

Report on Audits of Financial Statements of
Jasper 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

To Board of Directors
Jasper County First Steps to School Readiness Partnership
Ridgeland, South Carolina

We have audited the accompanying financial statements of Jasper 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 entity'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 entity'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 present fairly, in all material respects, the assets, liabilities, and net assets of Jasper County First Steps to School Readiness Partnership as of June 30, 2017 and 2016, and its revenues 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

April 25, 2018

Jasper 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>2017</u>	<u>2016</u>
Revenues:		
Grant revenues - South Carolina Office of First Steps to School Readiness:		
State allocation	\$ 199,998	\$ 137,999
Countdown to Kindergarten	3,272	3,182
Interest income	10	11
Contribution income	19,858	17,359
Total revenues	<u>223,138</u>	<u>158,551</u>
Net assets released from temporary restrictions	<u>(248,282)</u>	<u>(179,444)</u>
Change in temporarily restricted net assets	<u>(25,144)</u>	<u>(20,893)</u>
<u>Unrestricted net assets:</u>		
Net assets released from temporary restrictions	<u>248,282</u>	<u>179,444</u>
Expenses:		
County operations	17,369	18,685
Indirect program	13,715	27,511
Family strengthening	118,218	83,536
School transition	11,461	8,966
Child care quality	52,775	25,993
Healthy start	34,744	14,753
Total expenses	<u>248,282</u>	<u>179,444</u>
Change in unrestricted net assets	<u>-</u>	<u>-</u>
Change in net assets	<u>(25,144)</u>	<u>(20,893)</u>
<u>Net assets at beginning of the year:</u>		
Cash	87,648	101,638
Accounts receivable	9,141	11,780
Accounts payable	<u>(16,195)</u>	<u>(11,931)</u>
	<u>80,594</u>	<u>101,487</u>
<u>Net assets at end of the year:</u>		
Cash	84,381	87,648
Accounts receivable	-	9,141
Prepaid assets	758	-
Accounts payable	<u>(29,689)</u>	<u>(16,195)</u>
	<u>\$ 55,450</u>	<u>\$ 80,594</u>

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

**Jasper County First Steps to School Readiness Partnership
Statement of Functional Expenses - Modified Cash Basis
for the year ended June 30, 2017**

	Administrative County	Program						Total
		Operations	Indirect	Family Strengthening	School Transition	Child Care Quality	Healthy Start	
Salaries	\$ 10,150	\$	8,120	\$ 56,040	\$ -	\$ 10,150	\$ 18,578	\$ 103,038
Payroll taxes	765		612	4,111	-	766	1,372	7,626
Fringe benefits	2,822		2,258	16,329	-	2,822	5,352	29,583
Professional development	14		11	4,282	-	14	496	4,817
Telephone	233		698	698	-	1,008	465	3,102
Office supplies	483		1,449	2,966	-	2,166	1,293	8,357
Insurance (non-health)	1,186		-	-	-	-	-	1,186
Board expense	366		-	-	-	-	-	366
Travel	340		567	14,958	-	787	2,553	19,205
Miscellaneous	1,010		-	-	-	-	-	1,010
Program purchased supplies	-		-	14,867	2,634	12,345	3,977	33,823
Program purchased services	-		-	3,967	8,827	22,717	658	36,169
	\$ 17,369	\$	13,715	\$ 118,218	\$ 11,461	\$ 52,775	\$ 34,744	\$ 248,282

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

Jasper County First Steps to School Readiness Partnership
Statement of Functional Expenses- Modified Cash Basis
for the year ended June 30, 2016

	Administrative	Program					Healthy Start	Total
		Indirect	Family Strengthening	School Transition	Child Care Quality			
County Operations	9,638	\$ 17,348	\$ 38,068	\$ -	\$ 3,854	\$ 7,590	\$	76,498
Salaries	727	1,308	2,853	-	291	568		5,747
Payroll taxes	2,682	4,827	8,624	-	1,073	1,619		18,825
Fringe benefits	119	214	4,161	-	48	95		4,637
Professional development	234	701	779	-	779	624		3,117
Telephone	12	36	40	-	40	32		160
Office equipment-purchase	561	1,649	3,279	-	1,797	1,426		8,712
Office supplies	1,165	-	-	-	-	-		1,165
Insurance (non-health)	1,960	-	-	-	-	-		1,960
Board expense	504	1,428	11,746	-	671	1,137		15,486
Travel	1,083	-	91	-	-	-		1,174
Miscellaneous	-	-	10,939	2,661	1,930	1,528		17,058
Program purchased supplies	-	-	2,956	6,305	15,510	134		24,905
Program purchased services	-	-	-	-	-	-		-
	\$ 18,685	\$ 27,511	\$ 83,536	\$ 8,966	\$ 25,993	\$ 14,753	\$	179,444

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

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

Note 1. Summary of Significant Accounting Policies

Organization and Purpose – The Jasper 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 in order 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.

Jasper 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 the 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 modified cash basis of accounting 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 preparation of the financial statements in conformity with the modified cash basis of accounting 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 Local 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.

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

Note 1. Summary of Significant Accounting Policies (continued)

Cash (continued) – At times, such deposits may be in excess of FDIC insured limits. The Local Partnership has additional insurance/security in place for deposits should they exceed FDIC limits.

Accounts Receivable – Accounts receivable consists of amounts due from the South Carolina Office of First Steps to School Readiness and/or private 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.

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.

Note 2. Related Party Transactions

The board members of the Local Partnership are representatives of various organizations that in certain instances benefit from actions taken by the Board. It is the policy of the Local Partnership that board members are not involved with decisions regarding organizations they represent.

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

Note 2. Related Party Transactions (continued)

Certain board members are members of management of one of the Local Partnership's contractors, one of which is the Jasper County School District (the "School District"). The Local Partnership consummated arm's length transactions with this entity to provide certain services related to the mission of the Local Partnership. The Local Partnership has recognized approximately \$140,000 and \$101,000 as expense for the years ended June 30, 2017 and 2016, respectively, related to the services provided by the School District. The Local Partnership paid approximately \$4,000 and \$2,000 to a Local Partnership Board Member, for contracted services related to the Countdown to Kindergarten program for the years ended June 30, 2017 and 2016, respectively. The Local Partnership has recognized approximately \$14,000 as expense for the year ended June 30, 2017 and none for the year ended June 30, 2016 related to the scholarships for childcare services provided by the Department of Social Services.

The Local Partnership has also contracted with Jasper County School District to employ individuals whose main goal is to work for the Local Partnership. The purpose of this contractual arrangement is to provide the individuals with the opportunity to participate in employee benefit programs that are not available through the Local Partnership.

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 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 by the Local Partnership and provided by third parties, for the benefit of improving early childhood development on behalf of the Local Partnership.

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

Note 4. 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 April 25, 2018, the date these financial statements were available to be issued. There were no subsequent events that required disclosure in these financial statements.