

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, 2018 and 2017

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Independent Auditor's Report

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, 2018 and 2017, 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, 2018 and 2017, 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
January 15, 2019

**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>Temporarily restricted net assets:</u>	<u>2018</u>	<u>2017</u>
Revenues:		
Grant revenues - South Carolina Office of First Steps to School Readiness:		
State allocation	\$ 1,056,325	\$ 1,045,384
Federal	-	1
Interest income	89	90
Contribution income	375,903	164,543
Total revenues	<u>1,432,317</u>	<u>1,210,018</u>
Net assets released from temporary restrictions	<u>(1,281,879)</u>	<u>(1,369,379)</u>
Change in temporarily restricted net assets	<u>150,438</u>	<u>(159,361)</u>
 <u>Unrestricted net assets:</u>		
Net assets released from temporary restrictions	<u>1,281,879</u>	<u>1,369,379</u>
Expenses:		
County operations	86,247	71,119
Indirect program	537,226	387,241
Family strengthening	145,833	244,141
School transition	-	4,620
Child care quality	512,573	662,258
Total expenses	<u>1,281,879</u>	<u>1,369,379</u>
Change in unrestricted net assets	<u>-</u>	<u>-</u>
Change in net assets	<u>150,438</u>	<u>(159,361)</u>
 <u>Net assets at beginning of the year:</u>		
Cash	901,029	1,039,456
Accounts receivable	288	15,756
Prepaid expenses and deposits	4,400	6,600
Accounts payable	<u>(142,216)</u>	<u>(138,950)</u>
	<u>763,501</u>	<u>922,862</u>
 <u>Net assets at end of the year:</u>		
Cash	920,259	901,029
Accounts receivable	13,749	288
Prepaid expenses and deposits	14,286	4,400
Accounts payable	<u>(34,355)</u>	<u>(142,216)</u>
	<u>\$ 913,939</u>	<u>\$ 763,501</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, 2018

	Administrative		Program				Total
	County Operations	Indirect	Strengthening	Child Care Quality			
Salaries	\$ 19,750	\$ 222,688	\$ -	\$ 19,750	\$	\$	262,188
Payroll taxes	1,511	16,866	-	1,511			19,888
Fringe benefits	4,441	44,762	-	5,538			54,741
Consultants	-	21,813	-	-			21,813
Office rent	11,000	36,672	-	7,300			54,972
Utilities	964	1,665	-	-			2,629
Professional development	2,235	6,517	-	-			8,752
Telephone	404	1,614	-	-			2,018
Office equipment-purchase	411	5,105	-	-			5,516
Office supplies	2,880	1,556	-	-			4,436
Insurance (non-health)	3,556	-	-	-			3,556
Board expense	4,162	-	-	-			4,162
Meeting rental space	-	2,413	-	-			2,413
Advertising	-	28,415	-	-			28,415
Travel	812	6,467	-	-			7,279
Miscellaneous	34,121	-	-	-			34,121
Program purchased supplies	-	81,099	-	-			81,099
Program purchased services	-	59,574	145,833	478,474			683,881
	\$ 86,247	\$ 537,226	\$ 145,833	\$ 512,573	\$	\$	1,281,879

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	Indirect	Family		School Transition	Child Care Quality	
	County Operations	\$	\$	\$	\$	\$	\$
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
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, 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.

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, 2018, 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, 2018:

Federal	2016 – 2018
South Carolina	2016 – 2018

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, 2018 and 2017 were approximately \$28,000 each year.

Recently Issued Accounting Standards Not Yet Adopted – In August 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Presentation of Financial Statements of Not-for-Profit Entities, with the stated purpose of improving financial reporting by not-for-profit entities (NFP). The most significant change resulting from ASU 2016-14 will require non-profit entities to present two net asset classes (net assets with donor restrictions and net assets without donor restrictions) rather than three net assets classes (unrestricted, temporarily restricted, and permanently restricted). Among other provisions, ASU 2016-14 requires the presentation of expenses in both natural and functional classifications. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017. The Local Partnership is currently evaluating the effect of the required implementation of this ASU on its financial statements.

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 \$16,000 and \$48,000 as expense for the years ended June 30, 2018 and 2017, respectively, related to the services provided by these contractors.

Note 3. Concentrations of Risks

The Local Partnership receives substantially all of its funding through the South Carolina Office of First Steps to School Readiness. 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 H3591 in April of 2018. This created Act 152 which reauthorized SC First Steps to School Readiness through June 30, 2025.

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 \$12,000 and \$13,000 for the years ended June 30, 2018 and 2017, respectively.

Note 5. Operating Lease

The Local Partnership had an operating lease for office space commencing on July 1, 2016. Monthly expense for this lease is \$2,200 and the lease is for a period of two years. The Local Partnership entered into a new operating lease for office space commencing on March 1, 2018 and continuing for 7 months. The future minimum lease payments are \$21,400 for the year ended June 30, 2019. Rent expense for the years ended June 30, 2018 and 2017 was approximately \$55,000 and \$26,400, respectively.

Note 6. Subsequent Events

The Local Partnership has evaluated events and transactions occurring subsequent to the balance sheet date of June 30, 2018, for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through January 15, 2019, the date these financial statements were available to be issued and did not identify any matters that required further disclosure.