Report on Audits of Financial Statements of

Saluda 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
Saluda County First Steps to School Readiness Partnership
Batesburg, South Carolina

We have audited the accompanying statements of revenues, expenses, and changes in net assets - modified cash basis of Saluda 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 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 Saluda 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
January 3, 2012

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Saluda 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	$ 31,080	$ 47,760
State private	20,816	-
Education Improvement Act	57,964	63,701
4-K State appropriation	45,000	57,450
Federal revenue	111,914	69,688
Interest income	318	381
Contribution income	2,703	5,650
Total revenues	269,795	244,630
Net assets released from temporary restrictions	(274,253)	(250,401)
Change in temporarily restricted net assets	(4,458)	(5,771)
Unrestricted net assets:		
Net assets released from temporary restrictions	274,253	250,401
Expenses:		
County operations	49,356	66,527
Family strengthening	83,169	31,069
Early education programs	42,761	53,861
School transition	27,705	4,181
Child care quality	71,262	94,763
Total expenses	274,253	250,401
Change in unrestricted net assets	-	-
Change in net assets	(4,458)	(5,771)
Net assets at beginning of the year:		
Cash	141,260	144,998
Accounts receivable	200	1,012
Accounts payable	(48,317)	(47,096)
	93,143	98,914
Net assets at end of the year:		
Cash	162,920	141,260
Accounts receivable	-	200
Accounts payable	(74,235)	(48,317)
	$ 88,685	$ 93,143

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

Saluda 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	School transition	Child care quality	Total
Salaries	$ 33,596	$ 51,975	$ -	$ -	$ 19,689	$ 105,260
Payroll taxes	2,012	4,520	-	-	1,284	7,816
Fringe benefits	6,019	15,593	-	-	3,010	24,622
Utilities	322	289	-	-	674	1,285
Professional development	125	986	-	-	20	1,131
Telephone	771	522	-	-	1,484	2,777
Office equipment-purchase	511	550	-	-	1,252	2,313
Office supplies	2,203	1,101	-	-	1,301	4,605
Insurance (non-health)	1,578	-	-	-	-	1,578
Travel	1,086	291	-	-	1,552	2,929
Miscellaneous	768	-	-	-	-	768
Program purchased supplies	315	6,667	-	800	10,033	17,815
Program purchased services	50	675	42,761	26,905	30,963	101,354
	$ 49,356	$ 83,169	$ 42,761	$ 27,705	$ 71,262	$ 274,253

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

Saluda 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	School transition	Child care quality	Total
Salaries	$ 37,545	$ 19,341	$ -	$ -	$ 25,283	$ 82,169
Payroll taxes	2,861	1,375	-	-	1,934	6,170
Fringe benefits	5,567	4,154	-	-	7,866	17,587
Utilities	465	-	-	-	931	1,396
Professional development	15	300	-	-	571	886
Telephone	1,315	-	-	-	2,537	3,852
Office equipment-purchase	500	2,000	-	-	497	2,997
Office supplies	1,463	800	-	-	2,390	4,653
Insurance (non health)	1,596	-	-	-	-	1,596
Board expense	1,013	-	-	-	-	1,013
Travel	2,118	-	-	-	1,815	3,933
Miscellaneous	590	-	-	-	-	590
Program purchased supplies	-	3,099	-	-	10,598	13,697
Program purchased services	1,484	-	53,861	4,181	40,341	99,867
Program purchased equipment	9,994	-	-	-	-	9,994
	$ 66,527	$ 31,069	$ 53,861	$ 4,181	$ 94,763	$ 250,401

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. These financial statements reflect amounts received and spent directly related to the Partnership's purpose of improving early childhood development.

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 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.

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.

Some of the Partnership's board are also members of management of other Partnership's contractors, one of which is the Saluda County School District One. 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 $225,000 and $182,000 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 with Saluda County School District One 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 programs that are not available through the Partnership.

Note 3. Concentrations of Risks

The Partnership receives substantially most 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, 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.

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