

September 26, 2023

Mr. George L. Kennedy, CPA
State Auditor
Office of the State Auditor
Columbia, South Carolina
and
Members of the Board of Trustees
South Carolina First Steps to School Readiness
Columbia, South Carolina

We have audited the financial statements of the government for the year ended June 30, 2023, in accordance with the standards of the American Institute of Certified Public Accountants. A copy of our audit report is included in the letter to you dated June 27, 2023. Professional standards also require us to provide you with certain information related to our audit.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by First Steps are described in Note 3 of the financial statements. No new significant accounting policies were adopted and the application of existing policies was not significantly changed during 2023. We noted no transactions entered into by First Steps during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been properly recorded in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known or likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. For purposes of this communication, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on First Steps' financial reporting process (that may or may not cause future financial statements to be materially misstated). We did not propose any significant audit adjustments.

In our judgment, there were no material known unrecorded and uncorrected misstatements, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 26, 2023.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to First Steps' financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as First Steps' auditor. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the management's discussion and analysis, budgetary comparison schedules, schedule of proportionate share of the net OPEB liability – South Carolina Retirement System, schedule of contributions – South Carolina Retirement System, schedule of proportionate share of the net OPEB liability – South Carolina Health Insurance Trust Fund, and schedule of contributions – South Carolina Health Insurance Trust Fund, which are required supplementary information ("RSI") that supplement the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.


We were engaged to report on the supplementary information listed in the table of contents, which accompanies the financial statements but is not RSI. With respect to this information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the

financial statements. We compared and reconciled information to the underlying accounting records used to prepare the financial statements of the financial statements themselves.

Restriction on Use

This information is intended solely for the information use of the Office of the State Auditor, Board of Trustees, and management of First Steps and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, appearing to read "Greene Finney Cauley, LLP", is written over a solid red horizontal line.

Greene Finney Cauley, LLP
Certified Public Accountants

South Carolina First Steps to School Readiness

Financial Statements

For the Year Ended June 30, 2023

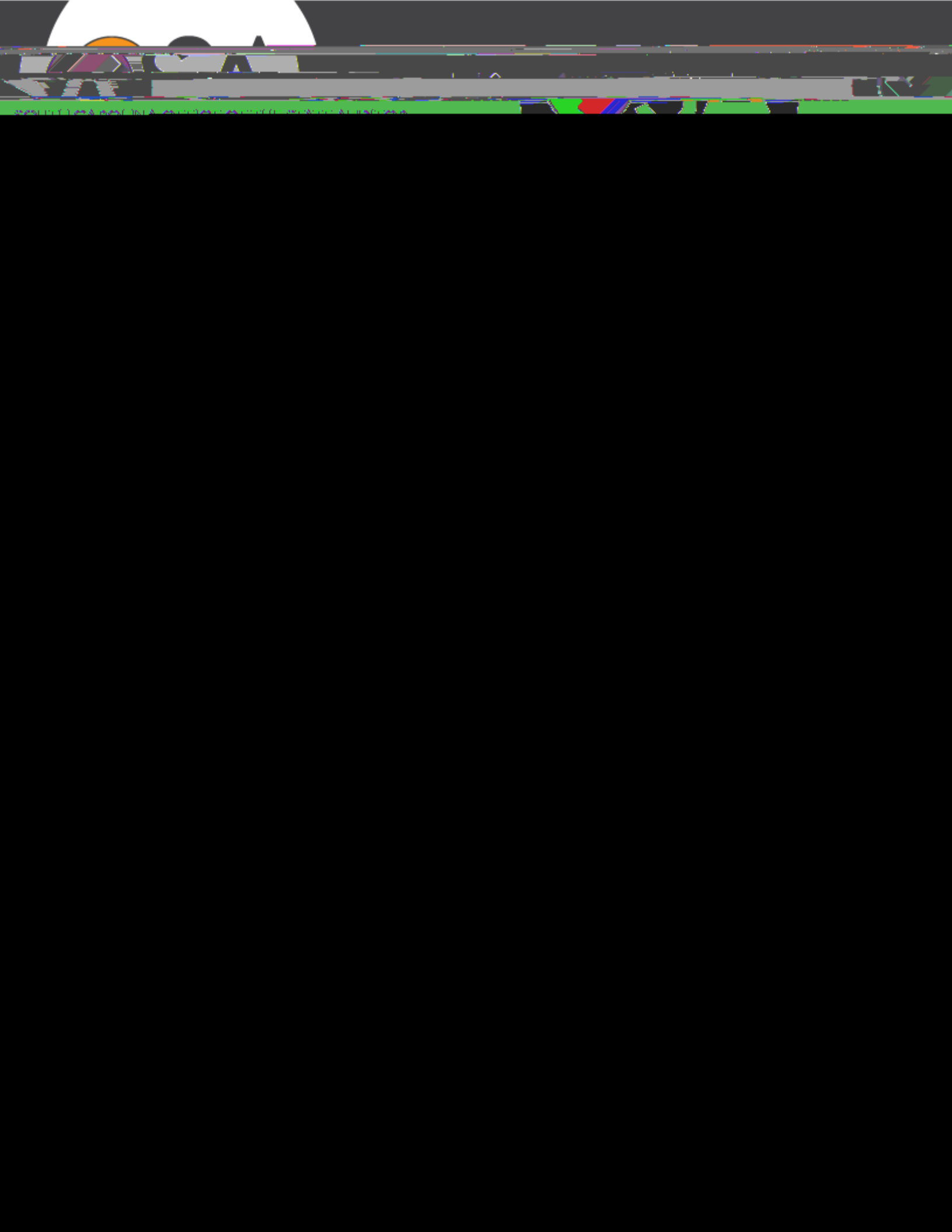


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INDEPENDENT AUDITOR'S REPORT

Mr. George L. Kennedy, CPA
State Auditor
Office of the State Auditor
Columbia, South Carolina

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities and each major fund of South Carolina First Steps to School Readiness ("First Steps"), a discretely presented component unit of the State of South Carolina, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise First Steps' basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly in all material respects, the respective financial position of the governmental activities and each major fund of First Steps as of June 30, 2023, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to the financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of First Steps 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 opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about First Steps' ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance ~~about~~ whether the financial statements as a whole are free from material misstatement, whether ~~due~~ to fraud or error, and

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise First Steps' basic financial statements. The supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 26, 2023 on our consideration of First Steps' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of First Steps'

South Carolina First Steps to School Readiness
Management's Discussion and Analysis
For the Year Ended June 30, 2023

The Management's Discussion and Analysis ("MD&A") of the South Carolina First Steps to School Readiness Board of Trustees provides an overview of the Board's activities and financial performance for the year ended June 30, 2023.

South Carolina First Steps to School Readiness
 Management's Discussion and Analysis
 For the Year Ended June 30, 2023

The Statements of Net Position provide a summary of First Steps' financial condition at the end of the 2023 and 2022 fiscal years. The statement reports all assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the accrual basis of accounting.

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
 STATEMENTS OF NET POSITION

	2023	2022
Current assets	\$ 30,212,572	\$ 27,303,936
Lease and capital assets, net	876,207	1,005,796
Total assets	31,088,779	28,309,732
Deferred outflows of resources	6,100,291	4,468,021
Current liabilities	2,442,752	1,231,243

South Carolina First Steps to School Readiness
Management's Discussion and Analysis
For the Year Ended June 30, 2023

Funds Highlights:

Governmental Funds:

The focus of First Steps' governmental funds is to provide information regarding actual inflows and outflows of spendable resources. The General Fund is the primary

South Carolina First Steps to School Readiness
Management's Discussion and Analysis
For the Year Ended June 30, 2023

First Steps is also required to record its proportionate share of the net OPEB liability in accordance with GASB Statement No. 75 and represents First Steps' share of the State's net OPEB liability related to the State's Retiree Health Insurance Trust Fund. The net OPEB liability as of June 30, 2022 was \$6,993,958 and decreased to \$6,181,745 at June 30, 2023. The decrease is primarily attributable to changes in actuarial assumptions used to measure the State's net OPEB liability. See Note 7 to the financial statements for additional information regarding First Steps' OPEB plan.

Capital Assets and Lease Assets:

First Steps made acquisitions of several vehicles during the year ended June 30, 2023, which increased the net capital asset balance amounts reported from \$0 to \$87,344.

In addition to requiring First Steps to record lease liabilities, GASB Statement No. 87 also requires First Steps to recognize intangible right of use assets related to the lease agreements. The lease assets are amortized over the term of the lease. The net lease assets reported as of June 30, 2022 was \$1,005,796, which was then amortized during the year ended June 30, 2023, resulting in an ending balance of \$788,863.

Budget Highlights:

First Steps budgets State appropriations and other funds (earmark, restricted and federal) as they are received during the year. First Steps' original and final budget for the General Fund was \$9,773,753 and \$9,697,353, respectively, for the year ended June 30, 2023. Actual expenditures, on the budgetary basis, totaled \$7,325,734. These amounts were spent primarily on CDEPP and READY programs (child development programs). The total other funds final budget was \$52,889. Actual expenditures, on the budgetary basis, totaled \$47,181,477. These amounts were spent primarily on allocations to First Steps local county partnerships and the CDEPP programs.

Current Conditions that are Expected to have a Significant Effect on First Steps' Financial Position:

During the 2023 state fiscal year, First Steps had a sli

South Carolina First Steps to School Readiness
Management's Discussion and Analysis
For the Year Ended June 30, 2023

The Preschool Development Grant ("PDG") ended in fiscal year 2023, however, First Steps received a no cost extension which will allow it to fully expend the remaining funds through April 2024. First Steps has been notified that it will receive a new PDG for calendar year 2023, that may be extended into calendar year 2024 of approximately \$1.5 million. This will provide funds to continue many of the activities started under the original PDG Grant.

The ESSER Funds, which were received initially as a contract with the State Department of Education transitioned into a federal subrecipient agreement during this fiscal year. At the end of fiscal year 2023, First Steps has just over \$9.9 million still left to spend. These funds will need to be fully expended prior to September 30, 2024.

First Steps has implemented grant awards funded from the READY Grants that was provided in fiscal year 2023 from the General Assembly. By the end of fiscal year, almost all the funds were obligated.

Efforts are ongoing to provide funds to maintain as much of the increase in services as possible that were generated by both the PDG funds and the ESSER Funds.

First Steps received permanent reauthorization on June 19, 2023 through Act 81 of the South Carolina General Assembly. This made several changes to statutory requirements, added one member to the Board of Trustees, and eliminated the need to be reauthorized every 5 years.

This discussion and analysis is designed to provide a general overview of the South Carolina First Steps to School Readiness' finances for all of South Carolina citizens, taxpayers, customers, investors and creditors. This financial report seeks to demonstrate First Steps' accountability for the money it receives. Questions concerning any of the information provided in

South Carolina First Steps to School Readiness
Statement of Activities
For the Year Ended June 30, 2023

Expenses

Governmental Activities – General Government	
Allocations to other entities	\$ 19,087,567
Private 4K provider costs	23,730,357
Contractual services	3,123,126
Salaries	4,823,767

South Carolina First Steps to School Readiness
Reconciliation of the Statement of Revenues, Expenditures,
and Change in Fund Balance of the Governmental Funds to the
Statement of Activities
For the Year Ended June 30, 2023

Net change in fund balance, governmental fund	\$ 1,730,653
Amounts reported for governmental activities in the Statement of Activities are different because:	
Expenditures for capital assets are considered an asset in the Statement of Net Position	88,824
Current year retirement plan contributions are considered a deferred outflow of resources rather than a current year expense in the Statement of Activities	744,977
Current year OPEB contributions are considered a deferred outflow of resources rather than a current year expense in the Statement of Activities	265,154
Repayment of lease liabilities is reported as an expenditure in the governmental funds and as a reduction in lease liabilities in the Statement of Net Position	249,364
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental fund:	
Depreciation	(218,413)
Increase in pension expense due to changes in First Steps' portion of collective pension expense	(893,052)
Increase in OPEB expense due to changes in First Steps' portion of collective OPEB expense	(109,691)
Non-employer contributions to the pension plan are considered grant revenues in the statement of activities	26,566
Compensated absences	<u>(76,024)</u>
Increase in net position, governmental activities	<u>\$ 1,808,358</u>

The notes to the financial statements are an integral part of these financial statements. See accompanying independent auditor's report.

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2023

1. Summary of Significant Accounting Policies

A. Reporting Entity

The South Carolina First Steps to School Readiness ("First Steps") is a non-profit, tax-exempt public charity created specifically to carry out the objectives of The South Carolina First Steps to School Readiness Act and to lessen the burdens on government by overseeing the initiative for improving early childhood development of the Act. First Steps was created through enabling legislation recorded in June of 1999 in Section 59-152-10 of South Carolina Code of Laws. First Steps is financially accountable to and dependent on the State and is subject to various State procurement, budget, personnel, and other regulations. First Steps is reported as a discretely presented component unit of the State of South Carolina and included in the State's Annual Comprehensive Financial Report.

Operationally, the SC First Steps Executive Director reports to a State Board of Trustees, consisting of 26 voting members and the heads of all South Carolina child-serving agencies. The board is chaired by the Governor of the State of South Carolina (the "Governor"). The Board's voting members include the Governor or the Governor's designee, State Superintendent of Education or the State Superintendent of Education's designee, Department of Mental Health's designee, seven Governor appointees, four members appointed by the President Pro Tempore of the Senate, four members appointed by the Speaker of the House.

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2023

1. Summary of Significant Accounting Policies (continued)

B. Basis of Presentation, Measurement Focus and Basis of Accounting (continued)

Cash and Cash Equivalents

The amounts shown in the accompanying financial statements cash and cash equivalents represent petty cash, cash on deposit in banks, cash on deposit with external parties, and cash invested in various instruments as a part of the State's cash management pool, an internal investment pool. The internal investment pool is not registered with the Securities and Exchange Commission and does not have other regulatory oversight. Because the cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The pool includes some long-term investments such as obligations of the United States and certain agencies of the United States, obligations of domestic corporations, certificates of deposit, and collateralized repurchase agreements.

Cash Management Pool – Allocation of Interest

The State of South Carolina cash management pool consists of a general deposit account and several special deposit accounts. The State records the investment pool

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2023

1. Summary of Significant Accounting Policies (continued)

B. Basis of Presentation, Measurement Focus and Basis of Accounting (continued)

Grants Receivable

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2023

1. Summary of Significant Accounting Policies (continued)

B. Basis of Presentation, Measurement Focus and Basis of Accounting (continued)

Lease Liabilities

First Steps has entered into agreements to use certain facilities and equipment. The lease agreements qualify as other than short-term leases under GASB No. 87 and, therefore, have been recorded at the present value of the future minimum lease payments.

Unearned Revenue

Unearned revenue consists of funds provided to First Steps under grant agreements for which eligible expenditures had not been made as of June 30, 2023. These amounts will be recognized as

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS

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SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2023

2. Budget Policy (continued)

Transfers of funds may be approved by the State Fiscal Accountability Authority under its authority or by the agency as set forth in Appropriation Act Proviso 117.9 as follows: Agencies and institutions shall be authorized to transfer appropriations within programs and within the agency with notification to the Executive Budget Office. Such transfer may exceed twenty percent of the program budget. Upon request, details of such transfers may be provided to members of the General Assembly on an agency by agency basis. Transfers of appropriations from personal service accounts to other operating accounts or from operating accounts to personal service accounts may be restricted to any established standards set by the State Fiscal Accountability Authority upon formal approval by a majority of the members of the State Fiscal Accountability Authority.

During the fiscal year-end closeout period July, agencies may continue to charge vendor, interagency, and interfund payments for the fiscal year ending June 30, 2023.

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2023

6. Pension Plan

The South Carolina Public Employee Benefit Authority (SCPEBA), created July 1, 2012, is the state agency responsible for t

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2023

6. Pension Plan (continued)

Net Pension Liability

The NPL is calculated separately for each system and represents that particular system's TPL determined in accordance with GASB No. 67 less that System's fiduciary net position. NPL totals, as of June 30, 2022, for SCRS is presented below.

System	Total Pension Liability	Plan Fiduciary Net Position	Employers' Net Pension Liability	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
SCRS	\$ 56,454,779,872	\$ 32,212,626,932	\$ 24,242,152,940	57.1%

The TPL is calculated by the Systems' actuary and each plan's fiduciary net position is reported in the Systems' financial statements. The NPL is disclosed in accordance with the requirements of GASB 67 in the Systems' notes to the financial statements and required supplementary information. Liability calculations performed by the Systems' actuary for the purpose of satisfying the requirements of GASB Nos. 67 and 68 are not applicable for other purposes, such as determining the plans' funding requirements.

First Steps' proportionate share of the net pension liability was calculated on the basis of historical employer contributions. Although GASB 68 encourages the use of the employer's projected long-term contribution effort to the retirement plan, the SCRS system employer's projected long-term contribution effort to the retirement plan is not applicable for other purposes, such as determining the plans' funding requirements.

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2023

6. Pension Plan (continued)

Net Pension Liability (continued)

Long-term Expected Rate of Return (continued)

The expected returns, along with the expected inflation rate, are the basis for the target asset allocation adopted at the beginning of the 2022 fiscal year. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and adding expected inflation and is summarized in the table below. For actuarial purposes, the 7.00 percent assumed annual investment rate of return used in the calculation of the TPL includes a 4.75 percent real rate of return and 2.25 percent inflation component.

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Expected Arithmetic Real Rate of Return</u>	<u>Long Term Expected Portfolio Real Rate of Return</u>
Public Equity ¹	46.0%	6.79%	3.12%
Bonds	26.0%	(0.35)%	(0.09)%
Private Equity ^{1,2}	9.0%	8.75%	0.79%
Private Debt ²	7.0%	6.00%	0.42%
Real Assets	12.0%		
Real Estate	9.0%	4.12%	0.37%
Infrastructure	3.0%	5.88%	0.18%
Total Expected Real Return	<u>100.0%</u>		<u>4.79%</u>
Inflation for Actuarial			<u>2.25%</u>
Total Expected Nominal			<u>7.04%</u>

¹ Staff and Consultant will notify the Commissioner if Private Markets assets exceed 25% of total assets.

² Portable Alpha Strategies, which are not included in Policy Target, will be capped at 12% of total assets; hedge funds (including all hedge funds used in portable alpha implementation) are capped at 15% of total

SOUTH CAROLINA

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2023

7. Post-Employment Benefits Other than Pensions (continued)

Actuarial Assumptions and Methods (continued)

Additional information as of the latest actuarial valuation for SCRHITF:

Valuation Date:	June 30, 2021
Actuarial Cost Method:	Entry Age Normal
Inflation:	2.25%
Investment Rate of Return:	2.75%, net of OPEB Plan investment expense; including inflation
Single Discount Rate:	3.69% as of June 30, 2022
Demographic Assumptions:	Based on the experience study performed for the South Carolina Retirement Systems for the 5 year period ending June 30, 2019
Mortality:	For healthy retirees, the gender-distinct South Carolina Retirees 2020 Mortality Tables are used with fully generational mortality projections based on a fully generational basis by the 80% of Scale MP-2019 to account for future mortality improvements.
Health Care Trend Rate:	Initial trend starting at 6.00% and gradually decreasing to an ultimate trend rate of 4.00% over a period of 15 years
Retiree Participation:	79% for retirees who are eligible for funded premiums 59% participation for retirees who are eligible for Partial Funded Premiums 20% participation for retirees who are eligible for Non-Funded Premiums
Notes:	The discount rate changed from 1.92% as of June 30, 2021 to 3.69% as of June 30, 2022.

Roll Forward Disclosures

The actuarial valuation was performed as of June 2021. Update procedures were used to roll forward the total OPEB liability to June 30, 2022.

Net OPEB Liability

The Net OPEB Liability (NOL) is calculated separately for each OPEB Trust Fund and represents that particular Trust's Total OPEB Liability (OL) determined in accordance with GASB No. 74 less that Trust's fiduciary net position. The allocation of each employer's proportionate share of the collective Net OPEB Liability and collective OPEB expense was determined using the employer's payroll-related contributions over the measurement period.

The following table represents the components of the net OPEB liability as of June 30, 2022:

<u>OPEB Trust</u>	<u>Total OPEB Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net OPEB Liability</u>	<u>Plan Fiduciary Net Position as a % of Total OPEB Liability</u>
SCRHITF	\$ 16,835,502,593	\$ 1,623,661,403	\$ 15,211,841,190	9.64%

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2023

7. Post-Employment Benefits Other than Pensions (continued)

Net OPEB Liability (continued)

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 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2023

7. Post-Employment Benefits Other than Pensions (continued)

Net OPEB Liability (continued)

Sensitivity Analysis

The following table presents the SCRHITF's OPEB liability calculated at a single discount rate of 3.69%, as well as what the plan's net OPEB liability would be if the single discount rate was one percent lower or one percent higher:

Sensitivity of the Proportional Share of Net OPEB Liability to Changes in the Single Discount Rate			
	1.00% Decrease (2.69%)	Current Discount Rate (3.69%)	1.00% Increase (4.69%)
OPEB Trust			

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2023

7. Post-Employment Benefits Other than Pensions (continued)

OPEB Expense and Deferred Outflows and Inflows of Resources (continued)

Contributions subsequent to the measurement date of \$265,154 were reported as deferred outflows of resources related to OPEB and will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2024. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows. Average remaining services lives of all employees provided with OPEB through June 30, 2021 was 6.915 years for SCRHITF:

Measurement Period Ending June 30,	Fiscal Year Ending June 30,	SCRHITF
2023	2024	\$ (420,518)
2024	2025	(355,520)
2025	2026	30,218
2026	2027	208,844
2027	2028	26,760
Thereafter		(197,891)

8. Deferred Compensation Plans

Several optional deferred compensation plans are available to State employees. The multiple-employer plans, created under Internal Revenue Code Sections 457, 401(k), and 403(b), are administered by third parties and are not included in First Steps' financial statements. Compensation deferred under the plans is placed in trust for the contributing employee. First Steps has no liability for losses under the plans. Employees may withdraw the current value of contributions when they terminate State employment. Employees may also draw contributions prior to termination if they meet requirements specified by the applicable plan. First Steps made no contributions for the fiscal year ending June 30, 2023.

9. Risk Management

First Steps is exposed to various risks of loss, including theft of, damage to, or destruction of assets, and general torts and maintains state insurance coverage for non-owned motor vehicles and general torts. First Steps did not incur any losses during the past three years.

First Steps has not transferred the risk of loss employee theft or misappropriation of assets and the portion of the risks of loss related to insurance policy deductibles for non-owned motor vehicles and torts to a state or commercial insurer.

10. Transactions with State Entities / Related Parties

First Steps had significant transactions with the State and various State agencies. First Steps purchases goods and services from various State agencies. Total purchases from State agencies were approximately \$849,000 for the year ended June 30, 2023, including \$150,518 in insurance premiums described below.

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2023

10. Transactions with State Entities / Related Parties (continued)

First Steps provided no material services free of charge to other State agencies during the fiscal year. First Steps participates in the statewide unemployment program. Workers' compensation and other insurance premiums for the fiscal year ended June 30, 2023 of \$82,089 were paid to the State Accident Fund and \$68,429 of premiums were paid to the South Carolina Insurance Reserve Fund.

11. Leases

First Steps leases facilities and equipment from other State agencies. These leases have terms between 22 and 60 months requiring monthly payments. First Steps has used discount rates of 0.53% to 5.26% to present value future lease payments to calculate its lease liabilities.

As of June 30, 2023, the total amount of right to use lease assets and the related accumulated amortization is as follows:

	Beginning Balance	Additions	Deductions	Ending Balance
Right of Use Lease Assets				
Leased real estate	\$ 1,199,695	\$ —	\$ —	\$ 1,199,695
Leased equipment	23,034	—	—	23,034
Total leased assets being depreciated	<u>1,222,729</u>	<u>—</u>	<u>\$ —</u>	<u>1,222,729</u>
Less accumulated amortization				
Leased real estate	(209,280)	(209,280)	—	(418,560)
Leased equipment	(7,653)	(7,653)	—	(15,306)
Total accumulated amortization	(216,933)	(216,933)	—	(433,866)
Total, net of accumulated amortization	\$ 1,005,796	\$ (216,933)	\$ —	\$ 780,239

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2023

11. Leases (continued)

As of June 30, 2023, the principal and interest requirements to maturity for the lease liabilities are as follows:

Year ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 242,320	\$ 3,409	\$ 245,729
2025	240,994	2,084	243,078
2026	242,275	803	243,078
2027	19,954	9	19,963
	<u>\$ 745,543</u>	<u>\$ 6,305</u>	<u>\$ 751,848</u>

12. Commitments and Contingencies

Grants

First Steps receives financial assistance from various state and local governmental agencies in the form of grants. Disbursements of funds received under these programs generally require compliance with the terms and conditions specified in the agreements. The disbursements are also subject to the terms and conditions of the grant agreements.

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2023

12. Commitments and Contingencies (continued)

Local Partnership Accounting Software Development

During the year ended June 30, 2019, First Steps entered into an agreement for the development and implementation of a new accounting software for the local partnerships. The contract is for an initial three-year term with two one-year extensions and required an initial \$125,000 expenditure for design and implementation. The contract requires annual payments of approximately \$61,000 for licensing and user rights.

SC First Steps new Outcomes and Accountability System, (Knowledge, Information, and Teaming System: KITS)

During the year ended June 30, 2021, First Steps entered into an agreement for the development and implementation of a new Data System for the Local Partnerships and the 4K Program. This system will meet the data needs for the agency for the foreseeable future. The award was given to ANLAR, a company with experience in developing data systems for early education and government entities. The solicitation was awarded for \$1,422,881, to be paid between March 11, 2021 through March 10, 2026. A large portion of the expenses are included in the Preschool Development Grant through a contract between First Steps and the South Carolina Department of Social Services ("DSS") with \$938,010 of that amount being paid through June 30, 2023, leaving \$361,439 remaining under the agreement.

First Five Website

During the year ended June 30, 2021, First Steps entered into an agreement for the development and implementation of a website that would provide a single portal for early childhood services in the State. It would connect all of the state agencies in the State that provide services for this population. The award was given on April 2, 2021 to Mad Monkey Web Supply Company Inc for an amount of \$558,000 payable between April of 2021 through April 1, 2026; \$327,350 of this was paid through June 30, 2023, leaving \$205,650 remaining under the agreement. Much of the cost of development of this website and associated services is being paid for by the Preschool Development Grant through a contract between First Steps and DSS.

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2023

South Carolina First Steps to School Readiness
Required Supplementary Information -
Budgetary Comparison Schedule – Budgetary General Funds
(Non-GAAP Budgetary Basis – Unaudited)
For the Year Ended June 30, 2023

Budgeted Amounts

Original

Final

Actual

South Carolina First Steps to School Readiness
 Required Supplementary Information -
 Budgetary Comparison Schedule – Other Budgeted Funds
 (Non-GAAP Budgetary Basis – Unaudited)
 For the Year Ended June 30, 2023

Budgeted Amounts			Variance
Original	Final	Actual	Positive (Negative)

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -
BUDGETARY COMPARISON SCHEDULES
FOR THE YEAR ENDED JUNE 30, 2023

3. Legal Level of Budgetary Control

First Steps maintains budgetary control at the level of summary objective category of expenditure within each program of each department or agency, which is the level of detail presented in the accompanying schedules.

4. Basis of Budgeting

Current legislation states that the General Assembly appropriates all monies to operate State government for the current fiscal year. Unexpended appropriations lapse on July 31 unless the department or agency is given specific authorization to carry them forward to the next fiscal year. First Steps has such authorization to carry forward its funds. Cash-basis accounting for payroll expenditures is used, while the accrual basis is used for other expenditures.

State law does not precisely define the State's budgetary basis of budgeting. In practice, however, it is the cash basis with the following exceptions:

- x Departments and agencies shall charge certain vendor and interfund payments against the preceding fiscal year's appropriations through July 14.
- x All revenues are recorded only when the State receives the related cash with the exception of certain tax amounts, such as motor fuel and gas taxes, which are not received by First Steps' General Funds.

5. Budget to GAAP Reporting Differences

Budgetary accounting principles differ significantly from GAAP accounting principles. Basis differences arise because the basis of budgeting is cash, while GAAP accounting is based on accrual. Basis differences arise because the basis of budgeting is cash, while GAAP accounting is based on accrual.

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
 NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -
 BUDGETARY COMPARISON SCHEDULES
 FOR THE YEAR ENDED JUNE 30, 2023

5. Budget to GAAP Reporting Differences (continued)

Reconciliation of Budget Basis to GAAP Basis Expenditures
 For the Year Ended June 30, 2023

	General Fund	Other Budgeted Funds	Total
Total expenditures, budgetary basis	\$ 7,325,734	\$ 47,181,477	\$ 54,507,197
Perspective differences:			
All expenditures are reported in the General Fund for GAAP	47,181,477	(47,181,477)	

South Carolina First Steps to School Readiness
Required Supplementary Information -
Schedule of the South Carolina First Steps
to School Readiness' Proportionate Share of the Net
Pension Liability – South Carolina Retirement System

South Carolina First Steps to School Readiness
Required Supplementary Information -
Schedule of the South Carolina First Steps
to School Readiness' Contributions –

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
 SUPPLEMENTARY INFORMATION -
 SCHEDULE OF PRIVATE 4K PROGRAM EXPENDITURES
 FOR THE YEAR ENDED JUNE 30, 2023

	<u>General Fund</u>	<u>Private 4K Special Revenue Fund</u>	<u>Total</u>
Expenditures			
Private 4K provider costs	\$ —	\$ 23,730,357	\$ 23,730,357
Contractual services	587,077	—	587,077
Salaries	1,795,387	—	1,795,387
Employer fringe benefits	766,831	—	766,831
Materials	619,811	—	619,811
Travel	115,603	—	115,603
Debt service - principal	3,461	—	3,461
Debt service – interest expense	1,420	—	1,420
Rent and short-term leases	34,097	—	34,097
Total expenditures	<u>\$ 3,923,687</u>	<u>\$ 23,730,357</u>	<u>\$ 27,654,044</u>

Note: These amounts are reported on the modified-accrual basis of accounting.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Greene Finney Cauley, LLP
Mauldin, South Carolina
September 26, 2023