

South Carolina First Steps to School Readiness

Financial Statements

For the Year Ended June 30, 2015

State of South Carolina



Office of the State Auditor

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September 11, 2015

The Honorable Nikki R. Haley, Governor
and
Members of the Board of Trustees
South Carolina First Steps to School Readiness
Columbia, South Carolina

This report on the audit of the financial statements of the South Carolina First Steps to School Readiness for the year ended June 30, 2015, was issued by Greene, Finney & Horton, LLP, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Richard H. Gilbert Jr.", written in a cursive style.

Richard H. Gilbert, Jr., CPA
Deputy State Auditor

RHGjr/cwc

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Greene Finney & Horton

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

Mr. Richard H. Gilbert, Jr., CPA
Deputy State Auditor
Office of the State Auditor
Columbia, South Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of South Carolina First Steps to School Readiness ("First Steps"), a nonmajor discretely presented component unit of the State of South Carolina, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise First Steps' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of South Carolina First Steps to School Readiness as of June 30, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1.B. to the financial statements, in the year ended June 30, 2015 First Steps adopted the provisions of Governmental Accounting Standards Board Statement No. 68 “*Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*” and Governmental Accounting Standards Board Statement No. 71 “*Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*”. Our opinion is not modified with respect to these matters.

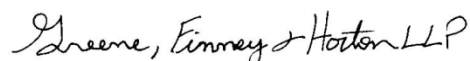
Other Matters

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, and schedule of contributions – South Carolina Retirement System, 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 other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 11, 2015 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, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering First Steps’ internal control over financial reporting and compliance.



Greene, Finney & Horton, LLP
Mauldin, South Carolina
September 11, 2015

**South Carolina First Steps to School Readiness
Management's Discussion and Analysis
For the Year Ended June 30, 2015**

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 financial activities for the year ended June 30, 2015.

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, 2015:

- First Steps' total net position increased by \$6,546,746 as the assets and deferred outflows of resources of First Steps exceeded its liabilities and deferred inflows of resources (net position) by \$6,561,602, which includes \$11,116,573 in net position restricted for the 4K pre-school program.
- First Steps received \$33,942,265 in appropriations from the State of South Carolina, the significant majority of which was disbursed for funding the county partnerships, 4K, and Baby Net programs throughout the state.
- First Steps received federal, local, and private grants as well as Medicaid reimbursements totaling \$6,999,492.

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. These statements display information about First Steps as a whole. The government-wide financial statements of First Steps are presented on the accrual basis of accounting and provide short-term and long-term information about First Steps.

**South Carolina First Steps to School Readiness
Management's Discussion and Analysis
For the Year Ended June 30, 2015**

Fund Statements:

The fund financial statements include the governmental fund's Balance Sheet and Statement of Revenue, Expenditures, and Change in Fund Balance. The governmental fund financial statements are presented on the modified accrual basis of accounting which focus on the near term inflows and outflows of resources available for expenditure for the fiscal year.

First Steps was 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.

Statement of Net Position –The Statement of Net Position provides a summary of First Steps' financial condition at the end of the 2015 and 2014 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
NET POSITION**

	2015	2014
Current assets	\$ 12,428,843	\$ 5,576,859
Capital assets, net	587,475	747,695
Total assets	13,016,318	6,324,554
Deferred outflows of resources	474,392	-
Current liabilities	854,612	784,355
Noncurrent liabilities	5,618,867	197,111
Total liabilities	6,473,479	981,466
Deferred inflows of resources	455,629	-
Net investment in capital assets	587,475	747,695
Restricted	11,116,573	4,004,031
Unrestricted	(5,142,446)	591,362
Total net position	\$ 6,561,602	\$ 5,343,088

**South Carolina First Steps to School Readiness
Management's Discussion and Analysis
For the Year Ended June 30, 2015**

Statement of Activities – The Statement of Activities reports the revenues and expenses during the 2015 and 2014 fiscal years.

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
STATEMENT OF ACTIVITIES

	2015	2014
Program Revenues		
Federal grants	\$ 6,249,741	\$ 5,978,733
Medicaid reimbursements	422,690	863,404
Local and private grants	327,061	230,239
Reimbursement from South Carolina Department of Education	-	927,536
Total program revenues	6,999,492	7,999,912
General Revenues		
State appropriations	33,942,265	27,225,789
Interest income	129,302	176,927
Total general revenues	34,071,567	27,402,716
Total revenues	41,071,059	35,402,628
Expenses		
Allocations to other entities	25,290,481	20,152,537
Contractual services	3,636,099	7,487,576
Salaries	3,331,550	3,061,135
Employer fringe benefits	1,155,531	1,018,488
Rent and leases	328,393	240,520
Materials	415,011	123,505
Travel	207,028	153,716
Equipment	160,220	53,406
Total expenses	34,524,313	32,290,883
Increase in net position	6,546,746	3,111,745
Net position beginning balance, as restated*	14,856	2,231,343
Net position ending balance	\$ 6,561,602	\$ 5,343,088

*First Steps implemented GASB 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 the year ended June 30, 2015. Net position as of July 1, 2014 has been restated in accordance with these provisions. See Note 1.B. for further details regarding the restatement.

Operating revenues of First Steps are largely dependent upon appropriations from the State of South Carolina as well as grants from the Federal government.

**South Carolina First Steps to School Readiness
Management's Discussion and Analysis
For the Year Ended June 30, 2015**

Total program revenues decreased by \$1,000,420 primarily due to First Steps receiving a one-time reimbursement from the South Carolina Department of Education in the prior year in the amount of \$927,536. Total general revenues increased by \$6,668,851. This increase was due primarily to a substantial increase in State appropriations to expand program operations as First Steps received \$33,942,265 in appropriations from the State of South Carolina in the current year compared to \$27,225,789 in the prior year. Expenses increased by \$2,233,430 primarily due to a \$5,137,944 increase in allocations to other entities partially offset by a \$3,851,477 decrease in contractual services. These changes were the result of a reclassification of disbursements to a county partnership as well as an increase in the number of centers operated during the year. First Steps realized an increase in net position from the prior year in the amount of \$6,546,746.

Fund Highlights:

Governmental Fund

The focus of First Steps' governmental funds is to provide information regarding actual inflows and outflows of spendable resources. The General Fund is the chief operating fund of First Steps. The General Fund's operating revenues are primarily appropriations from the State of South Carolina and federal grants. For state appropriations, revenues are not budgeted by First Steps, therefore, expenditures are typically matched with appropriations so long as expenditures do not exceed budget. This, along with federal grant revenues that are received on a reimbursement basis, and other reimbursements and grants, resulted in revenues exceeding expenditures by \$6,801,323 for the year ended June 30, 2015. This resulted in an increase in fund balance from the beginning fund balance amount of \$5,014,778 to \$11,816,101, which includes \$11,116,573 in fund balance restricted for the 4K pre-school program and \$699,528 in unassigned fund balance.

Capital Assets:

First Steps' began the implementation of an Early Intervention Management System that is compliant with both State and Federal requirements in fiscal year 2013 that was completed during fiscal year 2014. No additional capital assets have been purchased by First Steps during fiscal year 2015. See note 4 to the financial statements for additional information regarding First Steps' capital assets.

Noncurrent Liabilities:

First Steps' noncurrent liabilities consist of compensated absences and its proportionate share of the State of South Carolina's net pension liability. The compensated absences liability includes accrued annual leave earned for which the employees are entitled to paid time off or payment at termination. Compensated absences used during the fiscal year were \$175,198 while another \$212,166 were accrued. See note 5 to the financial statements for additional information regarding First Steps' noncurrent liabilities.

First Steps' net pension liability has been recorded in accordance with GASB Statement No. 68 and represents First Steps' share of the State's net pension liability. The net pension liability as of June 30, 2014 was \$5,630,315 and at June 30, 2015, it had decreased to \$5,404,384. The decrease is due to contributions to the retirement plan by First Steps and investment and retirement experience in the retirement plan. GASB Statement No. 68 does not affect First Steps' required contributions to the net pension liability. See note 6 to the financial statements for additional information regarding First Steps' pension plan.

**South Carolina First Steps to School Readiness
Management's Discussion and Analysis
For the Year Ended June 30, 2015**

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 originally \$33,942,265 for the year ended June 30, 2015. Actual appropriations for the general fund were \$33,942,265 and the actual expenditures, on the budgetary basis, totaled \$26,611,897. The amount of \$25,415,603 was spent on the operations of First Steps' county partnerships throughout the State for programs within its mission and \$1,196,294 was spent on First Steps' operations and employees. The total other funds budget was \$10,267,237 with actual expenditures of \$7,614,370. The amount of expenditures budgeted exceeded actual expenditures as First Steps was not able to expand its programs rapidly enough during the year to consume all budgeted amounts. Those funds will be used in future fiscal years.

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

Due to the continually increasing costs of services central to the First Steps' mission and operations, First Steps does intend to request additional budgetary funding from the State of South Carolina General Assembly in future fiscal years to help ensure that these programs continue for the benefit of the State.

Subsequent 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.

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's citizens, taxpayers, customers, and 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
1300 Sumter Street, Suite 100
Columbia, South Carolina 29201

**South Carolina First Steps to School Readiness
Statement of Net Position
June 30, 2015**

ASSETS

Current assets:

Cash and cash equivalents	\$ 11,724,771
Due from Federal government and other grantors	704,072
Total current assets	12,428,843

Noncurrent assets:

Capital assets, net	587,475
Total noncurrent assets	587,475
Total assets	13,016,318

DEFERRED OUTFLOWS OF RESOURCES

Contributions to retirement plan after measurement date	321,255
Difference between expected and actual retirement plan experience	153,137
Total deferred outflows of resources	474,392

LIABILITIES

Current liabilities:

Accounts payable	232,895
Accrued salaries and benefits	379,847
Compensated absences	241,870
Total current liabilities	854,612

Noncurrent liabilities:

Compensated absences	214,483
Net pension liability	5,404,384
Total noncurrent liabilities	5,618,867
Total liabilities	6,473,479

DEFERRED INFLOWS OF RESOURCES

Difference between projected and actual investment earnings	455,629
Total deferred inflows of resources	455,629

NET POSITION

Net investment in capital assets	587,475
Restricted for the 4K pre-school program	11,116,573
Unrestricted	(5,142,446)
Total Net Position	\$ 6,561,602

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
Statement of Activities
For the year ended June 30, 2015**

Expenses

Governmental Activities – General Government

Allocations to other entities	\$ 25,290,481
Contractual services	3,636,099
Salaries	3,331,550
Employer fringe benefits	1,155,531
Rent and leases	328,393
Materials	415,011
Travel	207,028
Depreciation	160,220
Total expenses	34,524,313

Program Revenues – Operating Grants and Contributions

Federal grants	6,249,741
Medicaid reimbursements	422,690
Local and private grants	327,061
Total program revenues	6,999,492
Net expenses	(27,524,821)

General Revenues

State appropriations	33,942,265
Interest income	129,302
Total general revenues	34,071,567

Increase in net position	6,546,746
Net position, July 1, 2014, as restated	14,856
Net position, June 30, 2015	\$ 6,561,602

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
Balance Sheet -
Governmental Fund
June 30, 2015**

	General Fund
ASSETS	
Cash and cash equivalents	\$ 11,724,771
Due from Federal government and other grantors	704,072
Total Assets	\$ 12,428,843
LIABILITIES	
Accounts payable	\$ 232,895
Accrued salaries and benefits	379,847
Total liabilities	612,742
FUND BALANCE	
Restricted for the 4K pre-school program	11,116,573
Unassigned	699,528
Total fund balance	11,816,101
Total liabilities and fund balance	\$ 12,428,843

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 Balance Sheet of the Governmental Fund
to the Statement of Net Position
June 30, 2015**

Total fund balance, governmental fund	\$ 11,816,101
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net Position. This amount reflects gross capital assets of \$807,111 net of accumulated depreciation of \$219,636.	
	587,475
The net pension liability and related deferred inflows and outflows of resources are not due and payable in the current year and are not included in the fund financial statements, but are included in the governmental activities of the Statement of Net Position.	
Net pension liability	(5,404,384)
Deferred outflows of resources for contributions after the retirement plan's measurement date	321,255
Deferred outflows of resources for differences between expected and actual retirement plan experience	153,137
Deferred inflows of resources for differences between projected and actual investment experience	(455,629)
Compensated absences are not due and payable in the current period and are not included in the fund financial statements, but are included in the governmental activities of the Statement of Net Position	
	<u>(456,353)</u>
Net position of governmental activities in the Statement of Net Position	<u>\$ 6,561,602</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
Statement of Revenues, Expenditures, and Change in Fund Balance -
Governmental Fund
For the Year Ended June 30, 2015**

	<u>General Fund</u>
Revenues	
State appropriations	\$ 33,942,265
Federal grants	6,249,741
Medicaid reimbursements	422,690
Local and private grants	327,061
Interest income	129,302
Total revenues	<u>41,071,059</u>
Expenditures	
Allocations to other entities	25,290,481
Contractual services	3,636,099
Salaries	3,294,582
Employer fringe benefits	1,098,142
Rent and leases	328,393
Materials	415,011
Travel	207,028
Total expenditures	<u>34,269,736</u>
Excess of revenues over expenditures	<u>6,801,323</u>
Net change in fund balance	6,801,323
Fund balance, July 1, 2014	5,014,778
Fund balance, June 30, 2015	<u>\$ 11,816,101</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 Fund to the
Statement of Activities
For the Year Ended June 30, 2015**

Net change in fund balance, governmental fund	\$ 6,801,323
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	321,255
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 governmental funds:	
Depreciation	(160,220)
Increase in pension expense due to changes in deferred inflows and outflows of resources	(445,184)
Amortization of deferred outflows of resources related to the net pension liability	(47,366)
Amortization of deferred inflows of resources related to the net pension liability	113,906
Compensated absences	<u>(36,968)</u>
Increase in net position, governmental activities	<u>\$ 6,546,746</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, 2015**

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 the 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 Comprehensive Annual Financial Report.

Operationally, the SC First Steps Executive Director reports to a State Board of Trustees, consisting of 25 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, seven Governor appointees, four members appointed by the President Pro Tempore of the Senate, four members appointed by the Speaker of the House of Representatives, the Chairman of the Senate Education Committee, the Chairman of the House Education and Public Works Committee, and the Chief Executive Officers of the Department of Social Services, Department of Health and Environmental Control, Department of Health and Human Services, Department of Disabilities and Special Needs, State Head Start Collaboration Officer, and Children's Trust of South Carolina. First Steps accomplishes its directives through the use of 46 county partnerships which cover all counties within the state of South Carolina. Each local partnership has its own governing board based on the enabling law, and employs staff as determined by the local board.

First Steps was enacted to help improve school readiness outcomes for the state's youngest learners and to create public-private partnerships to strengthen the system of early education and care statewide. First Steps implements specific and targeted programs through five broad categories in communities across the state: 1) Family Strengthening, 2) Childcare, 3) Early Education, 4) School Transition, and 5) Health. Each South Carolina county has a First Steps Partnership (with Internal Revenue Service not-for-profit 501(c)3 status), comprised of business and community leaders, early education professionals, parents, faith-based and agency partners. Local First Steps partnerships examine unmet needs in their communities to help local young children and their families. Through its Internal Revenue Service not-for-profit 501(c)3 status, First Steps mobilizes resources beyond state appropriated dollars, leveraging local private and public funds, federal grants, planned gifts, in-kind contributions, and volunteer hours.

In addition, First Steps serves as the state's lead agency for the federal Individuals with Disabilities Education Act Part C program, known in South Carolina as “BabyNet”. BabyNet is a system of supports to help the families of infants and toddlers who are experiencing developmental delays. First Steps also co-administers the state's 4-K pre-school program known as the Child Development Education Pilot Program which provides full-day pre-kindergarten to eligible children in both public and private settings. 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.

**SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

1. Summary of Significant Accounting Policies (continued)

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 Governmental Accounting Standards Board (“GASB”).

All of the functions available to finance First Steps are presented together as general government activities. Financial information for funds that are not available to finance these activities are not included; consequently, the government-wide financial statements exclude fiduciary assets and liabilities, when applicable.

Fund Financial Statements

The fund financial statements are used to report First Step’s financial position and results of operations as well as to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The governmental fund statements are presented on the modified accrual basis. These methods of accounting are described below.

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned or for non-exchange transactions, when all eligibility requirements have been met, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measureable and available. “Measureable” means that the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to pay obligations of the current period. For this purpose, First Steps considers major sources of revenues to be available if they are collected within sixty days of the end of the current fiscal year.

Governmental Fund Types

General Fund – The General Fund is the primary operating fund of First Steps. This fund is used to account for all financial transactions and resources except those required to be accounted for in another fund. The General Fund is First Steps’ only reported fund and therefore is its only major fund.

**SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

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 as *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. All earnings on that account are recorded in the General Fund of the State of South Carolina. In contrast, each special deposit account retains its own earnings.

Investment Holdings and Basis

The South Carolina State Treasurer's Office (the "Office") is authorized by statute to invest all State funds. The Office's investment objectives are preservation of capital, maintenance of adequate liquidity, and obtaining the best yield possible within prescribed parameters. To meet those objectives, the Office uses various resources including an investment advisory service, electronic financial quotation and information services, various economic reports, and daily communication with brokers and financial institution investment officers.

To ensure safety of principal, the Office's policy is to limit liquid investments (i.e., those with maturities not exceeding one year) to cash, repurchase agreements (when collateralized by United States Treasury, federal agency or other federally guaranteed obligations with a market value in excess of 100.0% of funds advanced), United States Treasury bills, federal agency discount notes, and commercial paper.

The Office further preserves principal by investing in only the highest investment grade securities. In order to diversify investment holdings, asset allocation policies are utilized for investments having more than one year to maturity. Overall credit exposure is managed by asset allocation policies and by additional constraints controlling risk exposure to individual corporate issuers. Substantially all of the State's investments are presented at fair value; securities are valued at the last reported sales price as provided by an independent pricing service.

More information pertaining to the carrying amounts, fair value, credit and other risks of the cash management pool that First Steps participates in as required under GASB Statement No. 40, *Deposits and Investments – Risk Disclosures* are disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

**SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

1. Summary of Significant Accounting Policies (continued)

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

Due from Federal Government and Other Grantors

Amounts reported as due from Federal government and other grantors represent amounts that have been expended by First Steps and are reimbursable by the grantor agency, but not received by First Steps, as of June 30, 2015.

Capital Assets

First Steps reports its capital assets in the governmental activities in the government-wide financial statements.

First Steps' capital assets are valued at historical cost or at estimated historical cost if actual historical cost data is not available. Donated capital assets are recorded at estimated fair market value on the donation date. The costs of normal maintenance and repairs that do not significantly add to the value of an asset or materially extend an asset's useful life are not capitalized.

An individual asset is capitalized and reported if it has an estimated useful life of at least two years and a historical cost of more than \$5,000 for buildings, machinery, vehicles, and equipment. All land and non-depreciable land improvements are capitalized and reported, regardless of cost. Once First Steps places a depreciable capital asset in service, depreciation is recorded using the straight-line method over the following useful lives:

<u>Asset Category</u>	<u>Years</u>
Equipment and computer software	5

Compensated Absences

Generally, all permanent full-time State employees and certain part-time employees scheduled to work at least one-half of the First Step's work week are entitled to accrue and carry forward at calendar year-end maximums of 180 days sick leave and 45 days annual vacation leave. Upon termination of State employment, employees are entitled to be paid for accumulated unused annual vacation leave up to the maximum, but are not entitled to any payment for unused sick leave. The compensated absences liability includes accrued annual leave earned for which the employees are entitled to paid time off or payment at termination. The entire unpaid liability for which First Steps expects to compensate employees through paid time off or cash payments, inventoried at fiscal year-end current salary costs and the cost of the salary-related benefit payments, is recorded as a liability.

**SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

1. Summary of Significant Accounting Policies (continued)

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

Fund Balance and Net Position

Fund Balance

First Steps reports fund balance in accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions.

The following categories of fund balance are being used in the fund level financial statement of the governmental fund:

Nonspendable fund balance

The nonspendable fund balance classification includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example, inventories and prepaid amounts. It also includes the long-term amount of loans and notes receivable, as well as other assets. As of June 30, 2015, First Steps did not have any nonspendable fund balance.

Restricted fund balance

The restricted fund balance classification includes amounts that are either restricted externally by creditors, grantors, contributors, or laws or regulations of other governments or restricted by law through constitutional provisions or enabling legislation. As of June 30, 2015, First Steps’ restricted fund balance consisted of state appropriations restricted for the 4K pre-school program.

Committed fund balance

The committed fund balance classification includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of First Steps’ highest level of decision-making authority. Those committed amounts cannot be used for any other purpose unless First Steps removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. Committed fund balances also incorporate contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements. As of June 30, 2015, First Steps did not have any committed fund balance.

**SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

1. Summary of Significant Accounting Policies (continued)

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

Fund Balance and Net Position (continued)

Fund Balance (continued)

Assigned fund balance

The assigned fund balance classification includes amounts that are constrained by First Steps' intent to be used for specific purposes but are not restricted or committed. The authority for making an assignment is not required to be First Steps' highest level of decision-making authority and as such, the nature of the actions necessary to remove or modify an assignment does not require First Steps' highest level of authority. As of June 30, 2015, First Steps did not have any assigned fund balance.

Unassigned fund balance

The unassigned fund balance classification includes amounts that have not been assigned to other funds and has not been restricted, committed, or assigned for specific purposes within the General Fund.

Based on First Steps' policies regarding fund balance classifications as noted above, First Steps considers amounts that are restricted, committed, or assigned to be spent when the corresponding expenditure that has been designated by the State or donors has been made. After these fund balances have been depleted, unassigned fund balance will be considered to have been spent.

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 consist 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 balance is eliminated and reclassified against unrestricted net position. As of June 30, 2015, First Steps' restricted net position consisted of state appropriations restricted for the 4K program.

**SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

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 (continued)

Net Investment in Capital Assets

The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the 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 net investment in capital assets or the restricted component of net position.

First Steps' policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Implementation of New Accounting Standards and Restatement of Net Position

First Steps implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* (“GASB No. 68”) and GASB Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68* (“GASB No. 71”) in the year ended June 30, 2015.

The primary objective of GASB No. 68 is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. GASB No. 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit pensions, it identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

The objective of GASB No. 71 is to address an issue regarding application of the transition provisions of GASB No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. GASB No. 71 requires that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The provisions of GASB No. 71 are required to be applied simultaneously with the provisions of GASB No. 68.

**SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

1. Summary of Significant Accounting Policies (continued)

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

Implementation of New Accounting Standards and Restatement of Net Position (continued)

The implementation of these two GASB standards resulted in the restatement of net position as reported at June 30, 2014 as presented below:

Net position at June 30, 2014 as originally reported	\$	5,343,088
First Steps' share of net pension liability		(5,630,315)
Deferred outflow for pension contributions made after the measurement date		302,083
Net position at June 30, 2014 as restated	\$	<u>14,856</u>

2. Budget Policy

First Steps is granted an annual appropriation for operating purposes by the South Carolina General Assembly. The appropriation as enacted becomes the legal operating budget for First Steps. The Appropriation Act authorizes expenditures from funds appropriated from the General Fund of the State and authorizes expenditures of total funds. The "Total Funds" column in the Appropriation Act for each individual budgetary unit authorizes expenditures from all budgeted resources. A revenue budget is not adopted for individual budgetary funds. Budgetary control is maintained at the line-item level of the budgetary entity. Agencies may process disbursement vouchers in the State's budgetary accounting system only if enough cash and appropriation authorization exist.

Transfers of funds may be approved by the State Fiscal Accountability Authority, previously known as the State Budget and Control Board, 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. No 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 other operating accounts to personal service accounts may be restricted to any established standard levels set by the Budget and Control Board upon formal approval by a majority of the members of the Budget and Control Board.

During the fiscal year-end closeout period in July, agencies may continue to charge vendor, interagency, and interfund payments for the fiscal year to that fiscal year's appropriations. Any unexpended State General Fund monies as of June 30 automatically lapse to the General Fund of the State on July 1 unless authorization is received from the General Assembly to carry over the funds to the ensuing fiscal year. State law does not require the use of encumbrance accounting.

**SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

3. Deposits and Investments

By law, all deposits and investments are under the control of the South Carolina State Treasurer's Office (the "Office") except for those that, by specific authority, are under the control of other agencies or component units. The deposit and investment policies of those entities may differ from those of the Office. Typically, these agencies follow the deposit and investment policies of the Office in an effort to minimize deposit and investment risks.

The balances held by First Steps presented in these financial statements act as a demand deposit account with the Office and are therefore treated as cash and cash equivalents. The disclosures under GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, are not required for cash and cash equivalents. However, as the First Steps deposits are invested in the State of South Carolina investment pool, information can be obtained from the State of South Carolina Comprehensive Annual Financial Report which can be found at www.cg.sc.gov.

4. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2015, for the primary government was as follows:

	Beginning Balance July 1, 2014	Additions	Disposals	Ending Balance June 30, 2015
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Governmental activities				
Capital assets being depreciated:				
Equipment and computer software	\$ 807,111	\$ —	\$ —	\$ 807,111
Less accumulated depreciation for:				
Equipment and computer software	<u>(59,416)</u>	<u>(160,220)</u>	<u>—</u>	<u>(219,636)</u>
Capital assets for governmental activities, net	<u>\$ 747,695</u>	<u>\$ (160,220)</u>	<u>\$ —</u>	<u>\$ 587,475</u>

**SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

5. Long-term Liabilities

Long-term liabilities consist of compensated absences. Compensated absence activity for the fiscal year ended June 30, 2015, for the primary government was as follows:

	Beginning Balance July 1, 2014	Increases	Decreases	Ending Balance June 30, 2015	Current Portion
Compensated absences	\$ 419,385	\$ 212,166	\$ (175,198)	\$ 456,353	\$ 241,870
Total	\$ 419,385	\$ 212,166	\$ (175,198)	\$ 456,353	\$ 241,870

6. Pension Plan

The South Carolina Public Employee Benefit Authority (“PEBA”), which was created July 1, 2012, administers the various retirement systems and retirement programs managed by its Retirement Division. PEBA has an 11-member Board of Directors, appointed by the Governor and General Assembly leadership, which serves as co-trustee and co-fiduciary of the systems and the trust funds. By law, the Budget and Control Board, which consists of five elected officials, also reviews certain PEBA Board decisions regarding the funding of the South Carolina Retirement Systems (“Systems”) and serves as a co-trustee of the Systems in conducting that review.

PEBA issues a Comprehensive Annual Financial Report (“CAFR”) containing financial statements and required supplementary information for the Systems' Pension Trust Funds. The CAFR is publicly available through the Retirement Benefits' link on PEBA's website at www.peba.sc.gov, or a copy may be obtained by submitting a request to PEBA, PO Box 11960, Columbia, SC 29211-1960. PEBA is considered a division of the primary government of the state of South Carolina and therefore, retirement trust fund financial information is also included in the comprehensive annual financial report of the state.

Plan Descriptions

- The South Carolina Retirement System (“SCRS”), a cost-sharing multiple-employer defined benefit pension plan, was established effective July 1, 1945, pursuant to the provisions of Section 9-1-20 of the South Carolina Code of Laws for the purpose of providing retirement allowances and other benefits for employees of the state, its public school districts, and political subdivisions.
- The State Optional Retirement Program (“State ORP”) is a defined contribution plan that is offered as an alternative to certain newly hired state, public school, and higher education employees. State ORP participants direct the investment of their funds into a plan administered by one of four investment providers.

**SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

6. Pension Plan (continued)

Plan Descriptions (continued)

Membership

Membership requirements are prescribed in Title 9 of the South Carolina Code of Laws. A brief summary of the requirements under each system is presented below.

- SCRS - Generally, all employees of covered employers are required to participate in and contribute to the system as a condition of employment. This plan covers general employees and teachers and individuals newly elected to the South Carolina General Assembly beginning with the November 2012 general election. An employee member of the system with an effective date of membership prior to July 1, 2012, is a Class Two member. An employee member of the system with an effective date of membership on or after July 1, 2012, is a Class Three member.

- State ORP - As an alternative to membership in SCRS, newly hired state, public school, and higher education employees and individuals newly elected to the S.C. General Assembly beginning with the November 2012 general election have the option to participate in the State Optional Retirement Program (State ORP), which is a defined contribution plan. State ORP participants direct the investment of their funds into a plan administered by one of four investment providers. PEBA assumes no liability for State ORP benefits. Rather, the benefits are the liability of the investment providers. For this reason, State ORP programs are not considered part of the retirement systems for financial statement purposes. Employee and Employer contributions to the State ORP are at the same rates as SCRS. A direct remittance is required from the employers to the member's account with investment providers for the employee contribution (8 percent) and a portion of the employer contribution (5 percent). A direct remittance is also required to SCRS for the remaining portion of the employer contribution (5.75 percent) and an incidental death benefit contribution (.15 percent), if applicable, which is retained by SCRS.

Benefits

Benefit terms are prescribed in Title 9 of the South Carolina Code of Laws. PEBA does not have the authority to establish or amend benefit terms without a legislative change in the code of laws. Key elements of the benefit calculation include the benefit multiplier, years of service, and average final compensation. A brief summary of the benefit terms for each system is presented below.

- SCRS - A Class Two member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 65 or with 28 years credited service regardless of age. A member may elect early retirement with reduced pension benefits payable at age 55 with 25 years of service credit. A Class Three member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension upon satisfying the Rule of 90 requirement that the total of the member's age and the member's creditable service equals at least 90 years. Both Class Two and Class Three members are eligible to receive a reduced deferred annuity at age 60 if they satisfy the five- or eight-year earned service requirement, respectively. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program.

**SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

6. Pension Plan (continued)

Plan Descriptions (continued)

Benefits (continued)

The annual retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of one percent or five hundred dollars every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase. Members who retire under the early retirement provisions at age 55 with 25 years of service are not eligible for the benefit adjustment until the second July 1 after reaching age 60 or the second July 1 after the date they would have had 28 years of service credit had they not retired.

The retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of one percent or five hundred dollars every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase.

Contributions

Contributions are prescribed in Title 9 of the South Carolina Code of Laws. The PEBA Board may increase the SCRS employer and employee contribution rates on the basis of the actuarial valuations, but any such increase may not result in a differential between the employee and employer contribution rate that exceeds 2.9 percent of earnable compensation for SCRS. An increase in the contribution rates adopted by the board may not provide for an increase of more than one-half of one percent in any one year. If the scheduled employee and employer contributions provided in statute or the rates last adopted by the board are insufficient to maintain a thirty year amortization schedule of the unfunded liabilities of the plans, the board shall increase the contribution rates in equal percentage amounts for the employer and employee as necessary to maintain the thirty-year amortization period; and, this increase is not limited to one-half of one percent per year.

**SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

6. Pension Plan (continued)

Plan Descriptions (continued)

Contributions (continued)

Required <u>employee</u> contribution rates for fiscal year 2014-2015 are as follows:	
SCRS	
Employee Class Two	8.00% of earnable compensation
Employee Class Three	8.00% of earnable compensation
State ORP Employee	8.00% of earnable compensation
Required <u>employer</u> contribution rates for fiscal year 2014-2015 are as follows:	
SCRS	
Employer Class Two	10.75% of earnable compensation
Employer Class Three	10.75% of earnable compensation
Employer Incidental Death Benefit	0.15% of earnable compensation
State ORP Employee	
Employer Contribution	10.75% of earnable compensation ¹
Employer Incidental Death Benefit	0.15% of earnable compensation
¹ Of this employer contribution of 10.75% of earnable compensation, 5% of earnable compensation must be remitted by the employer directly to the ORP vendor to be allocated to the member's account with the remainder of the employer contribution remitted to SCRS.	

Actuarial Assumptions and Methods

Actuarial valuations 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 during the valuation process are subject to continual revision 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. The last experience study was performed on data through June 30, 2010, and the next experience study is scheduled to be conducted after the June 30, 2015 annual valuation is complete.

The most recent annual actuarial valuation reports adopted by the PEBA Board and Budget and Control Board are as of July 1, 2013. The net pension liability of each defined benefit pension plan was therefore determined by Systems' consulting actuary, Gabriel, Roeder, Smith and Company ("GRS"), based on the July 1, 2013 actuarial valuations, using membership data as of July 1, 2013, projected forward to the end of the fiscal year, and financial information of the pension trust funds as of June 30, 2014, using generally accepted actuarial procedures. Information included in the following schedules is based on the certification provided by GRS.

**SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

6. Pension Plan (continued)

Actuarial Assumptions and Methods (continued)

The following provides a summary of the actuarial assumptions and methods used in the July 1, 2013, valuations for SCRS.

	SCRS
Actuarial cost method	Entry age
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	levels off at 3.5%
Includes inflation at	2.75%
Benefit adjustments	lesser of 1% or \$500

The post-retiree mortality assumption is dependent upon the member's job category and gender. This assumption includes base rates which are automatically adjusted for future improvement in mortality using published Scale AA projected from the year 2000.

Former Job Class	Males	Females
Educators and Judges	RP-2000 Males (with White Collar adjustment) multiplied by 110%	RP-2000 Females (with White Collar adjustment) multiplied by 95%
General Employees and Members of the General Assembly	RP-2000 Males multiplied by 100%	RP-2000 Females multiplied by 90%
Public Safety, Firefighters and members of the South Carolina National Guard	RP-2000 Males (with Blue Collar adjustment) multiplied by 115%	RP-2000 Females (with Blue Collar adjustment) multiplied by 115%

Net Pension Liability

The net pension liability ("NPL") is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB No. 67 less that System's fiduciary net position. As of June 30, 2015, First Step's proportional share of the NPL amounts for SCRS is presented below:

System	Proportional Share of Net Pension Liability
SCRS	\$5,404,384

The total pension liability is calculated by the Systems' actuary, and each plan's fiduciary net position is reported in the Systems' financial statements. First Step's 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, 2015, the First Step's percentage of the SCRS net pension liability was 0.03139%.

**SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

6. Pension Plan (continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers in SCRS will be made based on the actuarially determined rates based on provisions in the South Carolina State Code of Laws. Based on those assumptions, each System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Long-term Expected Rate of Return

The long-term expected rate of return on pension plan investments for actuarial purposes is based upon the 30 year capital market outlook at the end of the third quarter 2012. The actuarial long-term expected rates of return represent best estimates of arithmetic real rates of return for each major asset class and were developed in coordination with the investment consultant for the Retirement System Investment Commission ("RSIC") using a building block approach, reflecting observable inflation and interest rate information available in the fixed income markets as well as Consensus Economic forecasts. The actuarial long-term assumptions for other asset classes are based on historical results, current market characteristics and professional judgment.

The RSIC has exclusive authority to invest and manage the retirement trust funds' assets. As co-fiduciary of the Systems, statutory provisions and governance policies allow the RSIC to operate in a manner consistent with a long-term investment time horizon. The expected real rates of investment return, along with the expected inflation rate, form the basis for the target asset allocation adopted annually by the RSIC. For actuarial purposes, the long-term expected rate of return is calculated by weighting the expected future real rates of return by the target allocation percentage and then adding the actuarial expected inflation which is summarized in the table on the following page. For actuarial purposes, the 7.50 percent assumed annual investment rate of return used in the calculation of the total pension liability includes a 4.75 percent real rate of return and a 2.75 percent inflation component.

**SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

6. Pension Plan (continued)

Long-term Expected Rate of Return (continued)

Asset Class	Target Asset Allocation	Expected Arithmetic Real Rate of Return	Long Term Expected Portfolio Real Rate of Return
Short Term	5.0%		
Cash	2.0	0.3%	0.01%
Short Duration	3.0	0.6	0.02
Domestic Fixed Income	13.0		
Core Fixed Income	7.0	1.1	0.08
High Yield	2.0	3.5	0.07
Bank Loans	4.0	2.8	0.11
Global Fixed Income	9.0		
Global Fixed Income	3.0	0.8	0.02
Emerging Markets Debt	6.0	4.1	0.25
Global Public Equity	31.0	7.8	2.42
Global Tactical Asset Allocation	10.0	5.1	0.51
Alternatives	32.0		
Hedge Funds (Low Beta)	8.0	4.0	0.32
Private Debt	7.0	10.2	0.71
Private Equity	9.0	10.2	0.92
Real Estate (Broad Market)	5.0	5.9	0.29
Commodities	3.0	5.1	0.15
Total Expected Real Return	<u>100.0%</u>		<u>5.88</u>
Inflation for Actuarial Purposes			<u>2.75</u>
Total Expected Nominal Return			<u>8.63%</u>

Sensitivity Analysis

The following table presents the collective net pension liability of the participating employers calculated using the discount rate of 7.50 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 (6.50 percent) or 1.00 percent higher (8.50 percent) than the current rate.

Sensitivity of the Proportional Share of Net Pension Liability to Changes in the Discount Rate			
System	1.00% Decrease (6.50%)	Current Discount Rate (7.50%)	1.00% Increase (8.50%)
SCRS	\$ 6,993,607	\$ 5,404,384	\$ 4,078,516

**SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

6. Pension Plan (continued)

Deferred Outflows (Inflows) of Resources

For the year ended June 30, 2015, First Steps recognized pension expense of \$378,786 which is included in employer fringe benefits in the accompanying financial statements. At June 30, 2015, the First Steps reported deferred outflows (inflows) of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 321,255	\$ —
Differences in actual and expected experience	153,137	—
Net differences between projected and actual earnings on plan investments	—	455,629
	\$ 474,392	\$ 455,629

First Steps reported \$321,255 as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows (inflows) of resources will be recognized in pension expense in future years. The following schedule reflects the amortization of the First Steps' proportional share of the net balance of remaining deferred outflows (inflows) of resources at June 30, 2015. Average remaining services lives of all employees provided with pensions through the pension plans at June 30, 2015 was 4.233 years for SCRS.

Measurement Period Ending June 30,	Fiscal Year Ending June 30,	<u>SCRS</u>
2015	2016	\$ (66,540)
2016	2017	(66,540)
2017	2018	(66,540)
2018	2019	(102,872)
Net balance of deferred outflows (inflows) of resources		\$ (302,492)

**SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

7. Post-Employment Benefits Other than Pensions

Plan Description

In accordance with the South Carolina Code of Laws and the annual Appropriations Act, the State provides post-employment health and dental and long-term disability benefits to retired State and school district employees and their covered dependents. First Steps contributes to the South Carolina Retiree Health Insurance Trust Fund (“SCRHITF”) and the South Carolina Long-Term Disability Insurance Trust Fund (“SCLTDITF”), cost-sharing multiple employer defined benefit post-employment healthcare and long-term disability plans administered by the Insurance Benefits Division (“IB”) of the South Carolina Public Employee Benefit Authority.

Generally, retirees are eligible for the health and dental benefits if they have established at least ten years of retirement service credit. For new hires beginning employment May 2, 2008 and after, retirees are eligible for benefits if they have established 25 years of service for 100 percent employer funding and 15 through 24 years of service for 50 percent employer funding.

Benefits become effective when the former employee retires under a State retirement system. Basic long-term disability (“BLTD”) benefits are provided to active state, public school district, and participating local government employees approved for disability.

Funding Policies

Section 1-11-710 of the South Carolina Code of Laws of 1976, as amended, requires these post-employment and long-term disability benefits be funded through annual appropriations by the General Assembly for active employees to the IB and participating retirees to the PEBA, except for the portion funded through the pension surcharge and provided from the other applicable sources of the IB, for its active employees who are not funded by State General Fund appropriations. Employers participating in the RMP are mandated by State statute to contribute at a rate assessed each year by the Office of the State Budget, 5.0% percent of annual covered payroll for 2015 and 4.92 percent of annual covered payroll for 2014. The IB sets the employer contribution rate based on a pay-as-you-go basis. First Steps paid \$147,365 and \$138,360 applicable to the surcharge included with the employer contribution for retirement benefits for the fiscal years ended June 30, 2015 and 2014, respectively. BLTD benefits are funded through a person’s premium charged to State agencies, public school districts, and other participating local governments. The monthly premium per active employee paid to IB was \$3.22 for fiscal years ended June 30, 2015 and 2014. First Steps recorded employer contributions expenses applicable to these insurance benefits for active employees in the amount of approximately \$2,700 and \$2,600 for the years ended June 30, 2015 and 2014, respectively.

Effective May 1, 2008 the State established two trust funds through Act 195 for the purpose of funding and accounting for the employer costs of retiree health and dental insurance benefits and long-term disability insurance benefits. The SCRHITF is primarily funded through the payroll surcharge. Other sources of funding include additional State appropriated dollars, accumulated IB reserves, and income generated from investments. The SCLTDITF is primarily funded through investment income and employer contributions.

**SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

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

A copy of the complete financial statements for the benefit plans and the trust funds may be obtained by writing to the South Carolina Public Benefit Authority - Insurance Benefits Division, P.O. Box 11960, Columbia, SC 29211-1960.

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 their contributions when they terminate State employment. Employees may also withdraw 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, 2015.

9. Risk Management

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

First Steps has not transferred the risk of loss for 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 \$1.5 million for the year ended June 30, 2015.

First Steps provided no material services free of charge to other State agencies during the fiscal year. First Steps participates in the statewide dual employment program. Workers' compensation and other insurance premiums for the fiscal year ended June 30, 2015 of \$34,773 were paid to the State Accident Fund.

The executive director of Richland County First Steps Partnership serves as a voting member of the First Steps Board of Trustees. Richland County First Steps Partnership receives a significant amount of its funding from First Steps. The amount of funding authorized to each county First Steps partnership is determined by a mathematical formula which uses a variety of demographics of children 0-5 that serve as a proxy for the level of need in each county. Richland County First Steps Partnership's general fund budget authorization for the year ended June 30, 2015 was \$791,346. As a First Steps Board of Trustees member, the Richland County First Steps Partnership executive director abstains from voting on county partnership funding authorizations.

**SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

11. Commitments and Contingencies

Leases

First Steps has entered into several non-cancellable leases, considered operating leases, for facilities used to house operations critical to First Steps' mission. Rent expense related to these leases was approximately \$170,000, while total lease and rental expense was \$328,393, for the year ended June 30, 2015. First Steps also entered into a five year equipment lease, which is considered an operating lease, in May 2014. Future base rental payments under non-cancellable leases are as follows:

Year ending June 30,:

2016	\$ 173,267
2017	113,921
2018	66,008
2019	6,822
2020	6,000
Thereafter	2,500
Total	<u>\$ 368,518</u>

Capital asset maintenance fee

First Steps implemented a new software system in March 2014. An annual maintenance fee of approximately \$289,000 is expected to be incurred each year under a maintenance contract; however, the maintenance fee is renewable on an annual basis.

County Partnership Regional Finance Managers

First Steps has an accounting contract with two public accounting firms to provide bookkeeping services for each county's Partnership office. The contract extends through November 30, 2016 with the following total annual payments.

Year ending June 30,:

2016	\$ 397,625
2017	<u>166,458</u>
Total	<u>\$ 564,083</u>

County Partnerships

First Steps has agreements with each County within the State related to early childhood services. First Steps' total appropriations to the county partnerships during the year ended June 30, 2015 were \$12,693,265, of which \$12,372,260 was disbursed to the county partnerships. This leaves total commitments of \$359,188 yet to be disbursed to county partnerships during future fiscal years.

**SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

11. Commitments and Contingencies (continued)

Grants

First Steps receives financial assistance from various federal, 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 grant agreements. The disbursements are also subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements included herein or on the overall financial position of First Steps at June 30, 2015.

12. Subsequent Event

Subsequent 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.

**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, 2015**

	<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	\$ 65,000	\$ 65,000	\$ —	\$ 65,000
Special Items				
CDEPP	6,424,200	6,914,200	5,300,000	1,614,200
Other Operating Expenses	—	838,100	838,100	—
Employer Contributions	20,800	29,280	—	29,280
Total First Steps to School Readiness	<u>6,510,000</u>	<u>7,846,580</u>	<u>6,138,100</u>	<u>1,708,480</u>
Total Expenditures	<u>\$ 6,510,000</u>	<u>\$ 7,846,580</u>	<u>\$ 6,138,100</u>	<u>\$1,708,480</u>

**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, 2015**

	Budgeted Amounts			Variance Positive (Negative)
	Original	Final	Actual	
Expenditures:				
First Steps to School Readiness				
Personal Services				
Classified Positions	\$ 2,605,453	\$ 2,065,497	\$ 1,991,451	\$ 74,046
Unclassified Positions	121,540	123,970	123,970	—
Other Personal Services	150,000	833,073	643,888	189,185
Other Operating Expenses	3,072,789	4,095,089	2,004,527	2,090,562
Special Items				
County Partnerships	11,262,214	11,262,214	12,245,788	(983,574)
Babynet	6,781,000	6,743,872	5,578,212	1,165,660
Babynet Autism Therapy	437,476	437,476	437,476	—
CDEPP	9,767,864	9,662,864	4,110,391	5,552,473
Employer Contributions	775,349	1,138,867	952,464	186,403
Total First Steps to School Readiness	34,973,685	36,362,922	28,088,167	8,274,755
Total Expenditures	\$ 34,973,685	\$ 36,362,922	\$ 28,088,167	\$8,274,755

**SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -
BUDGETARY COMPARISON SCHEDULES
FOR THE YEAR ENDED JUNE 30, 2015**

1. Budgetary Funds

South Carolina's Annual Appropriation Act, the State's legally adopted budget, does not present budgets by GAAP fund. Instead, it presents program-level budgets for the following two funds:

General Funds – These funds are general operating funds. The resources in the funds are primarily taxes. The State expends General Funds to provide traditional State government services.

Total Funds – The Total Funds column in the Appropriations Act includes all budgeted resources. Amounts in this column include General Funds as well as most, but not all, federal and department-generated resources. Total funds include portions of certain proprietary and capital project fund activities as well as most special revenue activities but exclude the pension trust funds and some other fiduciary fund activities.

Amounts presented as *Other Budgeted Funds* are obtained by subtracting the General Funds column in the Appropriations Act from the Total Funds columns. Revenue is not presented in the budgetary schedule because it is budgeted at the Statewide level.

As operating conditions change, First Steps may transfer appropriations between programs and classifications within programs. However, limits are placed on increasing/decreasing authorizations for personal services without Budget and Control Board approval. Also, a revision of budgeted amounts over and above the total revenues appropriated requires approval of the Budget and Control Board.

Both the funds appropriated by the State and other budgeted funds are included within the General Fund for financial statement presentation under GAAP.

2. Original and Final Budgeted Amounts; Basis of Presentation

The original appropriations presented in the accompanying schedule for the General Funds include amounts in the Appropriations Act as well as any appropriation reductions specifically authorized by law to prevent duplicate appropriations. The terminology, classification, and format of the appropriations section of the accompanying schedules are substantively the same as for the legally adopted budget. The State allows First Steps to transfer its appropriated funds to restricted accounts to allow for the opportunity for interest to be earned on these appropriated amounts. However, expenditures have been presented in accordance with the classifications provided for in the legally adopted budget.

The State's General Assembly does not approve estimated revenue or fund balance amounts for Other Budgeted Funds which include the First Steps' General Fund. However, Section 115 (*Recapitulations*) of the Appropriation Act includes net source of funds amounts (i.e. estimated cash brought forward from the previous fiscal year plus estimated revenue for the current fiscal year minus estimated cash to be carried forward to the following fiscal year) for three categories of Other Budgeted Funds: Federal, Earmarked, and Restricted. A budget versus actual comparison for the First Steps' General Funds and Other Budgeted Funds are presented as supplementary information.

**SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -
BUDGETARY COMPARISON SCHEDULES
FOR THE YEAR ENDED JUNE 30, 2015**

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 intends to appropriate 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. 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:

- Departments and agencies shall charge certain vendor and interfund payments against the preceding fiscal year's appropriations through July 14.
- All revenues are recorded only when the State receives the related cash with the exception of certain tax amounts, such as motor fuel taxes 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 differs from the GAAP basis used to prepare the statement of revenues, expenditures, and changes in fund balance. In the current year, there are funds that are received by First Steps that are not legally budgeted and therefore, the amounts reported as actual expenditures on the budgetary basis do not agree to the actual expenditures reported in the governmental fund Statement of Revenue, Expenditure, and Changes in Fund Balance and the Statement of Activities. The differences between the budgetary comparison schedules for the General Funds and Other Budgeted Funds as compared to the Statement of Revenues, Expenditures, and Changes in Fund Balance are related strictly to the modified accrual basis of accounting which include accounts receivable and accounts payable as revenues and expenditures in the current year while the budgetary basis would include those amounts in the year that payments were actually received or paid. A reconciliation of the budgetary basis expenditures to the GAAP basis expenditures is below:

**SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -
BUDGETARY COMPARISON SCHEDULES
FOR THE YEAR ENDED JUNE 30, 2015**

5. Budget to GAAP Reporting Differences (continued)

Reconciliation of Budget Basis to GAAP Basis Expenditures
For the Year Ended June 30, 2015

	General Fund	Other Budgeted Funds	Total
Total expenditures, budgetary basis	\$ 6,138,100	\$ 28,088,167	\$ 34,226,267
Basis of accounting differences:			
Change in accrued salaries	-	40,080	40,080
Change in accounts payable	-	10,581	10,581
Other basis differences	-	(7,192)	(7,192)
Total expenditures, GAAP basis	<u>\$ 6,138,100</u>	<u>\$ 28,131,636</u>	<u>\$ 34,269,736</u>

6. Budget Variances

First Steps originally budgeted \$11,262,214 to be disbursed to County Partnerships from Other Budgeted Funds. That amount was consistent with the final budgeted amount. However, during the year, \$12,245,788 was disbursed to the County Partnerships which was in excess of the budgeted expenditures by \$983,574. First Steps disbursed amounts in excess of the appropriated budget as it also had other funds available for the purpose of providing funds to the County Partnerships.

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**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, 2015
Last Two Fiscal Years**

	2015	2014
First Steps' proportion of the net pension liability	0.031390%	0.031390%
First Steps' proportionate share of the net pension liability	\$ 5,404,384	\$ 5,630,315
First Steps' covered – employee payroll	\$ 2,849,840	\$ 2,889,764
First Steps' proportionate share of the net pension liability as percentage of covered-employee payroll	189.64%	194.84%
Plan fiduciary net position as a percentage of the total pension liability	59.9%	56.4%

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

**South Carolina First Steps to School Readiness
Required Supplementary Information -
Schedule of the South Carolina First Steps
to Readiness' Contributions -
South Carolina Retirement System
As of June 30, 2015
Last Five Fiscal Years**

	2015	2014	2013	2012	2011
Contractually required contribution	\$ 321,255	\$ 302,083	\$ 306,315	\$ 219,508	\$ 189,512
Contributions in relation to the contractually required contribution	321,255	302,083	306,315	219,508	189,512
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
First Steps covered-employee payroll	\$ 2,947,293	\$ 2,849,840	\$ 2,889,764	\$ 2,302,129	\$ 2,018,232
Contributions as a percentage of covered-employee payroll	10.90%	10.60%	10.60%	9.535%	9.39%

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

INDEPENDENT AUDITOR'S REPORT

Mr. Richard H. Gilbert, Jr., CPA
Deputy State Auditor
Office of the State Auditor
Columbia, South Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of South Carolina First Steps to School Readiness ("First Steps"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise First Steps' basic financial statements, and have issued our report thereon dated September 11, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered First Steps' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of First Steps' internal control. Accordingly, we do not express an opinion on the effectiveness of First Steps' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.


Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether First Steps' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


Greene, Finney & Horton, LLP
Mauldin, South Carolina
September 11, 2015