of the Partnership's board members (elected and/or appointed) are also employees and/or members of management of organizations with which the Partnership has executed contracts for services, specifically the Richland County Public Library and the Richland County Health Department ("DHEC"). 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 $606,000 and $109,000 as expense for the years ended June 30, 2011 and 2010, respectively, related to the services provided by these contractors.

Note 3. Concentrations of Risks

The Partnership received approximately 22% and 37% of its total revenues through the South Carolina Office of First Steps to School Readiness for the years ended June 30, 2011 and 2010, respectively. 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 received approximately 54% and 48% of its total revenues from federal grants for the years ended June 30, 2011 and 2010, respectively. In addition, the Partnership received approximately $500,000 and $167,000 from the Children's Trust Fund of South Carolina for the years ended June 30, 2011 and 2010, respectively. This is approximately 94% and 93% of contribution income as reported on the statements of revenues, expenses and changes in net assets – modified cash basis for the years ended June 30, 2011 and 2010, 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. 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.

Note 4. Commitments and Contingencies

Operating Lease – The Partnership leases office space under a lease renewal agreement that expires September 30, 2011. Future minimum lease payments under this agreement are approximately $13,700.

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. 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 January 3, 2012, the date these financial statements were issued, and there were no subsequent events that required disclosure in these financial statements.

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

Description	Award #	CFDA #	Expenditures
U. S. Department of Health and Human Services:			
ARRA – Early Head Start	04SA4634	93.709	$ 965,514
Temporary Assistance for Needy Families (TANF) Program Cluster:			
Pass through the South Carolina Department of Social Services:			
School Readiness Initiative to Support At-Risk Children and Families	–	93.558	245,948
Total Federal Expenditures			$ 1,211,462

Richland 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 Richland 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.

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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
Richland County First Steps to School Readiness Partnership
Richland, South Carolina

We have audited the financial statements of Richland 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 January 3, 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.

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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
January 3, 2012

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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
Richland County First Steps to School Readiness Partnership
Richland, South Carolina

Compliance

We have audited the compliance of Richland 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.

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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
January 3, 2012

Richland 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 January 3, 2012 on the financial statements of Richland 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 January 3, 2012 on Richland 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:

CFDA Number	Program
93.709	ARRA – Early Head Start

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

Auditee qualified as low-risk auditee? No

Richland 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:

During the current year audit, we reviewed the status of corrective action taken on the Financial Statement Findings as reported in the prior year's report on internal control and compliance of the Partnership dated February 22, 2011 resulting from the audit of the financial statements and major program for the year ended June 30, 2010. We found that adequate corrective action was taken for the findings.