

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, 2017 and 2016*

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## Independent Auditor's Report

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

We have audited the accompanying 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, 2017 and 2016, and the related statements of functional expenses - modified cash basis, for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Local Partnership's preparation and fair presentation of the financial statements 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above fairly present, in all material respects, the assets, liabilities, and net assets of the Local Partnership as of June 30, 2017 and 2016, and its support, revenue, and expenses 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 financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a 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.

*Scott and Company LLC*

Columbia, South Carolina

May 21, 2018

**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,**

	2017	2016
Temporarily restricted net assets:		
Revenues:		
Grant revenues - South Carolina Office of First Steps to School Readiness:		
State allocation	\$ 1,045,384	\$ 996,433
Education Improvement Act	-	3,256
Federal	1	26,909
Interest income	90	107
Contribution income	164,543	205,215
Total revenues	1,210,018	1,231,920
Net assets released from temporary restrictions	(1,369,379)	(1,254,253)
Change in temporarily restricted net assets	(159,361)	(22,333)
Unrestricted net assets:		
Net assets released from temporary restrictions	1,369,379	1,254,253
Expenses:		
County operations	71,119	54,352
Indirect program	387,241	343,840
Family strengthening	244,141	268,452
School transition	4,620	8,613
Child care quality	662,258	578,996
Total expenses	1,369,379	1,254,253
Change in unrestricted net assets	-	-
Change in net assets	(159,361)	(22,333)
Net assets at beginning of the year:		
Cash	1,039,456	959,667
Accounts receivable	15,756	79,714
Prepaid expenses	6,600	13,500
Accounts payable	(138,950)	(107,686)
	922,862	945,195
Net assets at end of the year:		
Cash	901,029	1,039,456
Accounts receivable	288	15,756
Prepaid expenses	2,200	6,600
Customer deposits	2,200	-
Accounts payable	(142,216)	(138,950)
	\$ 763,501	\$ 922,862

*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, 2017**

	Program						Total
	Administrative	Family			School Transition		
	County Operations	Indirect	Strengthening	School Transition	Child Care Quality	Total	Total
Salaries	\$ 19,000	\$ 162,843	-	-	-	\$ 109,915	\$ 291,758
Payroll taxes	1,380	6,989	-	-	-	13,179	21,548
Fringe benefits	8,073	22,606	-	-	-	23,515	54,194
Consultants	-	864	-	-	-	-	864
Office rent	6,600	12,800	-	-	-	7,000	26,400
Utilities	385	-	-	-	-	-	385
Professional development	2,075	5,163	-	-	-	1,557	8,795
Telephone	1,148	597	-	-	-	-	1,745
Office equipment-purchase	509	1,801	-	-	-	1,995	4,305
Office supplies	1,283	5,300	-	-	-	540	7,123
Insurance (non-health)	6,820	-	-	-	-	-	6,820
Board expense	5,296	-	-	-	-	-	5,296
Food	-	560	(276)	-	-	811	1,095
Advertising	4,773	16,586	-	-	-	6,342	27,701
Travel	1,933	2,406	-	-	-	2,640	6,979
Miscellaneous	11,844	-	-	-	-	-	11,844
Program purchased supplies	-	85,501	-	-	-	7,643	93,144
Program purchased services	-	63,225	244,417	4,620	4,620	487,121	799,383
	\$ 71,119	\$ 387,241	\$ 244,141	\$ 4,620	\$ 4,620	\$ 662,258	\$ 1,369,379

*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, 2016**

	Program						Total
	Administrative	Family				Child Care Quality	
	County Operations	Indirect	Strengthening	School Transition	Child Care Quality	Total	
Salaries	\$ 17,173	\$ 166,850	-	-	\$ 59,931	\$ 243,954	
Payroll taxes	1,251	12,337	-	-	4,537	18,125	
Fringe benefits	3,170	27,296	-	-	3,367	33,833	
Office rent	3,000	8,500	-	-	3,500	15,000	
Professional development	2,028	376	-	-	359	2,763	
Office equipment-purchase	1,934	-	-	-	1,750	3,684	
Office supplies	1,972	1,424	-	-	626	4,022	
Insurance (non-health)	6,777	-	-	-	-	6,777	
Board expense	2,782	737	-	-	-	3,519	
Meeting rental space	-	-	-	-	700	700	
Food	-	-	-	-	1,696	1,696	
Advertising	-	50,752	-	-	-	50,752	
Travel	908	4,518	-	-	2,027	7,453	
Miscellaneous	13,357	-	-	-	-	13,357	
Program purchased supplies	-	33,229	-	2,508	8,213	43,950	
Program purchased services	-	37,821	268,452	6,105	492,290	804,668	
	<u>\$ 54,352</u>	<u>\$ 343,840</u>	<u>\$ 268,452</u>	<u>\$ 8,613</u>	<u>\$ 578,996</u>	<u>\$ 1,254,253</u>	

*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 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; 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.

**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 Local Partnership is considered to be temporarily restricted 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.

**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, 2017, 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, 2017:

Federal	2015 - 2017
South Carolina	2015 - 2017

**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.

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

**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, 2017 and 2016 were approximately \$28,000 and \$51,000, respectively.

**Change in Accounting Principles** – The Local Partnership adopted the provisions of Accounting Standards Update (“ASU”) 2014-15, Disclosures of Uncertainties about an Entity’s Ability to Continue as a Going Concern, during the year ended June 30, 2017. This ASU requires management to assess the Local Partnership’s ability to continue as a going concern by incorporating and expanding upon certain principles that currently exist in United States auditing standards. This ASU defines substantial doubt to continue as a going concern and sets forth principles for considering the effect of management’s plans, mandates certain disclosures, and requires an assessment period of a year after the date the financial statements are issued or are available to be issued. The Local Partnership did not have a material impact on its financial statements or disclosures as a result of the implementation of this ASU.



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

**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 has recognized approximately \$48,000 and \$205,000 as expense for the years ended June 30, 2017 and 2016, respectively, related to the services provided by these contractors.

**Note 3. Concentrations of Risks**

The Local Partnership receives a portion of its funding through the South Carolina Office of First Steps to School Readiness. Future funding is 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 the Local Partnership is one of forty-six local partnerships receiving funding. As of the date of these financial statements, the Senate has passed legislative authorization for fiscal year 2018-2019 unanimously and the bill will now be considered by the house of representatives and management believes that it will be passed. However, should reauthorization not be approved by the South Carolina General Assembly, both South Carolina First Steps to School Readiness and the Local Partnership would experience a material adverse effect to their operations as a result.

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 4. 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 5% 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 \$13,000 and \$10,000 for the years ended June 30, 2017 and 2016, respectively.

**Note 5. Operating Lease**

The Local Partnership has an operating lease for office space commencing on July 1, 2016 and continuing for two years. Monthly expense for this lease is \$2,200 and the lease is for a period of two years. The future minimum lease payment is \$26,400 for the year ended June 30, 2018. Rent expense for the years ended June 30, 2017 and 2016 was approximately \$26,400 and \$15,000, respectively.

**Note 6. Subsequent Events**

The Local Partnership has evaluated events and transactions occurring subsequent to the balance sheet date of June 30, 2017, for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through May 21, 2018, the date these financial statements were available to be issued and did not identify any matters that required further disclosure.