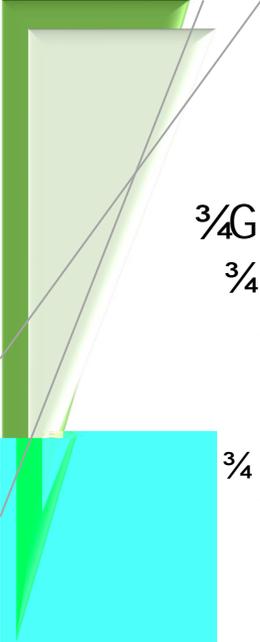


Financial Audit Presentation Year Ended June 30, 2021

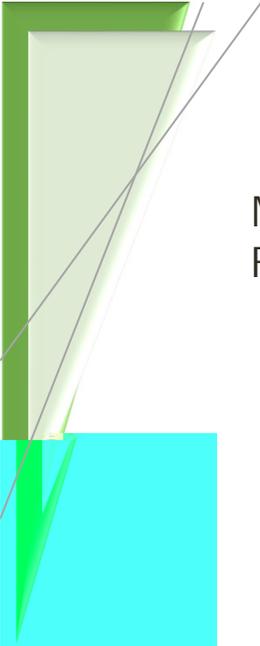


$\frac{3}{4}$ Greene Finney, LLP's ("GFLLP") responsibility:

$\frac{3}{4}$ Opinion – reasonable assurance that financial statements are materially correct

$\frac{3}{4}$ Does not address the financial condition of the Organization

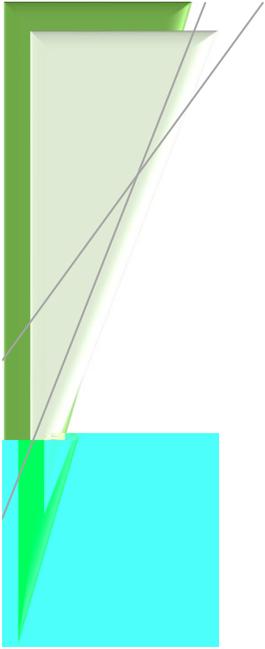
$\frac{3}{4}$ Purpose of the audit is not to detect fraud. GFLLP cannot take responsibility for finding fraud,



2021 FINANCIAL AUDIT FIRST STEPS

Major Reasons To Maintain An Adequate Fund Balance:

- Significant emergencies and unanticipated expenditures
- Flexibility for discretionary funding





September 28, 2021

Mr. George L. Kennedy, CPA
State Auditor

Office of the State Auditor

Columbia, South Carolina 29201-0009 (Cauo5.aditor)JTJ -0.0009.0014.042 Tw 0 -1d (akgritor)Tj -1.0009 Tc16.00224.042 Tw 0 -1d 4

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

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

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 this information to the underlying accounting records used to prepare the financial statements and 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 redacted signature consisting of a solid black horizontal bar.

Greene Finney, LLP
Certified Public Accountants

South Carolina First Steps to School Readiness

Financial Statements

For the Year Ended June 30, 2021

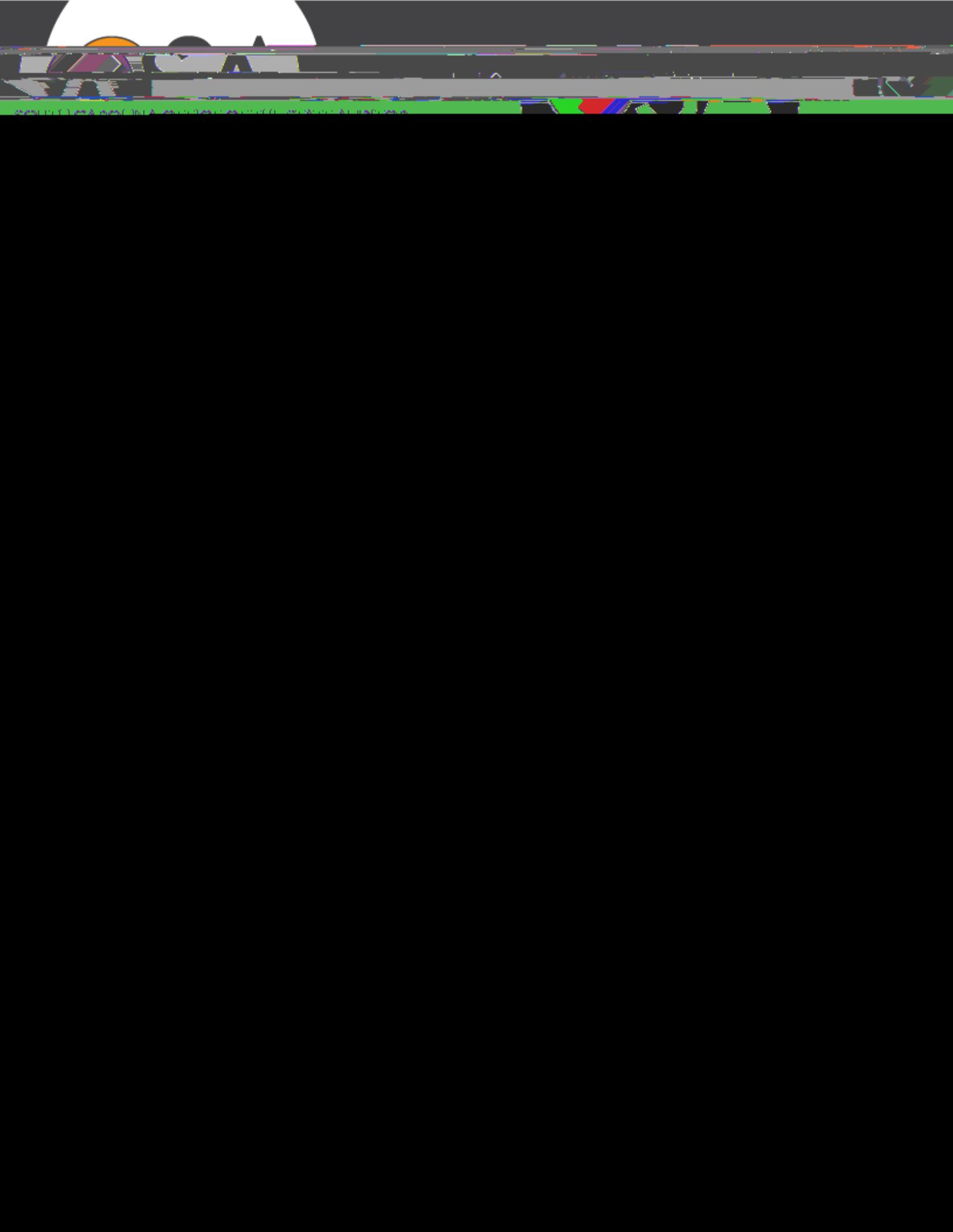


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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of governmental activities and each major fund of South Carolina First Steps to School Reading (First Steps"), a nonmajor discretely presented component unit of the

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison schedules, schedule of proportionate share of the net pension 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, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and the 2019 financial statements. These procedures were not designed to

South Carolina First Steps to School Readiness
Management's Discussion and Analysis
For the Year Ended June 30, 2021

The Management's Discussion and Analysis ("MD&A") of the South Carolina First Steps to School Readiness Board of Trustees provides an overview of financial activities for the year ended June 30, 2021.

FINANCIAL HIGHLIGHTS

The South Carolina First Steps to School Readiness ("First Steps") prepared its financial statements in accordance with Generally Accepted Accounting Principles ("GAAP") and follows pronouncements from the Governmental Accounting Standards Board ("GASB").

As of and for the year ended June 30, 2021:

- x First Steps' total net position increased by \$7,613,526 and its assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources (position) by \$2,471,136, which includes \$15,605,503 in restricted net position which the majority is restricted for the 4K preschool program and early childhood services.
- x First Steps received \$36,131,007 in appropriations from the State of South Carolina, the significant majority of which was disbursed for funding to the county partnerships and the 4K programs throughout the state.
- x First Steps received state, local, and private grants totaling \$4,771,065 and COVID Relief Funds from the State totaling \$4,222,162.

USING THESE AUDITED FINANCIAL STATEMENTS

The audited financial statements presented in this document include both government-wide and fund financial statements.

Government-wide Statements:

Government-wide statements include a Statement of Net Position and a Statement of Activities. The audited financial statements include a Statement of Net Position and a Statement of Activities for the year ended June 30, 2021.

South Carolina First Steps to School Readiness
Management's Discussion and Analysis
For the Year Ended June 30, 2021

The Statements of Net Position provide a summary of First Steps' financial condition at the end of the 2021 and 2020 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

| | <u>2021</u> | <u>2020</u> |
|--------------------------------|---------------------|-----------------------|
| Current assets | \$ 17,720,023 | \$ 10,542,491 |
| Capital assets, net | 21,766 | 45,511 |
| Total assets | <u>17,741,789</u> | <u>10,588,002</u> |
| Deferred outflows of resources | <u>2,755,005</u> | <u>1,725,456</u> |
| Current liabilities | 1,179,850 | 847,870 |
| Net pension liability | 6,548,225 | 5,500,745 |
| Net OPEB liability | 5,336,555 | 4,170,259 |
| Other noncurrent liabilities | 144,213 | 120,827 |
| Total liabilities | <u>13,208,843</u> | <u>10,639,701</u> |
| Deferred inflows of resources | <u>4,816,815</u> | <u>6,816,147</u> |
| Investment in capital assets | 21,766 | 45,511 |
| Restricted | 15,605,503 | 1,275,795 |
| Unrestricted | <u>(13,156,133)</u> | <u>(6,463,696)</u> |
| Total net position | <u>\$ 2,471,136</u> | <u>\$ (5,142,390)</u> |

Current assets have increased from \$10,542,491 at June 30, 2020 to \$17,720,023 at June 30, 2021 which is an increase of \$7,177,532. This is primarily due to an increase in cash which resulted from First Steps receiving \$4,222,162 of COVID Relief Funds of which the majority of expenditures have been used for the purchase of supplies and materials.

South Carolina First Steps to School Readiness
 Management's Discussion and Analysis
 For the Year Ended June 30, 2021

Statements of Activities— The Statements of Activities report the revenues and expenses during the 2021 and 2020 fiscal years.

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
 STATEMENTS OF ACTIVITIES

| | 2021 | 2020 |
|---|--------------|--------------|
| Program Revenues | | |
| State, local and private grants | \$ 8,993,227 | \$ 1,006,890 |
| Total program revenues | 8,993,227 | 1,006,890 |
| General Revenues | | |
| State appropriations | 36,131,007 | 35,925,654 |
| Interest income and other revenues | 154,690 | 199,470 |
| Total general revenues | 36,285,697 | 36,125,124 |
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South Carolina First Steps to School Readiness
Management's Discussion and Analysis
For the Year Ended June 30, 2021

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 operating fund of First Steps, while the Private 4K special revenue fund accounts for the private activities of the 4K program administered by First Steps.

The General Fund's operating revenues are primarily appropriations from the State of South Carolina and state and local grants. For state appropriations, revenues are not budgeted by First Steps, therefore, expenditures are typically matched to appropriations so long as expenditures do not exceed budget. State appropriations and other revenues exceeded First Steps' program expenses resulting in revenues exceeding expenditures by \$6,522,359 for the year ended June 30, 2021. This resulted in an increase in fund balance from the beginning fund balance amount of \$8,913,820 to \$15,436,179, which includes \$14,339,007 in fund balance restricted for the 4K pre-school program, \$692,893 committed for cash reserve revolving loans and grants to county partnerships, and \$404,279 in unassigned fund balance.

The Private 4K special revenue fund's operating revenues are primarily appropriations from the State of South Carolina. The Private 4K special revenue fund received total revenues of \$15,168,388 and expended \$14,819,034 during the year ended June 30, 2021, resulting in an increase in fund balance of \$349,354. A significant portion of the remaining fund balance has been restricted for funding a portion of the construction of two 4K learning centers. All of the special revenue fund's fund balance is restricted.

Noncurrent Liabilities:

First Steps' noncurrent liabilities consist of compensated absences and its proportionate share of the State of South Carolina's net pension and net OPEB liabilities related to the South Carolina Retirement System ("SCRS"). The compensated absences liability includes accrued annual leave earned for which the employees are entitled to paid time off or payment in lieu of vacation. Compensated absences used or transferred to another agency during the year ended June 30, 2021, totaled \$1,154,300. State ("SCRS"). 1543 uou-0.0541 Tw -22.962 -134T (a)

South Carolina First Steps to School Readiness
Management's Discussion and Analysis
For the Year Ended June 30, 2021

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

South Carolina First Steps to School Readiness
Management's Discussion and Analysis
For the Year Ended June 30, 2021

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 this report or requests for additional information should be addressed to:

South Carolina First Steps to School Readiness
636 Rosewood Drive
Columbia, South Carolina 29201

South Carolina First Steps to School Readiness
Statement of Net Position
June 30, 2021

ASSETS

Current assets:

| | |
|---------------------------|-------------------|
| Cash and cash equivalents | \$ 15,613,891 |
| Grants receivable | <u>2,106,132</u> |
| Total current assets | <u>17,720,023</u> |

Noncurrent assets:

| | |
|-------------------------|-------------------|
| Capital assets, net | <u>21,766</u> |
| Total noncurrent assets | <u>21,766</u> |
| Total assets | <u>17,741,789</u> |

DEFERRED OUTFLOWS OF RESOURCES

| | |
|--|------------------|
| Deferred outflows of resources related to pensions | 1,350,426 |
| Deferred outflows of resources related to OPEB | <u>1,404,579</u> |
| Total deferred outflows of resources | <u>2,755,005</u> |

LIABILITIES

Current liabilities:

| | |
|-------------------------------|------------------|
| Accounts payable | 86,781 |
| Accrued salaries and benefits | 430,567 |
| Compensated absences | 162,502 |
| Unearned revenue | <u>500,000</u> |
| Total current liabilities | <u>1,179,850</u> |

Noncurrent liabilities:

Compensated absences

South Carolina First Steps to School Readiness
Statement of Activities
For the Year Ended June 30, 2021

| | |
|---|---------------------|
| Expenses | |
| Governmental Activities – General Government | |
| Allocations to other entities | \$ 14,633,351 |
| Private 4K provider costs | 14,819,034 |
| Contractual services | 3,040,570 |
| Salaries | 3,350,578 |
| Employer fringe benefits | 524,802 |
| Rent and leases | 194,674 |
| Materials | 1,019,761 |
| Travel | 58,883 |
| Depreciation | 23,745 |
| Total expenses | <u>37,665,398</u> |
| | |
| Program Revenues – Operating Grants and Contributions | |
| State, local, and private grants | 4,771,065 |
| COVID Relief Funds | 4,222,162 |
| Total program revenues | <u>8,993,227</u> |
| Net expenses | <u>(28,672,171)</u> |
| | |
| General Revenues | |
| State appropriations | 36,131,007 |
| Interest income | 47,745 |
| Other revenues | 106,945 |
| Total general revenues | <u>36,285,697</u> |
| | |
| Change in net position | |

South Carolina First Steps to School Readiness
 Balance Sheet -
 Governmental Funds
 June 30, 2021

| | General Fund | Private 4K Special Revenue Fund | Total |
|-------------------------------|---------------|--|---------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 14,270,970 | \$ 1,342,921 | \$ 15,613,891 |
| Grants receivable | 2,106,132 | — | 2,106,132 |
| Total Assets | \$ 16,377,102 | \$ 1,342,921 | \$ 17,720,023 |
| LIABILITIES | | | |
| Accounts payable | \$ 10,356 | \$ 76,425 | \$ 86,781 |
| Accrued salaries and benefits | 430,567 | — | 430,567 |
| Unearned revenue | 500,000 | — | 500,000 |

South Carolina First Steps to School Readiness
Reconciliation of the Balance Sheet of the Governmental Funds
to the Statement of Net Position
June 30, 2021

| | |
|---|---------------|
| Total fund balance, governmental fund V | \$ 16,702,675 |
|---|---------------|

Amounts reported for governmental activities in the

South Carolina First Steps to School Readiness
Statement of Revenues, Expenditures, and Change in Fund Balance -
Governmental Funds
For the Year Ended June 30, 2021

| | <u>General Fund</u> | <u>Private 4K Special Revenue Fund</u> | <u>Total</u> |
|----------------------------------|----------------------|--|----------------------|
| Revenues | | | |
| State appropriations | \$ 21,040,169 | \$ 15,090,838 | \$ 36,131,007 |
| State, local, and private grants | 4,710,791 | — | 4,710,791 |
| COVID Relief Funds | 4,222,162 | — | 4,222,162 |
| Other revenues | 30,025 | 76,920 | 106,945 |
| Interest income | 47,115 | 630 | 47,745 |
| Total revenues | <u>30,050,262</u> | <u>15,168,388</u> | <u>45,218,650</u> |
| Expenditures | | | |
| Allocations to other entities | 14,633,351 | — | 14,633,351 |
| Private 4K provider costs | — | 14,819,034 | 14,819,034 |
| Contractual services | 3,040,570 | — | 3,040,570 |
| Salaries | 3,301,031 | — | 3,301,031 |
| Employer fringe benefits | 1,279,633 | — | 1,279,633 |
| Materials | 1,019,761 | — | 1,019,761 |
| Travel | 58,883 | — | 58,883 |
| Rent and leases | 194,674 | — | 194,674 |
| Total expenditures | <u>23,527,903</u> | <u>14,819,034</u> | <u>38,346,937</u> |
| Change in fund balance | 6,522,359 | 349,354 | 6,871,713 |
| Fund balance, July 1, 2020 | 8,913,820 | 917,142 | 9,830,962 |
| Fund balance, June 30, 2021 | <u>\$ 15,466,179</u> | <u>\$ 1,266,496</u> | <u>\$ 16,702,675</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
 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, 2021

Net change in fund balance governmental fund V \$ 6,871,713

Amounts reported for governmental activities in the
 Statement of Activities are different because:

Current year retirement plan contributions are considered a
 deferred outflow of resources rather than a current
 year expense in the Statement of Activities 487,385

Current year OPEB contributions are considered a deferred
 outflow of resources rather than a current year
 expense in the Statement of Activities 195,768

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 | (23,745) |
| Increase in pension expense due to changes in First Steps' portion of collective pension expense | (52,820) |
| Decrease in OPEB expense due to changes in First | |

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

1. Summary of Significant Accounting Policies

A. Reporting Entity

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

1. Summary of Significant Accounting Policies (continued)

A. Reporting Entity (continued)

First Steps also co-administers the state's pre-school program known as the Child Development Education Pilot Program which provides full-day kindergarten to eligible children in both public and private settings. The private portion of this program is included in the Private 4K special revenue fund. South Carolina First Steps serves as the state coordinator for Nurse-Family Partnership and Parents as Teachers. Finally, by Executive Order, First Steps serves as South Carolina's Early Childhood Advisory Council under the federal Head Start reauthorization of 2007.

B. Basis of Presentation, Measurement Focus and Basis of Accounting

Government-wide Financial Statements

The government-wide financial statements are presented in accordance with Generally Accepted Accounting Principles ("GAAP") using the accrual basis of accounting and following pronouncements issued by the Government Accounting Standards Board ("GASB").

All of the functions available to finance First Steps are presented together as general government

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

1. Summary of Significant Accounting Policies (continued)

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

Governmental Fund Types

General Fund – The General Fund, a major fund, is the operating fund of First Steps and is used to account for all financial transactions and activities with the exception of the revenues and expenditures for the private 4K program providers.

Private 4K Special Revenue Fund – The Private 4K Special Revenue Fund is a major special revenue fund of First Steps. The fund accounts for revenues and expenditures related to the providers of the private 4K program, which offers families choice of pre-kindergarten within both public-school districts and eligible private settings. Private 4K programs focus on the developmental and learning supports that children must have in order to be ready for school and incorporate evidence-based practices, ongoing assessment and parenting education.

Cash and Cash Equivalents

The amounts shown in the accompanying financial statements for cash and cash equivalents represent petty cash, cash on deposit in banks, cash equivalents 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 each fund's equity interest in the general deposit account in the general deposit account records.

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

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

1. Summary of Significant Accounting Policies (continued)

B. Basis of Presentation, Measurement Focu

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

1. Summary of Significant Accounting Policies (continued)

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

Fund Balance and Net Position (continued)

Net Position

First Steps reports net position in accordance with GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position

The following categories of net position are used in the Statement of Net Position:

Restricted net position

Restricted net position consists of assets with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or law through constitutional provisions or enabling legislation. In all cases, if individual restricted net position categories are negative, the negative balances are netted and reclassified against unrestricted net position. As of June 30, 2021, First Steps' restricted net position consisted of state appropriations restricted for the 4K program and early childhood services.

Investment in Capital Assets

The investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by any outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Unrestricted Net Position

The unrestricted component of net position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of investment in capital assets or the restricted component of net position.

First Steps' policy is to first apply restricted resources when an expense

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

2. Budget Policy (continued)

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

4. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2021, for the primary government was as follows:

| | Beginning Balance <u>July 1, 2020</u> | <u>Additions</u> | <u>Disposals</u> | Ending Balance <u>June 30, 2021</u> |
|---|---|------------------|------------------|---|
| Governmental activities | | | | |
| Capital assets being depreciated: | | | | |
| Equipment and computer software | \$ 6,010 | \$ — | \$ — | \$ 6,010 |
| Vehicles | <u>118,725</u> | <u>—</u> | <u>—</u> | <u>118,725</u> |
| | <u>124,735</u> | <u>—</u> | <u>—</u> | <u>124,735</u> |
| Less accumulated depreciation for: | | | | |
| Equipment and computer software | (6,010) | — | — | (6,010) |
| Vehicles | <u>(73,214)</u> | <u>(23,745)</u> | <u>—</u> | <u>(96,959)</u> |
| | <u>(79,224)</u> | <u>(23,745)</u> | <u>—</u> | <u>(102,969)</u> |
| Capital assets for governmental activities, net | \$ 45,511 | \$ (23,745) | | |

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

6. Pension Plan (continued)

Actuarial Assumptions and Methods

Actuarial valuations of the plan involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. Amounts determined regarding the net pension liability are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. South Carolina state statute requires that an actuarial experience study be completed at least once in each five-year period. An experience report on the Systems was most recently issued for the period ending June 30, 2019 for first use in the July 1, 2021 actuarial valuation.

The June 30, 2020, total pension liability (TPL), net pension liability (NPL), and sensitivity information shown in this report were determined by our consulting firm, Gabriel, Roeder, Smith and Company (GRS) and are based on an actuarial valuation performed as of July 1, 2019. The total

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2021

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, 2020, 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 | \$ 51,844,187,763 | \$ 26,292,418,682 | \$ 25,551,769,081 | 50.7% |

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, allocating on the basis of historical employer contributions is considered acceptable. For the year ending June 30, 2020, First Steps' percentage

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, 2021

6. Pension Plan (continued)

Sensitivity Analysis

The following table presents the collective net pension liability of the participating employers calculated using the discount rate of 7.25 percent, as well as what the employers' net pension liability would be if it were calculated using a discount rate that is 1.00 percent lower (6.25 percent) or 1.00 percent higher (8.25 percent) than the current rate.

| Sensitivity of the Proportional Share of Net Pension Liability to Changes in the Discount Rate | | | |
|---|---------------------------|----------------------------------|---------------------------|
| System | 1.00% Decrease (6.25%) | Current Discount Rate (7.25%) | 1.00% Increase (8.25%) |
| SCRS | \$ 8,115,726 | \$ 6,548,225 | \$ 5,239,349 |

Deferred Outflows (Inflows) of Resources

For the year ended June 30, 2021, First Steps recognized pension expense of \$52,820 which is included in employer fringe benefits in the accompanying financial statements. At June 30, 2021, the First Steps reported deferred outflows (inflows) of resources related to pensions from the following sources and will be amortized to pension expense as noted in following schedules. Average remaining service lives of all employees provided with pensions through the pension plans at June 30, 2020 was 3.984 years for SCRS:

Deferred Outflows

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

7.

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2021

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, 2019 |
| 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: | 2.45% as of June 30, 2020 |
| Demographic Assumptions: | Based on the experience study performed for the South Carolina Retirement Systems for the 5 year period ending June 30, 2015 |
| Mortality: | For healthy retirees, the 2016 Public Retirees of South Carolina Mortality Table for Males and the 2016 Public Retirees of South Carolina Mortality Table for Females are used with fully generational mortality projections based on Scale AA from the year 2016. Multipliers are applied to the base tables based on gender and employment type. |
| Health Care Trend Rate: | Initial trend starting at 6.40% 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 3.13% as of June 30, 2019 to 2.45% as of June 30, 2020; updates were also made to the healthcare trend rate assumption, including an adjustment to reflect the repeal of the "Cadillac Tax". |

Roll Forward Disclosures

The actuarial valuation was performed as of June 30, 2019. Update procedures were used to roll forward the total OPEB liability to June 30, 2020.

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.

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

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
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FOR THE YEAR ENDED JUNE 30, 2021

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SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2021

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 \$195,768 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, 2022. 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, 2020 was 7.139 years for SCRHITF:

| Measurement Period Ending June 30, | Fiscal Year Ending June 30, | SCRHITF |
|--|-----------------------------------|--------------|
| 2021 | 2022 | \$ (476,143) |
| 2022 | 2023 | (477,863) |
| 2023 | 2024 | (480,589) |
| 2024 | 2025 | (433,304) |
| 2025 | 2026 | (52,708) |
| Thereafter | | 158,280 |

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, 2021.

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 \$346,000 for the year ended June 30, 2021, including \$15,954 in insurance premiums described below.

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

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, 2021 of \$15,954 were paid to the State Accident Fund.

11. Commitments and Contingencies

Leases

First Steps has entered into non-cancellable leases, considered operating leases, for a facility used to house operations critical to First Steps' mission and for equipment. Rent expense related to the facility lease was approximately \$121,000. The facility lease expired in November 2020 at which time First Steps negotiated a month-to-month extension until it was able to move to a new location subsequent to yearend. A new facility lease was executed and effective June 15, 2021 with a term of 64 months. Total lease and rental expense was

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

11. 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

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, 2021

| <u>Budgeted Amounts</u> | | | Actual | Variance Positive (Negative) |
|-------------------------|-------|--|--------|------------------------------------|
| Original | Final | | | |

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, 2021

| | | <u>Budgeted Amounts</u> | | | Variance Positive (Negative) |
|---------------------------------|---|-------------------------|--------------|---------------|------------------------------------|
| | | <u>Original</u> | <u>Final</u> | <u>Actual</u> | |
| Expenditures: | | | | | |
| First Steps to School Readiness | | | | | |
| Personal Services | | | | | |
| Classified Positions | | | | | |
| | | \$ 2,873,885 | \$ 618,060 | \$ 618,060 | \$ — |
| | | 121,540 | 119,340 | 119,340 | — |
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SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -
BUDGETARY COMPARISON SCHEDULES
FOR THE YEAR ENDED JUNE 30, 2021

5. Budget to GAAP Reporting Differences (continued)

Reconciliation of Budget Basis to GAAP Basis Expenditures
For the Year Ended June 30, 2021

| | General Fund | Other Budgeted Funds | Total |
|--|---------------|----------------------|---------------|
| Total expenditures, budgetary basis | \$ 6,525,880 | \$ 29,178,800 | \$ 35,704,680 |
| Perspective differences: | | | |
| All expenditures are reported in the General Fund for GAAP | 29,178,800 | (29,178,800) | — |
| Basis of accounting differences: | | | |
| Change in accrued salaries | 73,449 | — | 73,449 |
| Change in accounts payable | (51,398) | — | (51,398) |
| Amounts grossed up for GAAP basis that represent a transfer of appropriations on the budgetary basis | 2,805,000 | — | 2,805,000 |
| Revenues in the special revenue fund are considered expenditures in the General Fund for budgetary purposes | (15,090,838) | — | (15,090,838) |
| Other basis differences | 87,010 | — | 87,010 |
| Total expenditures, GAAP basis | \$ 23,527,903 | \$ — | \$ 23,527,903 |

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
 As of June 30, 2021
 Last Eight Fiscal Years

| | 2021 | 2020 | 2019 | 2018 | 2017 |
|--|-------------------|-------------------|-------------------|---------------|--------------|
| First Steps' proportion of the net pension liability | 0.02563% | 0.02409% | 0.03153% | 0.050291% | 0.038504% |
| First Steps' proportionate share of the net pension liability | \$ 6,548,225 | \$ 5,500,745 | \$ 7,063,997 | \$ 11,321,231 | \$ 8,224,476 |
| First Steps' covered payroll | \$ 2,725,077 | \$ 2,411,951 | \$ 3,039,003 | \$ 5,074,161 | \$ 3,728,634 |
| First Steps' proportionate share of the net pension liability as percentage of covered payroll | 240.30% | 228.06% | 232.44% | 223.12% | 220.58% |
| Plan fiduciary net position as a percentage of the total pension liability | 50.7% | 54.4% | 54.1% | 53.3% | 52.9% |
| First Steps' proportion of the net pension liability | 2016 0.031435% | 2015 0.031390% | 2014 0.031390% | | |

Note: The amounts presented above were determined as of June 30 of the preceding year.

Note: Only eight years of data were available; thus, only eight years were presented.

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
 OPEB Liability – South Carolina Health Insurance Trust Fund
 As of June 30, 2021
 Last Five Fiscal Years

| | 2021 | 2020 | 2019 | 2018 | 2017 |
|---|-----------|----------|------------|----------------|------------|
| First Steps' proportion of the net OPEB liability | 08taA2951 | (8taA631 | (8taA%)19 |)-2B 08taA2751 | (8taA781 |
| | | | | | (8taA%)19 |
| | | | | |)-2B |
| | | | | | 08taA3 |

South Carolina First Steps to School Readiness
 Required Supplementary Information -
 Schedule of the South Carolina First Steps
 to School Readiness' Contributions -
 South Carolina Health Insurance Trust Fund
 As of June 30, 2021
 Last Five Fiscal Years

| | 2021 | 2020 | 2019 | 2018 | 2017 |
|----|---------|------------|------------|------------|------------|
| \$ | 195,768 | \$ 170,317 | \$ 145,923 | \$ 161,065 | \$ 232,315 |

Contractually required contribution
 Contributions in relation to the
 contractual

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
 SUPPLEMENTARY INFORMATION -
 SCHEDULE OF PRIVATE 4K PROGRAM EXPENDITURES
 FOR THE YEAR ENDED JUNE 30, 2021

| | <u>General Fund</u> | <u>Private 4K Special Revenue Fund</u> | <u>Total</u> |
|-------------------------------|---------------------|--|----------------------|
| Expenditures | | | |
| Private 4K provider costs | \$ — | \$ 14,819,034 | \$ 14,819,034 |
| Allocations to other entities | 105,000 | — | 105,000 |
| Contractual services | 213,599 | — | 213,599 |
| Salaries | 1,248,574 | — | 1,248,574 |
| Employer fringe benefits | 502,756 | — | 502,756 |
| Materials | 500,673 | — | 500,673 |
| Travel | 75,961 | — | 75,961 |
| Rent and leases | 98,586 | — | 98,586 |
| Total expenditures | <u>\$ 2,745,149</u> | <u>\$ 14,819,034</u> | <u>\$ 17,564,183</u> |

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, LLP
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