

**Independent Auditor's Report on Audits
of Financial Statements of
Greenville County First Steps
to School Readiness Partnership
*as of and for the years ended June 30, 2023 and 2022***

DRAFT

SCOTT  COMPANY

Contents

Independent Auditor's Report..... 1-2

Financial Statements:

 Statements of Revenues, Expenses, and Changes in Net Assets - Modified Cash Basis3

 Statements of Functional Expenses - Modified Cash Basis..... 4-5

 Notes to Financial Statements..... 6-12

DRAFT

Independent Auditor's Report

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

Opinion

We have audited the accompanying modified cash basis financial statements of Greenville County First Steps to School Readiness Partnership, a South Carolina non-profit corporation, (the "Local Partnership"), which comprise the statements of revenues, expenses, and changes in net assets - modified cash basis as of and for the years ended June 30, 2023 and 2022, and the related statements of functional expenses - modified cash basis for the years then ended, and the related notes to the modified cash basis financial statements.

In our opinion, the modified cash basis financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets of the Local Partnership as of June 30, 2023 and 2022, and the revenues, expenses and changes in net assets 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 modified cash basis financial statements, which describes the basis of accounting. The financial statements are 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Modified Cash Basis Financial Statements section of our report. We are required to be independent of the Local Partnership and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Modified Cash Basis Financial Statements

Management is responsible for the preparation and fair presentation of these modified cash basis 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 modified cash basis 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 modified cash basis financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the modified cash basis financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Local Partnership's ability to continue as a going concern within one year after the date that the modified cash basis financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Modified Cash Basis Financial Statements

Our objectives are to obtain reasonable assurance about whether the modified cash basis financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the modified cash basis financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the modified cash basis financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the modified cash basis financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Local Partnership's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the modified cash basis financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Local Partnership's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Columbia, South Carolina

XXXX XX, 2024

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>2023</u>	<u>2022</u>
<u>Net assets with donor restrictions:</u>		
Revenues:		
Grant revenues - South Carolina Office of First Steps to School Readiness:		
State allocation	\$ 1,029,245	\$ 1,029,244
Federal	91,660	272,278
Interest income	455	71
Contribution income	<u>883,806</u>	<u>290,806</u>
Total revenues	<u>2,005,166</u>	<u>1,592,399</u>
Net assets released from restrictions	<u>(1,920,792)</u>	<u>(1,413,934)</u>
Change in net assets with donor restrictions	<u>84,374</u>	<u>178,465</u>
<u>Net assets without donor restrictions:</u>		
Net assets released from restrictions	<u>1,920,792</u>	<u>1,413,934</u>
Expenses:		
County operations	111,060	104,479
Core functions	142,002	301,612
Family strengthening	712,929	665,479
Early education	67,877	74,728
Child care quality	197,667	267,636
Healthy start	<u>689,257</u>	<u>-</u>
Total expenses	<u>1,920,792</u>	<u>1,413,934</u>
Change in net assets without donor restrictions	<u>-</u>	<u>-</u>
Investment unrealized gain (loss)	<u>35,060</u>	<u>(35,229)</u>
Change in net assets	<u>119,434</u>	<u>143,236</u>
<u>Net assets at beginning of the year:</u>		
Cash	555,186	745,035
Investments	547,343	412,571
Accounts receivable	89,367	22,787
Prepaid expenses	7,361	11,835
Accounts payable	(82,679)	(80,778)
Deferred revenue	<u>-</u>	<u>(138,108)</u>
	<u>1,116,578</u>	<u>973,342</u>
<u>Net assets at end of the year:</u>		
Cash	665,587	555,186
Investments	582,403	547,343
Accounts receivable	19,832	89,367
Prepaid expenses	3,500	7,361
Accounts payable	<u>(35,310)</u>	<u>(82,679)</u>
	<u>\$ 1,236,012</u>	<u>\$ 1,116,578</u>

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, 2023**

	Administrative	Program Services					Total
	County Operations	Core Functions	Family Strengthening	Early Education	Child Care Quality	Healthy Start	
Salaries	\$ 73,875	\$ 24,625	\$ 134,060	\$ -	\$ 37,950	\$ -	\$ 270,510
Payroll taxes	5,652	1,884	10,349	-	2,865	-	20,750
Fringe benefits	14,925	4,547	32,548	-	7,465	-	59,485
Consultants	-	-	-	-	4,125	-	4,125
Office rent	5,500	5,500	26,600	-	16,500	-	54,100
Utilities	1,200	1,056	1,487	-	700	-	4,443
Professional development	1,125	375	2,475	-	-	-	3,975
Telephone	238	193	1,133	-	390	-	1,954
Office equipment-purchase	200	200	460	-	600	-	1,460
Office supplies	295	-	1,051	-	822	-	2,168
Insurance (non-health)	850	850	2,877	-	-	-	4,577
Travel	1,451	467	4,182	-	1,000	-	7,100
Miscellaneous	5,749	37,360	79,141	-	10,250	-	132,500
Program purchased supplies	-	-	89,519	6,010	35,000	-	130,529
Program purchased services	-	64,945	327,047	61,867	80,000	689,257	1,223,116
	<u>\$ 111,060</u>	<u>\$ 142,002</u>	<u>\$ 712,929</u>	<u>\$ 67,877</u>	<u>\$ 197,667</u>	<u>\$ 689,257</u>	<u>\$ 1,920,792</u>

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, 2022**

	Administrative	Program Services				Total
	County Operations	Core Functions	Family Strengthening	Early Education	Child Care Quality	
Salaries	\$ 71,250	\$ 42,000	\$ 106,455	\$ 6,000	\$ 15,292	\$ 240,997
Payroll taxes	5,451	3,213	7,831	459	937	17,891
Fringe benefits	8,308	6,222	21,232	-	2,834	38,596
Consultants	-	10,000	-	-	781	10,781
Office rent	7,100	7,100	27,366	-	18,255	59,821
Utilities	1,850	2,392	3,896	-	7,200	15,338
Professional development	1,125	750	1,852	-	-	3,727
Telephone	240	198	792	-	720	1,950
Office equipment-purchase	300	188	700	-	-	1,188
Travel	850	25	2,439	-	165	3,479
Miscellaneous	8,005	166	30,462	-	14,603	53,236
Program purchased supplies	-	29,812	59,017	10,369	38,847	138,045
Program purchased services	-	199,546	403,437	57,900	168,002	828,885
	\$ 104,479	\$ 301,612	\$ 665,479	\$ 74,728	\$ 267,636	\$ 1,413,934

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

Partnership and Purpose – Greenville County First Steps to School Readiness Partnership (the “Local Partnership”) is a non-profit entity organized under the laws of South Carolina with the intent of improving early childhood development. The Local 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 Local 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. Program revenues are recognized when properly earned and realizable. Expenses are recorded in the period in which they are incurred.

The basis of accounting adopted by the Local 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.

Basis of Presentation – Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 958, Not-for-Profit Entities. The Local Partnership is required to report information regarding its financial position and activities according to the following net asset classifications:

Without Donor Restrictions: Net assets that are not subject to donor imposed restrictions and may be expensed for any purpose in performing the primary objectives of the Local Partnership. The board of directors has discretionary control over these resources.

With Donor Restrictions: Net assets subject to stipulation imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Local Partnership or by the passage of time.

Support and Revenue – Contributions received are recorded as support with donor restrictions or without donor restrictions, depending on the existence and nature of any donor restrictions. All support with donor restrictions is reported as an increase in net assets with donor restrictions.

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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Substantially all the support and revenue received by the Local Partnership is considered to be with donor restrictions as the Local 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.

Expenses – Expenses are classified as either administrative or program services. Core functions are included within program expenses, and consist of services and activities the Partnership performs to directly or indirectly ensure that the Partnership’s mission is prioritized and implemented. Federal expenses are recognized as funds are disbursed for the specific reasons granted.

Income Taxes – The Internal Revenue Service has approved the Local Partnership’s exemption from federal income taxes under provisions of Section 501(c)(3) of the Internal Revenue Code and comparable state law, whereby only unrelated business income, as defined by Section 509(a)(1) of the Code is subject to federal income tax.

The basis of accounting followed by the Local Partnership, as previously described in Note 1 to these financial statements, requires management to evaluate tax positions taken by the Local Partnership and recognize a tax liability (or asset) if the Local Partnership has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken by the Local Partnership, and has concluded that as of June 30, 2023, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Local Partnership is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

The following years are subject to examination by major tax jurisdictions at June 30, 2023:

Federal	2021 – 2023
South Carolina	2021 – 2023

Use of Estimates – The basis of accounting followed by the Local Partnership, as previously described in Note 1 to these financial statements, 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.

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

Note 1. Summary of Significant Accounting Policies (continued)

Cash – The Local Partnership maintains its cash in bank deposit accounts with financial institutions located in the state of South Carolina 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 Local Partnership has additional insurance/securities in place for deposits in excess of FDIC limits.

Investment Valuation and Income Recognition – The Local Partnership investments are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Shares of mutual funds are valued at quoted market prices, which represent the net asset value of shares held by the Local Partnership at year-end. See Note 3 for a discussion of fair value measurements.

Accounts Receivable – The Local Partnership’s accounts receivable are due from the South Carolina State Office of First Steps and/or other contributors. Management does not feel an allowance for doubtful accounts is necessary for these receivables.

Prepaid Expenses – The Local Partnership’s prepaid expenses consist of funds on deposit that are not current period expenses but are assets of the Local Partnership.

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 Local 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.

Advertising Costs – Advertising costs are expensed as incurred. Advertising costs expensed for the years ended June 30, 2023 and 2022 were approximately \$112,000 and \$39,000, respectively.

Note 2. Related Party Transactions

The board members of the Local 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 Local Partnership’s policies and as required by law. It is the policy of the Local Partnership that board members not be involved with decisions regarding organizations they represent.

Certain board members are members of management of certain of the Local Partnership’s contractors. The Local Partnership consummated arm’s length transactions with these entities to provide certain services related to the mission of the Local Partnership. The Local Partnership recognized approximately \$785,000 and \$292,000 as expense for the years ended June 30, 2023 and 2022, respectively, related to the services provided by these contractors.

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

Note 3. Investments and Fair Value of Financial Instruments

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. U.S. GAAP also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 – Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as U.S. Treasuries, and money market funds.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments, mortgage-backed securities, municipal bonds, corporate debt securities, and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes certain derivative contracts and impaired loans.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. For example, this category generally includes certain private equity investments, retained residual interests in socializations, residential mortgage servicing rights, and highly-structured or long-term derivative contracts.

Following is a description of valuation methodologies used for assets and liabilities recorded at fair value.

Marketable securities – Investments in marketable securities are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted stock prices in an active market (Level 1). Fair value was the following for the years:

June 30, 2023:

	Quoted market price in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Marketable securities	\$ 582,403	\$ -	\$ -

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

Note 3. Investments and Fair Value of Financial Instruments (continued)

June 30, 2022:

	Quoted market price in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Marketable securities	\$ 547,343	\$ -	\$ -

The carrying value, gross unrealized gains, gross unrealized losses, and fair values of marketable securities consisted of the following:

June 30, 2023				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Marketable securities	\$ 547,343	\$ 35,060	\$ -	\$ 582,403
Total	\$ 547,343	\$ 35,060	\$ -	\$ 582,403
June 30, 2022				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Marketable securities	\$ 582,572	\$ -	\$ 35,229	\$ 547,343
Total	\$ 582,572	\$ -	\$ 35,229	\$ 547,343

Note 4. Concentrations of Risks

The Local Partnership receives a significant portion of its funding through the South Carolina Office of First Steps to School Readiness, where funding is governed by a grant agreement and is dependent on annual compliance with that agreement. Future funding was previously dependent upon annual evaluation of the Local 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 Local First Steps Partnerships, of which this Local Partnership is one of forty-six local partnerships receiving funding. The General Assembly passed South Carolina House Bill H4023 in June 2023, which permanently authorizes the South Carolina Office of First Steps to School Readiness.

The Local Partnership enters into various contracts with third parties for the performance of certain services consistent with the organization and purpose of the Local Partnership. The contracts vary in length, however 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 Local Partnership and provided by third parties, for the benefit of improving early childhood development on behalf of the Local Partnership.

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

Note 5. Liquidity and Availability of Resources

The Local Partnership’s financial assets available within one year of June 30 for general expenditures are as follows:

Financial assets at year-end:	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 665,587	\$ 555,186
Investment account	582,403	547,343
Accounts receivable	<u>19,832</u>	<u>89,367</u>
Total financial assets	<u>1,267,822</u>	1,191,896
Less amounts not available to be used within one year	<u>—</u>	<u>—</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 1,267,822</u>	<u>\$ 1,191,896</u>

As part of the Local Partnership’s liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

Note 6. Retirement Plan

The Local Partnership provides a defined contribution retirement plan for full-time permanent employees. All full-time employees of the Local Partnership who are at least eighteen are eligible to participate in the plans and are eligible for employer matching contributions up to 10% of salary. Local Participant contributions are limited to the lesser of 100% of each participant’s annual compensation or \$15,500. 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 Local Partnership made contributions of approximately \$27,000 and \$20,000 for the years ended June 30, 2023 and 2022, respectively.

Note 7. Commitments and Contingencies

The Local Partnership was in an agreement for office space through October 31, 2021 where monthly payments were \$7,578. The Local Partnership entered into a new operating lease for office space commencing on November 1, 2021 and continuing through June 30, 2027. Monthly payments started at \$4,500 per month and increase by \$150 each year on July 1.

Future minimum lease payments under the agreement are as follows:

2024	\$ 55,800
2025	57,600
2026	59,400
2027	<u>61,200</u>
Total	<u>\$ 234,000</u>

Rent expense for the years ended June 30, 2023 and 2022 was approximately \$54,000 and \$60,000, respectively.

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

Note 8. Subsequent Events

The Local Partnership has evaluated events and transactions occurring subsequent to June 30, 2023, for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through **XXXX XX, 2024**, the date these financial statements were available to be issued, and did not identify any matters that required further disclosure.

DRAFT