

South Carolina First Steps to School Readiness

Financial Audit Presentation
Year Ended June 30, 2015

Greene, Finney & Horton, CPAs



2015 FINANCIAL AUDIT FIRST STEPS

- **HIGHLIGHTS**

- Unmodified opinion
- General Fund – fund balance increased \$6.8M
- Implemented GASB #68/71 – reduced beginning net position by \$5.3M on the government-wide statements.

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2015 FINANCIAL AUDIT FIRST STEPS

• OPINION

- First Steps' responsibility:
 - Effective internal controls
 - Financial statements
- GF&H responsibility:
 - Opinion – reasonable assurance that financial statements are materially correct
- Issued unmodified opinion
 - **BEST OPINION FIRST STEPS CAN RECEIVE**
 - “Emphasis of Matter” paragraph included for the change in pension accounting.

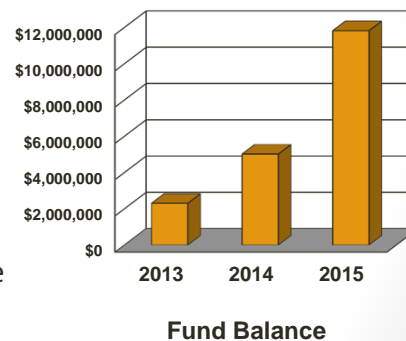


2015 FINANCIAL AUDIT FIRST STEPS

• General Fund

- Includes the budgetary “general funds” (state appropriations) and other funding sources (federal and private sources)
- Total fund balance increased \$6.8M to \$11.8M
- \$11.1M of the fund balance is restricted for the 4K pre-school program

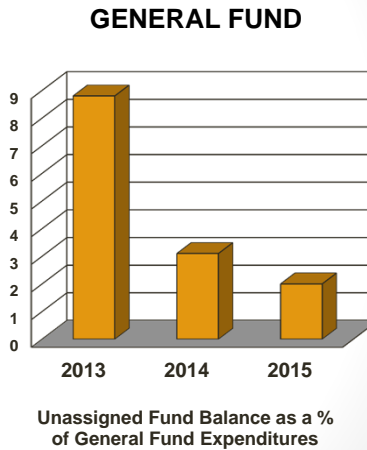
GENERAL FUND



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• General Fund

- Unassigned fund balance is \$0.7 M, which is 2.0% of FY 2015 actual expenditures
- GFOA recommends a minimum of 16.7% (two months)



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- Major Reasons To Maintain An Adequate Fund Balance:
 - Significant emergencies and unanticipated expenditures
 - Flexibility for discretionary funding needs
 - Extremely important during uncertain economic times
 - Assists in managing cash flow fluctuations

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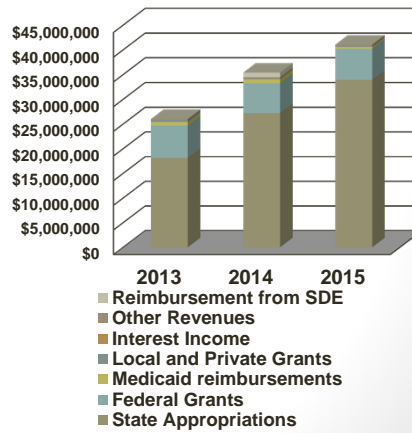


2015 FINANCIAL AUDIT FIRST STEPS

General Fund Revenues*:

- \$41.1M for 2015:
 - \$33.9M in state appropriations
 - \$6.3M in federal grants
 - \$423K in Medicaid reimbursements
 - \$327K in local and private grants
 - \$129K in interest income
- \$5.7M (16%) increase from 2014
 - \$6.7M increase in state appropriations due to increased allocations for the expansion of the 4K program. First Steps operated an additional 50-60 centers in the current year as compared to the prior year.
 - \$927K less in reimbursements from the SDE. The prior year reflected a one-time reimbursement from the SDE for the TEACH grants written off in 2013.

GENERAL FUND REVENUES*



*This includes all of First Steps' General, Earmarked, Restricted, and Federal funds combined into one reported General Fund for financial statement purposes

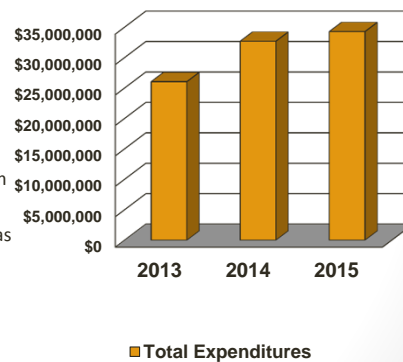


2015 FINANCIAL AUDIT FIRST STEPS

General Fund Expenditures*:

- \$34.3M for 2015:
 - \$25.3M in allocations to county partnerships and other entities
 - \$3.6M in contractual services
 - \$3.3M in salaries
 - \$1.1M in employer fringe benefits
 - \$950K in other expenditures (rent, materials, travel)
- \$1.6M (5%) increase from 2014:
 - \$5.1M increase in allocations to other entities due to the increased allocations expended for expansion of the 4K program and the reclassification of payments to an agency from contractual services
 - \$4.5M decrease in contractual services was primarily due to the reclassification of payments to an agency from contractual services.
 - \$0.5M increase in salaries and fringe benefits.
 - \$0.5M increase in other expenditures.

GENERAL FUND EXPENDITURES*



*This includes all of First Steps' General, Earmarked, Restricted, and Federal funds combined into one reported General Fund for financial statement purposes.



2015 FINANCIAL AUDIT FIRST STEPS

Entity-Wide (GASB #34)

- Assets/Deferred Outflows of Resources - \$13.5M
 - \$0.6M is capital assets
 - \$11.7M is cash and cash equivalents
 - \$1.2M in other items
- Liabilities/Deferred Inflows of Resources - \$6.9M
 - \$0.4M is compensated absences
 - \$5.9M in pension items.
 - Accounts payable and other accrued liabilities of \$0.6M.

Entity-Wide (GASB #34)

- Net Position - \$6.6M.
 - \$0.6M Net Investment in Capital Assets.
 - \$11.1M Restricted for 4K pre-school program
 - (\$5.1M) Unrestricted.
- Revenues - \$41.1M.
- Expenses - \$34.5M.

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Change In Accounting:

- Implemented Statement No. 68 *“Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27”* and GASB Statement No. 71 *“Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68”* in 2015:
 - First Steps participates in a cost sharing multiple-employer plan – the South Carolina Retirement System (“SCRS”).
 - First Steps was required to record its pro-rata portion of the net pension liability and deferred outflows/inflows of resources associated with the SCRS in its Statement of Net Position which has significantly decreased its beginning net position by approximately \$5.3 million.
 - Net pension liability of \$5.4M at June 30, 2015.

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Other Notes:

- Total capital assets were \$587K at 6/30/15 – decrease of \$160K from 6/30/14:
 - No capital asset additions in 2015.
 - \$160k in depreciation expense
- \$359K in fiscal year 2015 budget carryforwards as of 6/30/15 to be disbursed to county partnerships in fiscal year 2016.
- Lease commitments of \$369K through 2021.
- Commitments to regional finance managers of \$564K through November 30, 2016.
- Compensated absences (long-term liability) outstanding at 6/30/15 were \$456K

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Other Notes: (Continued)

- Subsequent Event to June 30, 2015 – First Steps was directed to allocate \$4,250,000 to the SC Department of Education and \$2,000,000 to the Education Oversight Committee from unexpended CDEPP funds from the prior fiscal year and any CDEPP funds carried forward from prior fiscal years by August 1, 2016. This directive was required by fiscal year 2015-2016 budget provisos 1.92 and 1A.80.

Auditing/Accounting Update:

- Future Significant Changes in Auditing Principles:
 - None
- Future Significant Changes in Accounting Principles:
 - Other Postemployment Benefits (retiree medical) – GASB issued new statements in June 2015 that will make OPEB accounting be very similar with Pension accounting. OPEB plans will have to implement for FY 2017 and employers for FY 2018.

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Compliance

- Single Audit was performed by the State Auditor's Office

Management Letter

- Required communications to management and those charged with governance – no issues to report.

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2015 FINANCIAL AUDIT FIRST STEPS

Summary

- Unmodified opinion on the Financial Statements from GF&H
- Future funding contingent upon appropriations from the State of South Carolina and receipt of federal grants.
- Implemented GASB #68/71 in 2015.

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