

South Carolina First Steps to School Readiness

Financial Statements

For the Year Ended June 30, 2024

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Table of Contents

	<u>Page</u>
Independent Auditor’s Report	1-3
Management’s Discussion and Analysis	4-9
Basic Financial Statements:	
Statement of Net Position	10
Statement of Activities	11
Balance Sheet-Governmental Funds	12
Reconciliation of the Balance Sheet of the Governmental Funds to the Statement of Net Position	13
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds.....	14
Reconciliation of the Statement of Revenues, Expenditures, and Change In Fund Balance of the Governmental Fund to the Statement of Activities	15
Notes to the Financial Statements	16-41
Required Supplementary Information – Budgetary Comparison Schedules.....	42-43
Notes to Required Supplementary Information – Budgetary Comparison Schedules	44-46
Required Supplementary Information – Schedule of the South Carolina First Steps to School Readiness’ Proportionate Share of the Net Pension Liability – South Carolina Retirement System.....	47
Required Supplementary Information – Schedule of the South Carolina First Steps to School Readiness’ Contributions – South Carolina Retirement System	48
Required Supplementary Information – Schedule of the South Carolina First Steps to School Readiness’ Proportionate Share of the Net OPEB Liability – South Carolina Health Insurance Trust Fund.....	49
Required Supplementary Information – Schedule of the South Carolina First Steps to School Readiness’ Contributions – South Carolina Health Insurance Trust Fund	50
Supplementary Information – Schedule of Private 4K Program Expenditures.....	51
Independent Auditor’s Report – Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	53-54

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October 1, 2024

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, 2024, was issued by Greene Finney Cauley, 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,

George L. Kennedy, III, CPA
State Auditor

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities and each major fund of South Carolina First Steps to School Readiness (“First Steps”), a discretely presented component unit of the State of South Carolina, as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise First Steps’ basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of First Steps as of June 30, 2024, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (“GAAS”) and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of First Steps and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit 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 First Steps' internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about First Steps' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison schedules, and the pension and other postemployment benefit plan schedules, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2024 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of First Steps' 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 Cauley, LLP

Greene Finney Cauley, LLP
Mauldin, South Carolina
October 1, 2024

**South Carolina First Steps to School Readiness
Management’s Discussion and Analysis
For the Year Ended June 30, 2024**

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, 2024.

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, 2024:

- First Steps’ total net position decreased by \$2,886,663 and its assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources (net position) by \$12,496,004, which includes \$19,882,379 in restricted net position of which the majority is restricted for the 4K preschool program and early childhood services.
- First Steps received \$55,298,678 in appropriations from the State of South Carolina, the significant majority of which was disbursed for funding the county partnerships and the 4K programs throughout the state.
- First Steps received federal, state, local, and private grants totaling \$10,863,717.

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.

Fund Statements:

The fund financial statements include the governmental funds’ Balance Sheet and Statement of Revenue, Expenditures, and Change in Fund Balances. 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.

**South Carolina First Steps to School Readiness
Management’s Discussion and Analysis
For the Year Ended June 30, 2024**

Statements of Net Position –The Statements of Net Position provide a summary of First Steps’ financial condition at the end of the 2024 and 2023 fiscal years; the statement reports all assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the accrual basis of accounting.

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
STATEMENTS OF NET POSITION

	2024	2023
Current assets	\$ 29,209,942	\$ 30,212,572
Lease and capital assets, net	641,509	876,207
Total assets	29,851,451	31,088,779
Deferred outflows of resources	4,943,237	6,100,291
Current liabilities	4,240,175	2,442,752
Net pension liability	8,439,891	8,458,219
Net OPEB liability	5,297,601	6,181,745
Other noncurrent liabilities	492,645	711,771
Total liabilities	18,470,312	17,794,487
Deferred inflows of resources	3,828,372	4,011,916
Net investment in capital assets	143,659	130,664
Restricted	19,882,379	24,374,994
Unrestricted	(7,530,034)	(9,122,991)
Total net position	\$ 12,496,004	\$ 15,382,667

Current assets have decreased from \$30,212,572 at June 30, 2023 to \$29,209,942 at June 30, 2024 which is a decrease of \$1,002,630. This is primarily due to a decrease in cash which resulted from First Steps spending down accumulated cash balances which resulted from appropriations in prior years exceeding the expenditures of First Steps. Total liabilities increased from \$17,794,487 at June 30, 2023 to \$18,470,312 at June 30, 2024, which is an increase of \$675,825. The primary cause of the increase is due to increases in accounts payable and unearned revenue.

**South Carolina First Steps to School Readiness
Management’s Discussion and Analysis
For the Year Ended June 30, 2024**

Statements of Activities – The Statements of Activities reports the revenues and expenses during the 2024 and 2023 fiscal years.

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
STATEMENTS OF ACTIVITIES

	2024	2023
Program Revenues		
Federal, state, local and private grants	\$ 10,863,717	\$ 7,988,403
Total program revenues	10,863,717	7,988,403
General Revenues		
State appropriations	55,298,678	49,060,487
Interest income and other revenues	45,146	79,004
Total general revenues	55,343,824	49,139,491
Total revenues	66,207,541	57,127,894
Expenses		
Allocations to other entities	22,857,152	19,087,567
Private 4K provider costs	30,156,041	23,730,357
Contractual services	3,926,108	3,123,126
Salaries	5,387,934	4,823,767
Employer fringe benefits	2,612,132	1,914,033
Short-term rent and leases	109,330	69,613
Materials	3,326,417	1,929,739
Travel	411,324	350,020
Fundraising	67,608	67,979
Interest expense	5,460	4,922
Depreciation and amortization	234,698	218,413
Total expenses	69,094,204	55,319,536
(Decrease) increase in net position	(2,886,663)	1,808,358
Net position beginning balance	15,382,667	13,574,309
Net position ending balance	\$ 12,496,004	\$ 15,382,667

Operating revenues of First Steps are largely dependent upon appropriations from the State of South Carolina as well as grants from the state government and private or local donors. The decrease in net position is primarily attributed to the anticipated spend down of previously accumulated State appropriations and grant funds. In comparison to the year ended June 30, 2023, program revenues increased by \$2,875,314 and general revenues increased by \$6,204,333. First Steps has continued to pursue expanded grant funding and State Appropriations and realized the results of such efforts during the year ended June 30, 2024. First Steps’ total expenses increased from \$55,319,536 for the year ended June 30, 2023 to \$69,094,204 for the year ended June 30, 2024 which was an increase of \$13,774,668. The increase in expenses was planned as First Steps had secured funding and appropriations for the year which allowed it to expand its program operations. As a result, First Steps did realize a decrease in net position of \$2,886,663.

**South Carolina First Steps to School Readiness
Management's Discussion and Analysis
For the Year Ended June 30, 2024**

Funds Highlights:

Governmental Funds:

The focus of First Steps' governmental funds is to provide information regarding actual inflows and outflows of spendable resources. The General Fund is the primary operating fund of First Steps, while the Private 4K special revenue fund accounts for the private activities of the 4K program administered by First Steps.

The General Fund's operating revenues are primarily appropriations from the State of South Carolina and state and local grants. For state appropriations, revenues are not budgeted by First Steps, therefore, expenditures are typically matched with appropriations so long as expenditures do not exceed budget. First Steps does have carryforward budgetary authority and thus current year expenditures may exceed current year revenues. State appropriations and other revenues were exceeded by First Steps' program expenses by \$2,939,965 for the year ended June 30, 2024 and a decrease in fund balance from the beginning fund balance amount of \$26,743,874 to \$23,803,912. Fund balance includes \$445,000 in nonspendable fund balance, \$18,679,573 in fund balance restricted for the 4K pre-school and early childhood services, and \$616,216 committed for cash reserve revolving loans to county partnerships, and \$4,063,123 in unassigned fund balance.

The Private 4K Special Revenue Fund's operating revenues are primarily appropriations from the State of South Carolina. The Private 4K Special Revenue Fund received total revenues of \$30,325,317 and expended \$30,156,041 during the year ended June 30, 2024, resulting in an increase in fund balance of \$169,276. The special revenue fund reported \$469,732 of committed fund balance for county partnership grants and \$1,202,806 of fund balance restricted for 4K pre-school programs and early childhood services.

Noncurrent Liabilities:

First Steps' noncurrent liabilities consist of compensated absences, lease liabilities, and its proportionate share of the State of South Carolina's net pension and net OPEB liabilities related to the South Carolina Retirement System ("SCRS"). The compensated absences liability includes accrued annual leave earned for which the employees are entitled to paid time off or payment at termination. Compensated absences used or transferred to another agency during the fiscal year were \$366,653 while another \$424,587 were accrued. See Note 5 to the financial statements for additional information regarding First Steps' compensated absences.

Lease liabilities have been recorded as a result of First Steps' implementation of GASB Statement No. 87 during the year ended June 30, 2022. GASB Statement No. 87 required First Steps to record the net present value of lease payments for leases with remaining terms in excess of one year. Current year principal payments of \$247,693 resulted in a reduction of the beginning balance of \$745,543 to \$497,850.

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 related to the SCRS. The net pension liability as of June 30, 2023 was \$8,458,219 and at June 30, 2024, it had decreased to \$8,439,891. The decrease is due to an increase in participants applicable to First Steps offset by a decrease in the overall pension liability of the State. 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, 2024**

First Steps is also required to record its proportionate share of the net OPEB liability in accordance with GASB Statement No. 75 and represents First Steps' share of the State's net OPEB liability related to the State's Retiree Health Insurance Trust Fund. The net OPEB liability as of June 30, 2023 was \$6,181,745 and decreased to \$5,297,601 at June 30, 2024. The decrease is primarily attributable to reductions in the State's overall OPEB liability. See Note 7 to the financial statements for additional information regarding First Steps' OPEB plan.

Capital Assets and Lease Assets:

First Steps did not make any capital asset acquisitions during the year ended June 30, 2024. As a result of depreciation, total net capital assets decreased from \$87,344 to \$69,579.

In addition to requiring First Steps to record lease liabilities, GASB Statement No. 87 also requires First Steps to recognize intangible right of use assets related to the lease agreements. The lease assets are amortized over the term of the lease. The net lease asset reported as of June 30, 2023 was \$788,863, which was then amortized during the year ended June 30, 2024, resulting in an ending balance of \$571,930.

Budget Highlights:

First Steps budgets State appropriations and other funds (earmarked, restricted and federal) as they are received during the year. First Steps' original and final budget for the General Fund was \$16,501,439 for the year ended June 30, 2024. Actual expenditures, on the budgetary basis, totaled \$13,453,977. These amounts were spent primarily on the CDEPP and READY (child development) programs. The total other funds final budget was \$63,670,052. Actual expenditures, on the budgetary basis, totaled \$54,543,836. These amounts were spent primarily on allocations to First Steps local county partnerships and the CDEPP programs.

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

During the 2024 state fiscal year, First Steps had an increase in revenue from the previous year. This increase was from \$57,127,894 in 2023, to \$66,207,541 in 2024. This was due to an increase in both grant revenue earned, an increase of \$2,875,314, and an increase in state appropriations, which was due primarily to the state providing additional 4K Program funds in fiscal year 2024.

First Steps' expenses increased from \$55,319,536 in 2023, to \$69,094,204 in 2024. This was due to the expansion of the 4K Program services, along with increases in salaries and fringe benefits as well as additional grant activity in both agreements with the Local Partnerships and the 4K Program. The net effect of the increase in revenue and increase in expenses provided a decrease in net position of \$2,886,663 for fiscal year 2024. This was down from an increase the prior year of \$1,808,358. The most recent years reduction in net position was due to an increase in spending on federal and other grants as we reached the close out of one, with the impending close out of another. Included in this was the increasing cost of the 4K Program while spending down its cash balances.

The 4K Program received a large increase in funding for the 2025 fiscal year so further short-term decreases in cash balances are not expected.

**South Carolina First Steps to School Readiness
Management’s Discussion and Analysis
For the Year Ended June 30, 2024**

The Preschool Development Grant (“PDG”), although ending in April of 2023, operated under a no cost extension of funds through April 2024. At that time the PDG grant was fully expended. First Steps received a PDG Planning grant for the 2023 calendar year, which also received a no cost extension through December of 2024. This grant was approximately \$1.5 million. This provided funds to continue many of the activities started under the original PDG Grant. At this point, another three-year PDG Grant is being pursued for the state and, if awarded, SC First Steps is expected to be a subcontractor.

The ESSER Funds expenditures, from a federal subrecipient agreement with the State Department of Education, increased this year. The majority of the remaining funds were spent during this fiscal year, which helped increase services provided by Local Partnerships, along with several other fund sources, to over 80,000 families and children, which was a record number. At the end of fiscal year 2024, First Steps has just over \$1.8 million left to spend. These funds will need to be fully expended prior to September 30, 2024, which is expected.

Efforts are ongoing to provide funds to maintain as much of the increase in services as possible that were generated by both the PDG funds and the ESSER Funds for FY 2025 and going forward.

First Steps has been implementing the requirements through Act 81, which was passed in June 2023, by the South Carolina General Assembly. This made several changes to statutory requirements, added one member to the Board of Trustees, and eliminated the need to be reauthorized every 5 years. It also include actions necessary for changes and increased accountability for the Local Partnerships.

Going forward, the General Assembly passed the single largest increase in state funding for SC First Steps in June of 2024. This included an increase of \$11,539,504 in state funding, which was a combination of both General Funds and Education Improvement Act Funds.

During that same month, the Executive Director of the agency announced her resignation, which would be effective on July 1, 2024. The Director of Administration was announced as the Interim Executive Director while the Board pursued a national search for a new Executive Director.

Included in the 2024-25 State budget was a proviso that included fully separating First Steps from the State Department of Education. This work started towards the end of fiscal year 2024 and will be completed by December of 2024. This should not have a material impact on the financial condition of the agency.

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, investors and creditors. This financial report seeks to demonstrate First Steps’ accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

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

**South Carolina First Steps to School Readiness
Statement of Net Position
June 30, 2024**

ASSETS

Current assets:

Cash and cash equivalents	\$ 25,003,635
Prepaid expenses	445,000
Grants receivable	3,583,049
Other receivables	178,258
Total current assets	29,209,942

Noncurrent assets:

Capital assets, net	69,579
Right of use lease asset, net	571,930
Total noncurrent assets	641,509
Total assets	29,851,451

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows of resources related to pensions	2,045,821
Deferred outflows of resources related to OPEB	2,897,416
Total deferred outflows of resources	4,943,237

LIABILITIES

Current liabilities:

Accounts payable	1,293,454
Accrued salaries and benefits	672,391
Compensated absences, current	265,689
Lease liabilities, current	240,994
Unearned revenue	1,767,647
Total current liabilities	4,240,175

Noncurrent liabilities:

Compensated absences, net of current portion	235,789
Lease liabilities, net of current portion	256,856
Net OPEB liability	5,297,601
Net pension liability	8,439,891
Total noncurrent liabilities	14,230,137
Total liabilities	18,470,312

DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources related to OPEB	3,773,994
Deferred inflows of resources related to pensions	54,378
Total deferred inflows of resources	3,828,372

NET POSITION

Net investment in capital assets	143,659
Restricted for the 4K pre-school program and early childhood services	19,882,379
Unrestricted	(7,530,034)
Total Net Position	\$ 12,496,004

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, 2024**

Expenses

Governmental Activities – General Government

Allocations to other entities	\$ 22,857,152
Private 4K provider costs	30,156,041
Contractual services	3,926,108
Salaries	5,387,934
Employer fringe benefits	2,612,132
Short-term rent and leases	109,330
Materials	3,326,417
Travel	411,324
Fundraising	67,608
Interest expense	5,460
Depreciation and amortization	234,698
Total expenses	<u>69,094,204</u>

Program Revenues – Operating Grants and Contributions

Federal, state, local, and private grants	<u>10,863,717</u>
Total program revenues	<u>10,863,717</u>
Net expenses	<u>(58,230,487)</u>

General Revenues

State appropriations	55,298,678
Interest income	45,146
Total general revenues	<u>55,343,824</u>

Change in net position (2,886,663)

Net position, July 1, 2023 15,382,667

Net position, June 30, 2024 \$ 12,496,004

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 Funds
June 30, 2024**

	<u>General Fund</u>	<u>Private 4K Special Revenue Fund</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 22,872,805	\$ 2,130,830	\$ 25,003,635
Prepaid expenses	445,000	—	445,000
Grants receivable	3,583,049	—	3,583,049
Other receivables	—	178,258	178,258
Total Assets	<u>\$ 26,900,854</u>	<u>\$ 2,309,088</u>	<u>\$ 29,209,942</u>
LIABILITIES			
Accounts payable	\$ 656,904	\$ 636,550	\$ 1,293,454
Accrued salaries and benefits	672,391	—	672,391
Unearned revenue	1,767,647	—	1,767,647
Total liabilities	<u>3,096,942</u>	<u>636,550</u>	<u>3,733,492</u>
FUND BALANCE			
Nonspendable – Prepaid Expenses	445,000	—	445,000
Restricted for the 4K pre-school program and early childhood services	18,679,573	1,202,806	19,882,379
Committed for cash reserve revolving loans	616,216	—	616,216
Committed for county partnership grants	—	469,732	469,732
Unassigned	4,063,123	—	4,063,123
Total fund balance	<u>23,803,912</u>	<u>1,672,538</u>	<u>25,476,450</u>
Total liabilities and fund balance	<u>\$ 26,900,854</u>	<u>\$ 2,309,088</u>	<u>\$ 29,209,942</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 Balance Sheet of the Governmental Funds
to the Statement of Net Position
June 30, 2024**

Total fund balance, governmental fund	\$ 25,476,450
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 governmental activities in the Statement of Net Position. This amount reflects gross capital assets of \$213,559 net of accumulated depreciation of \$143,980.	
	69,579
Lease related assets used in governmental activities are not current financial resources and therefore are not reported in the fund financial statements, but are reported in governmental activities in the Statement of Net Position. This amount reflects gross lease assets of \$1,222,729 net of accumulated depreciation of \$650,799.	
	571,930
The net pension and net OPEB liabilities 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 governmental activities in the Statement of Net Position.	
Net pension liability	(8,439,891)
Net OPEB liability	(5,297,601)
Deferred outflows of resources related to pensions	2,045,821
Deferred inflows of resources related to pensions	(54,378)
Deferred outflows of resources related to OPEB	2,897,416
Deferred inflows of resources related to OPEB	(3,773,994)
Certain liabilities 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 in the Statement of Net Position	
Compensated absences	(501,478)
Lease liabilities	(497,850)
	\$ 12,496,004

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 Changes in Fund Balance -
Governmental Funds
For the Year Ended June 30, 2024**

	<u>General Fund</u>	<u>Private 4K Special Revenue Fund</u>	<u>Total</u>
Revenues			
State appropriations	\$ 24,977,177	\$ 30,321,501	\$ 55,298,678
Federal, state, local, and private grants	10,863,717	—	10,863,717
Interest income	41,330	3,816	45,146
Total revenues	<u>35,882,224</u>	<u>30,325,317</u>	<u>66,207,541</u>
Expenditures			
Allocations to other entities	22,857,152	—	22,857,152
Private 4K provider costs	—	30,156,041	30,156,041
Contractual services	3,926,108	—	3,926,108
Salaries	5,330,000	—	5,330,000
Employer fringe benefits	2,541,094	—	2,541,094
Materials	3,326,417	—	3,326,417
Travel	411,324	—	411,324
Debt service - principal	247,693	—	247,693
Debt service – interest expense	5,460	—	5,460
Fundraising	67,608	—	67,608
Short-term rent and leases	109,330	—	109,330
Total expenditures	<u>38,822,186</u>	<u>30,156,041</u>	<u>68,978,227</u>
Change in fund balance	<u>(2,939,962)</u>	<u>169,276</u>	<u>(2,770,686)</u>
Fund balance, July 1, 2023	26,743,874	1,503,262	28,247,136
Fund balance, June 30, 2024	<u>\$ 23,803,912</u>	<u>\$ 1,672,538</u>	<u>\$ 25,476,450</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 Changes in Fund Balance of the Governmental Funds to the
Statement of Activities
For the Year Ended June 30, 2024**

Net change in fund balance, governmental funds	\$ (2,770,686)
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	944,783
Current year OPEB contributions are considered a deferred outflow of resources rather than a current year expense in the Statement of Activities	318,151
Repayment of lease liabilities is reported as an expenditure in the governmental funds and as a reduction in lease liabilities in the Statement of Net Position	247,693
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental fund:	
Depreciation	(234,698)
Increase in pension expense due to changes in First Steps' portion of collective pension expense	(1,466,340)
Decrease in OPEB expense due to changes in First Steps' portion of collective OPEB expense	132,368
Compensated absences	<u>(57,934)</u>
Decrease in net position, governmental activities	<u>\$ (2,886,663)</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, 2024

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 Annual Comprehensive Financial Report.

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

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. The private portion of this program is included in the Private 4K special revenue fund. South Carolina First Steps serves as the state coordinator for Nurse-Family Partnership and Parents as Teachers. Finally, by Executive Order, First Steps serves as South Carolina’s Early Childhood Advisory Council under the federal Head Start reauthorization of 2007.

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2024

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 Steps’ 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 measurable and available. “Measurable” 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, a major fund, is the operating fund of First Steps and is used to account for all financial transactions and resources with the exception of the revenues and expenditures for the private 4K program providers.

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

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2024

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* and GASB Statement No. 72, *Fair Value Measurement and Application*, 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, 2024

1. Summary of Significant Accounting Policies (continued)

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

Grants Receivable

Amounts reported as grants receivable represent reimbursements due under federal or state grant agreements. First Steps expects all balances to be paid and therefore no allowance for doubtful accounts has been recorded. These amounts will be collected during the fiscal year ending June 30, 2025.

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 acquisition 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
Vehicles	5

Right of Use Lease Assets

First Steps has recorded right of use lease assets as a result of implementing GASB No. 87. The right of use lease assets are initially measured at an amount equal to the initial measurement of the related lease liability. The right of use lease assets are amortized on a straight line basis over the life of the related lease. Amortization expense is included with depreciation expense in the Statement of Activities.

Compensated Absences

Generally, all permanent full-time State employees and certain part-time employees scheduled to work at least one-half of First Steps' work month 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, 2024

1. **Summary of Significant Accounting Policies (continued)**

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

Lease Liabilities

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

Unearned Revenue

Unearned revenue consists of funds provided to First Steps under grant agreements for which eligible expenditures had not been made as of June 30, 2024. These amounts will be recognized as grant revenue as eligible expenditures are made by First Steps during the fiscal year ending June 30, 2025.

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, 2024, First Steps reported \$445,000 in 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, 2024, First Steps’ restricted fund balance consisted of state appropriations restricted for the 4K pre-school program and early childhood services.

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2024

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)

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, 2024, First Steps reported \$1,085,948 of committed fund balance which had been committed for cash reserve revolving loans and grants for the county partnerships.

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, 2024, 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.

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2024

1. Summary of Significant Accounting Policies (continued)

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

Fund Balance and Net Position (continued)

Net Position

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

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

Restricted Net Position

Restricted net position consists of assets with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or law through constitutional provisions or enabling legislation. In all cases, if individual restricted net position categories are negative, the negative balance is eliminated and reclassified against unrestricted net position. As of June 30, 2024, First Steps' restricted net position consisted of state appropriations restricted for the 4K program and early childhood services.

Net Investment in Capital Assets

The net investment in capital assets component of net position consists of capital assets (including intangible right of use lease assets), net of accumulated depreciation and/or accumulated amortization, reduced by any outstanding balances of bonds, mortgages, notes, lease liabilities 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.

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' general fund. The Private 4K Special Revenue Fund does not have a legally adopted budget. 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.

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2024

2. Budget Policy (continued)

Transfers of funds may be approved by the State Fiscal Accountability Authority under its authority or by the agency as set forth in Appropriation Act Proviso 117.9 as follows: Agencies and institutions shall be authorized to transfer appropriations within programs and within the agency with notification to the Executive Budget Office. 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 State Fiscal Accountability Authority upon formal approval by a majority of the members of the State Fiscal Accountability Authority.

During the fiscal year-end closeout period 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. First Steps has legislative approval to carryforward all unexpended General Fund appropriations. State law does not require the use of encumbrance accounting.

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* and GASB Statement No. 72, *Fair Value Measurement and Application*, are not required for cash and cash equivalents. However, as the First Steps deposits are generally 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.

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2024

4. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2024, for the primary government was as follows:

	Beginning Balance <u>July 1, 2023</u>	<u>Additions</u>	<u>Disposals</u>	Ending Balance <u>June 30, 2024</u>
Governmental activities				
Capital assets being depreciated:				
Equipment and computer software	\$ 6,010	\$ —	\$ —	\$ 6,010
Vehicles	<u>207,549</u>	<u>—</u>	<u>—</u>	<u>207,549</u>
	<u>213,559</u>	<u>—</u>	<u>—</u>	<u>213,559</u>
Less accumulated depreciation for:				
Equipment and computer software	(6,010)	—	—	(6,010)
Vehicles	<u>(120,205)</u>	<u>(17,765)</u>	<u>—</u>	<u>(137,970)</u>
	<u>(126,215)</u>	<u>(17,765)</u>	<u>—</u>	<u>(143,980)</u>
Capital assets for governmental activities, net	<u>\$ 87,344</u>	<u>\$ (17,765)</u>	<u>\$ —</u>	<u>\$ 69,579</u>

5. Compensated Absences

Compensated absence activity for the fiscal year ended June 30, 2024, for the primary government was as follows:

	Beginning Balance <u>July 1, 2023</u>	<u>Increases</u>	<u>Decreases</u>	Ending Balance <u>June 30, 2024</u>	Current Portion
Compensated absences	<u>\$ 443,544</u>	<u>\$ 424,587</u>	<u>\$ (366,653)</u>	<u>\$ 501,478</u>	<u>\$ 265,689</u>
Total	<u>\$ 443,544</u>	<u>\$ 424,587</u>	<u>\$ (366,653)</u>	<u>\$ 501,478</u>	<u>\$ 265,689</u>

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2024

6. Pension Plan

The South Carolina Public Employee Benefit Authority (PEBA), created July 1, 2012, is the state agency responsible for the administration and management of the various Retirement Systems and retirement programs of the state of South Carolina, including the State Optional Retirement Program and the S.C. Deferred Compensation Program, as well as the state's employee insurance programs. As such, PEBA is responsible for administering the South Carolina Retirement Systems' five defined benefit pension plans. PEBA has an 11-member Board of Directors, appointed by the Governor and General Assembly leadership, which serves as custodian, co-trustee and co-fiduciary of the Systems and the assets of the retirement trust funds. The Retirement System Investment Commission (Commission as the governing body, RSIC as the agency), created by the General Assembly in 2005, has exclusive authority to invest and manage the retirement trust funds' assets. The Commission, an eight-member board, serves as co-trustee and co-fiduciary for the assets of the retirement trust funds. By law, the State Fiscal Accountability Authority (SFAA), which consists of five elected officials, also reviews certain PEBA Board decisions regarding the actuary of the Systems.

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Systems and additions to/deductions from the Systems fiduciary net position have been determined on the accrual basis of accounting as they are reported by the Systems in accordance with generally accepted accounting principles (GAAP). For this purpose, revenues are recognized when earned and expenses are recognized when incurred. Benefit and refund expenses are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value.

PEBA issues an Annual Comprehensive Financial Report (Annual Report) containing financial statements and required supplementary information for the Systems' Pension Trust Funds. The Annual Report 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, 202 Arbor Lake Drive, Columbia, SC 29223. 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 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 and other benefits for teachers and employees of the state and its political subdivisions. SCRS covers employees of state agencies, public school districts, higher education institutions, other participating local subdivisions of government and individuals newly elected to the South Carolina General Assembly at or after the 2012 general election.

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2024

6. Pension Plan (continued)

Plan Descriptions (continued)

- The State Optional Retirement Program (State ORP) is a defined contribution plan that is offered as an alternative to SCRS to certain newly hired employees of state agencies, institutions of higher education, public school districts and individuals first elected to the S.C. General Assembly at or after the general election in November 2012. State ORP participants direct the investment of their funds into an account administered by one of four third party service providers. PEBA assumes no liability for State ORP benefits. Rather, the benefits are the liability of the four third party service providers. For this reason, State ORP assets are not part of the retirement systems' trust funds for financial statement purposes.

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, certain newly hired state, public school, and higher education employees and individuals first elected to the S.C. General Assembly at or after the November 2012 general election have the option to participate in the State ORP. Contributions to the State ORP are at the same rates as SCRS. A direct remittance is required from the employer to the member's account with the ORP service provider for the employee contribution 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 and an incidental death benefit contribution, 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/current annual salary. A brief summary of the benefit terms for each system is presented below.

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2024

6. Pension Plan (continued)

Plan Descriptions (continued)

Benefits (continued)

- 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.

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.

Contributions

Actuarial valuations are performed annually by an external consulting actuary to ensure applicable contribution rates satisfy the funding parameters specified in Title 9 of the South Carolina Code of Laws. Under these provisions, SCRS and PORS contribution requirements must be sufficient to maintain an amortization period for the financing of the unfunded actuarial accrued liability (UAAL) over a period that does not exceed the number of years scheduled in state statute. Effective July 1, 2017, employee rates were increased and capped at 9 percent for SCRS and 9.75 percent for PORS. The legislation also increased employer contribution rates beginning July 1, 2017, for both SCRS and PORS until reaching 18.56 percent for SCRS and 21.24 percent for PORS. The legislation included a further provision that if the scheduled contributions are not sufficient to meet the funding periods set in state statute, the PEBA board would increase the employer contribution rates as necessary to meet the funding periods set for the applicable year.

Pension reform legislation modified statute such that the employer contribution rates for SCRS and PORS to be further increased, not to exceed one-half of one percent in any one year if necessary, in order to improve the funding of the plans. The statute set rates intended to reduce the unfunded liability of SCRS to the maximum amortization period of 20 years from 30 years over a ten-year schedule, as determined by the annual actuarial valuations of the plan. Finally, under the revised statute, the contribution rates for SCRS may not be decreased until the plans are at least 85 percent funded.

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2024

6. Pension Plan (continued)

Plan Descriptions (continued)

Contributions (continued)

Required employee contribution rates¹ are as follows:

	<u>Fiscal Year 2024</u>	<u>Fiscal Year 2023</u>
SCRS		
Employee Class Two	9.00%	9.00%
Employee Class Three	9.00%	9.00%
State ORP		
Employee	9.00%	9.00%

Required employer contribution rates¹ are as follows:

	<u>Fiscal Year 2024</u>	<u>Fiscal Year 2023</u>
SCRS		
Employer Class Two	18.41%	17.41%
Employer Class Three	18.41%	17.41%
Employer Incidental Death Benefit	0.15%	0.15%
State ORP		
Employer Contribution ²	18.41%	17.41%
Employer Incidental Death Benefit	0.15%	0.15%

¹ Calculated on earnable compensation as defined in Title 9 of the South Carolina Code of laws.

² Of this employer contribution, 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 the SCRS.

Actuarial Assumptions and Methods

Actuarial valuations of the ongoing plan involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and future salary increases. Amounts determined regarding the net pension liability are subject to continual 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. An experience report on the Systems was most recently issued for the period ending June 30, 2019.

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2024

6. Pension Plan (continued)

Actuarial Assumptions and Methods (continued)

The June 30, 20223, total pension liability (TPL), net pension liability (NPL), and sensitivity information shown in this report were determined by the consulting actuary, Gabriel Roeder Smith & Company (GRS) and are based on an actuarial valuation performed as of July 1, 2022. The total pension liability was rolled-forward from the valuation date to the plans' fiscal year end, June 30, 2023, using generally accepted actuarial principles. There was no legislation enacted during the 2023 legislative session that had a material change in the benefit provisions for any of the systems.

The following table provides a summary of the actuarial assumptions and methods used to calculate the TPL as of June 30, 2023.

	SCRS
Actuarial cost method	Entry age normal
Investment rate of return ¹	7.00%
Projected salary increases ¹	3.0% to 11.0% (varies by service)
Benefit adjustments	lesser of 1% or \$500 annually
¹ Includes inflation at 2.25%	

The post-retiree mortality assumption is dependent upon the member's job category and gender. The base mortality assumptions, the 2020 Public Retirees of South Carolina Mortality table (2020 PRSC), was developed using the Systems' mortality experience. These base rates are adjusted for future improvement in mortality using 80% of Scale UMP projected from the year 2020.

Assumptions used in the determination of the June 30, 2023, TPL are as follows.

Former Job Class	Males	Females
Educators	2020 PRSC Males multiplied by 95%	2020 PRSC Females multiplied by 94%
General Employees and Members of the General Assembly	2020 PRSC Males multiplied by 97%	2020 PRSC Females multiplied by 107%
Public Safety and Firefighters	2020 PRSC Males multiplied by 127%	2020 PRSC Females multiplied by 107%

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2024

6. Pension Plan (continued)

Net Pension Liability

The NPL is calculated separately for each system and represents that particular system’s TPL determined in accordance with GASB No. 67 less that System’s fiduciary net position. NPL totals, as of June 30, 2023, for SCRS is presented below.

System	Total Pension Liability	Plan Fiduciary Net Position	Employers’ Net Pension Liability	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
SCRS	\$ 58,464,402,454	\$ 34,286,961,942	\$ 24,177,440,512	58.6%

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

First Steps’ proportionate share of the net pension liability was calculated on the basis of historical employer contributions. Although GASB 68 encourages the use of the employer’s projected long-term contribution effort to the retirement plan, allocating on the basis of historical employer contributions is considered acceptable. For the year ending June 30, 2023, First Steps’ percentage of the SCRS net pension liability was 0.03489%. For the year ending June 30, 2024, First Steps’ percentage of the SCRS net pension liability was 0.03491%. First Steps’ proportionate share is determined by its percentage of total contributions to SCRS during the respective fiscal year. The change in percentage resulted in First Steps’ recognizing a change in its proportionate share of the SCRS net pension liability at related deferred outflows and inflows of resources.

Discount Rate

The discount rate used to measure the TPL was 7.00 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 Code of Laws. Based on those assumptions, the System’s fiduciary net position was projected to be available to make all the 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 TPL.

Long-term Expected Rate of Return

The long-term expected rate of return on pension plan investments is based upon 20-year capital market assumptions. The long-term expected rates of return represent assumptions developed using an arithmetic building block approach primarily based on consensus expectations and market-based inputs. Expected returns are net of investment fees.

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2024

6. Pension Plan (continued)

Net Pension Liability (continued)

Long-term Expected Rate of Return (continued)

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

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Expected Arithmetic Real Rate of Return</u>	<u>Long Term Expected Portfolio Real Rate of Return</u>
Public Equity ¹	46.0%	6.62%	3.04%
Bonds	26.0%	0.31%	0.08%
Private Equity ¹	9.0%	10.91%	0.98%
Private Debt ¹	7.0%	6.16%	0.43%
Real Assets ¹	12.0%		
Real Estate ¹	9.0%	6.41%	0.58%
Infrastructure ¹	3.0%	6.62%	0.20%
Total Expected Real Return ²	<u>100.0%</u>		<u>5.31%</u>
Inflation for Actuarial			<u>2.25%</u>
Total Expected Nominal			<u>7.56%</u>

¹ Staff and Consultant will notify the Commission if Private Equity, Private Debt, and Private Real Estate exceed 30% of total assets.

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

Sensitivity Analysis

The following table presents the collective net pension liability of the participating employers calculated using the discount rate of 7.00 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 (6.00 percent) or 1.00 percent higher (8.00 percent) than the current rate.

Sensitivity of the Proportional Share of Net Pension Liability to Changes in the Discount Rate			
System	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
SCRS	\$ 10,905,144	\$ 8,439,891	\$ 6,390,858

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2024

6. Pension Plan (continued)

Deferred Outflows (Inflows) of Resources

For the year ended June 30, 2024, First Steps recognized pension expense of \$1,466,340 which is included in employer fringe benefits in the accompanying financial statements. At June 30, 2024, the First Steps reported deferred outflows (inflows) of resources related to pensions from the following sources and will be amortized to pension expense as noted in following schedules. Average remaining service lives of all employees provided with pensions through the pension plans at June 30, 2024 was 3.768 years for SCRS:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 944,783	\$ —
Differences in actual and expected plan experience	146,531	23,405
Change in proportionate share and differences between First Steps' contributions and proportionate share of contributions	825,196	19,421
Changes in assumptions	129,311	—
Net differences between projected and actual earnings on plan investments	—	11,552
	\$ 2,045,821	\$ 54,378

Measurement Period Ending June 30,	Fiscal Year Ending June 30,	SCRS
2024	2025	\$ 695,309
2025	2026	113,163
2026	2027	243,138
2027	2028	(4,950)

First Steps reported \$944,783 as deferred outflows of resources related to contributions subsequent to the measurement date which will be recognized as a reduction of the net pension liability in the year ended June 30, 2025.

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2024

7. Post-Employment Benefits Other than Pensions

PEBA is a state agency responsible for the administration and management of the state's employee insurance programs, other post-employment benefits trusts. By law, the SFFA, which consists of five elected officials, also reviews certain PEBA Board decisions in administering the State Health Plan and other post-employment benefits (OPEB). See Note 6 for more details on PEBA and the SFAA.

PEBA, Insurance Benefits issues audited financial statements and required supplementary information for the OPEB Trust Fund. This information is publicly available through the Insurance Benefits' link on PEBA's website at www.peba.sc.gov or a copy may be obtained by submitting a request to PEBA – Insurance Benefits, 202 Arbor Lake Drive, Columbia, SC 29223. PEBA is considered a division of the primary government of the state of South Carolina and therefore, OPEB Trust fund financial information is also included in the comprehensive annual financial report of the state.

Plan Descriptions

The Other Post-Employment Benefits Trust Fund (OPEB Trust), refers to the South Carolina Retiree Health Insurance Trust Fund (SCRHITF) established by the State of South Carolina as Act 195, which became effective on May 2008. The SCRHITF was created to fund and account for the employer costs of the State's retiree health and dental plans.

In accordance with Act 195, the OPEB Trust is administered by the PEBA, Insurance Benefits and the State Treasurer is the custodian of the funds held in trust. The Board of Directors of PEBA has been designated as the Trustee.

The OPEB Trust is a cost-sharing multiple-employer defined benefit plan. Article 5 of the State Code of Laws defines the plan and authorizes the Trustee to at any time adjust the plan, including its benefits and contributions, as necessary to insure the fiscal stability of the plan. In accordance with the South Carolina Code of Laws and the annual Appropriations Act, the State provides post-employment health and dental benefits to retired State and school district employees and their covered dependents.

Benefits

The SCRHITF is a healthcare plan that covers retired employees of the State of South Carolina, including all agencies, and public school districts. The SCRHITF provides health and dental insurance benefits to eligible retirees. 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% employer funding and 15-24 years of service for 50% employer funding.

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2024

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

Contributions and Funding Policies

Section 1-11-710 of the South Carolina Code of Laws of 1976, as amended, requires the postemployment and long-term disability benefits to be funded through non-employer and employer contributions for active employees and retirees to the PEBA – Insurance Benefits.

The SCRHITF is funded through participating employers that are mandated by State statute to contribute at a rate assessed each year by the Department of Administration Executive Budget Office on active employee covered payroll. The covered payroll surcharge for the year ended June 30, 2022 was 6.25 percent. The South Carolina Retirement System collects the monthly covered payroll surcharge for all participating employers and remits it directly to the SCRHITF. Other sources of funding for the SCRHITF also include the implicit subsidy, or age-related subsidy inherent in the healthcare premiums structure. The implicit subsidy represents a portion of the health care expenditures paid on behalf of the employer’s active employees. For purposes of GASB Statement No. 75, this expenditure on behalf of the active employee is reclassified as a retiree health care expenditure so that the employer’s contributions towards the plan reflect the underlying age-adjusted, retiree benefit costs. Non-employer contributions include the mandatory transfer of accumulated PEBA – Insurance Benefits’ reserves and the annual appropriation budgeted by the General Assembly. It is also funded through investment income. Due to the COVID-19 pandemic, the General Assembly has indefinitely suspended the statutorily required transfer until further notice. The SCRHITF is also funded through investment income.

For purposes of measuring the net OPEB liability, deferred outflows and inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the OPEB Trusts, and additions to and deductions from the OPEB Trusts fiduciary net position have been determined on the same basis as they were reported by the OPEB Trusts. For this purpose, revenues are recognized when earned and expenses are recognized when incurred. Therefore, benefit and administrative expenses are recognized when due and payable. Investments are reported at fair value.

Actuarial Assumptions and Methods

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plans (as understood by the employer and plan participants) and include the types of benefits provided at the time the valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point.

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2024

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

Actuarial Assumptions and Methods (continued)

Additional information as of the latest actuarial valuation for SCRHITF:

Valuation Date:	June 30, 2022
Actuarial Cost Method:	Entry Age Normal
Inflation:	2.25%
Investment Rate of Return:	2.75%, net of OPEB Plan investment expense; including inflation
Single Discount Rate:	3.86% as of June 30, 2023
Demographic Assumptions:	Based on the experience study performed for the South Carolina Retirement Systems for the 5-year period ending June 30, 2019
Mortality:	For healthy retirees, the gender-distinct South Carolina Retirees 2020 Mortality Tables are used with fully generational mortality projections based on a fully generational basis by the 80% of Scale MP-2019 to account for future mortality improvements.
Health Care Trend Rate:	Initial trend starting at 6.00% and gradually decreasing to an ultimate trend rate of 4.00% over a period of 13 years
Aging Factors:	Based on specific plan experience
Retiree Participation:	79% for retirees who are eligible for funded premiums 59% participation for retirees who are eligible for Partial Funded Premiums 20% participation for retirees who are eligible for Non-Funded Premiums
Notes:	The discount rate changed from 3.69% as of June 30, 2022 to 3.86% as of June 30, 2023.

Roll Forward Disclosures

The actuarial valuation was performed as of June 30, 2022. Update procedures were used to roll forward the total OPEB liability to June 30, 2023.

Net OPEB Liability

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

The following table represents the components of the net OPEB liability as of June 30, 2023:

OPEB Trust	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability	Plan Fiduciary Net Position as a % of Total OPEB Liability
SCRHITF	\$ 14,749,639,155	\$ 1,658,152,923	\$ 13,091,486,232	11.24%

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2024

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

Net OPEB Liability (continued)

The TOL is calculated by the Trusts’ actuary, and each Trust’s fiduciary net position is reported in the Trust’s financial statements. The NOL is disclosed in accordance with the requirements of GASB No. 74 in the Trusts’ notes to the financial statements and required supplementary information. Liability calculations performed by the Trusts’ actuary for the purpose of satisfying the requirements of GASB Nos. 74 and 75 and are not applicable for other purposes, such as determining the Trusts’ funding requirements.

At June 30, 2024, First Steps reported a liability of \$5,297,601 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2023, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2022 and rolled forward to June 30, 2023. First Steps’ proportion of the net OPEB liability was based on a projection of First Steps’ long-term share of contributions to the OPEB plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2024 and 2023, First Steps’ proportion was 0.040466% and 0.040638%, respectively.

Single Discount Rate

The Single Discount Rate of 3.86% was used to measure the total OPEB liability for the SCRHITF. The accounting policy for this plan is to set the Single Discount Rate equal to the prevailing municipal bond rate. Due to the plan’s investment and funding policies, the difference between a blended discount rate and the municipal bond rate would be less than several basis points (several hundredths of one percent).

Long-term Expected Rate of Return

The long-term expected rate of return represents assumptions developed using an arithmetic building block approach primarily based on consensus expectations and market-based inputs. The expected returns, along with the expected inflation rate, form the basis for the target asset allocation adopted at the beginning of the 2018 fiscal year. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and adding expected inflation. This information is summarized in the following table:

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Expected Arithmetic Real Rate of Return</u>	<u>Allocation Weighted Long Term Expected Portfolio Real Rate of Return</u>
US Domestic Fixed Income	80.00%	0.95%	0.76%
Cash	20.00%	0.35%	0.07%
Total Expected Real Return	<u>100.0%</u>		<u>0.83%</u>
Expected Inflation			<u>2.25%</u>
Total Return			<u>3.08%</u>
Investment Return Assumption			<u>2.75%</u>

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2024

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

Net OPEB Liability (continued)

Sensitivity Analysis

The following table presents the SCRHITF's net OPEB liability calculated using a Single Discount Rate of 3.86%, as well as what the plan's net OPEB liability would be if it were calculated using a Single Discount Rate that is one percent lower or one percent higher:

Sensitivity of the Proportional Share of Net OPEB Liability to Changes in the Single Discount Rate			
OPEB Trust	1.00% Decrease (2.86%)	Current Discount Rate (3.86%)	1.00% Increase (4.86%)
SCRHITF	\$ 6,253,603	\$ 5,297,601	\$ 4,526,577

Regarding the sensitivity of First Steps' proportionate share of SCRHITF's net OPEB liability to changes in the healthcare cost trend rates, the following table presents First Steps' proportionate share of the net OPEB liability, calculated using the assumed trend rates as well as what First Steps' proportionate share of the net OPEB liability would be if were calculated using a trend rate that is one percent lower or one percent higher:

Sensitivity of the Proportional Share of Net OPEB Liability to Changes in the Healthcare Cost Trend Rate			
OPEB Trust	1.00% Decrease	Current Healthcare Cost Trend Rate	1.00% Increase
SCRHITF	\$ 4,398,813	\$ 5,297,601	\$ 6,452,349

OPEB Expense and Deferred Outflows and Inflows of Resources

For the year ended June 30, 2024, First Steps recognized an OPEB credit of \$132,368. At June 30, 2024, First Steps reported deferred outflows and inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	\$ 318,151	\$ —
Differences in actual and expected plan experience	93,724	1,207,203
Changes in assumptions	1,062,760	1,702,055
Change in proportionate share and differences between First Steps' contributions and proportionate share of contributions	1,369,578	864,736
Net differences between projected and actual earnings on plan investments	53,203	—
	\$ 2,897,416	\$ 3,773,994

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2024

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

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

Contributions subsequent to the measurement date of \$318,151 were reported as deferred outflows of resources related to OPEB and will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2025. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows. Average remaining services lives of all employees provided with OPEB through the June 30, 2023 was 6.843 years for SCRHITF:

Measurement Period Ending June 30,	Fiscal Year Ending June 30,	SCRHITF
2024	2025	\$ (512,562)
2025	2026	(126,903)
2026	2027	51,868
2027	2028	(129,570)
2028	2029	(343,741)
Thereafter		(133,821)

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, 2024.

9. Risk Management

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

First Steps has not transferred the risk of loss 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 \$1,150,000 for the year ended June 30, 2024, including \$222,379 in insurance premiums described below.

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2024

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

First Steps provided no material services free of charge to other State agencies during the fiscal year. First Steps participates in the statewide dual employment program. Workers' compensation and other insurance premiums for the fiscal year ended June 30, 2024 of \$150,193 were paid to the State Accident Fund and \$72,186 of premiums were paid to the South Carolina Insurance Reserve Fund.

11. Leases

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

As of June 30, 2024, the total amount of right to use lease assets and the related accumulated amortization is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
Right of Use Lease Assets				
Leased real estate	\$ 1,199,695	\$ —	\$ —	\$ 1,199,695
Leased equipment	23,034	—	—	23,034
Total leased assets being depreciated	<u>1,222,729</u>	<u>—</u>	<u>\$ —</u>	<u>1,222,729</u>
Less accumulated amortization				
Leased real estate	(418,560)	(209,280)	—	(627,840)
Leased equipment	(15,306)	(7,653)	—	(22,959)
Total accumulated amortization	<u>(433,866)</u>	<u>(216,933)</u>	<u>—</u>	<u>(650,799)</u>
Total, net of accumulated amortization	<u>\$ 788,863</u>	<u>\$ (216,933)</u>	<u>\$ —</u>	<u>\$ 571,930</u>

Lease liability activity for the fiscal year ended June 30, 2024, for the primary government was as follows:

	<u>Beginning Balance July 1, 2023</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance June 30, 2024</u>
Real estate leases	\$ 742,733	\$ —	\$ (244,883)	\$ 497,850
Equipment leases	2,810	—	(2,810)	—
Total	<u>\$ 745,543</u>	<u>\$ —</u>	<u>\$ (247,693)</u>	<u>\$ 497,850</u>

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2024

11. Leases (continued)

As of June 30, 2024, the principal and interest requirements to maturity for the lease liabilities are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30,			
2025	\$ 240,994	\$ 2,084	\$ 243,078
2026	242,275	803	243,078
2027	14,581	9	14,590
	<u>\$ 497,850</u>	<u>\$ 2,896</u>	<u>\$ 500,746</u>

12. Commitments and Contingencies

Grants

First Steps receives financial assistance from various state and local governmental agencies in the form of grants. Disbursements of funds received under these programs generally require compliance with the terms and conditions specified in the 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, 2024.

County Partnership Regional Finance Managers

During 2022, First Steps entered into a contract with a Regional Finance Manager for its County Partnerships. The contract has a five-year term and escalating annual payments. Future payments under this contract are as follows:

Year ending June 30,	
2024	\$ 519,000
2025	534,000
2026	<u>551,000</u>
	<u>\$ 1,604,000</u>

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2024

12. Commitments and Contingencies (continued)

Local Partnership Accounting Software Development

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

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

During the year ended June 30, 2021, First Steps entered into an agreement for the development and implementation of a new Data System for the Local Partnerships and the 4K Program. This system will meet the data needs for the agency for the foreseeable future. The award was given to ANLAR, a company with experience in developing data systems for early education and government entities. The solicitation was originally awarded for \$1,422,881 and then later increased to \$1,702,201. Payments were to be paid between March 11, 2021 through March 10, 2026. A large portion of the expenses are included in the Preschool Development Grant through a contract between First Steps and the South Carolina Department of Social Services (“DSS”), with \$1,206,220 of that amount being paid through June 30, 2024, leaving \$495,981 remaining under the agreement.

First Five Website

During the year ended June 30, 2021, First Steps entered into an agreement for the development and implementation of a website that would provide a single portal for early childhood services in the State. It would connect all of the state agencies in the State that provide services for this population. The award was given on April 2, 2021 to Mad Monkey Web Supply Company Inc. (now called 37 Gears, Inc.) for an amount of \$558,000 payable between April of 2021 through April 1, 2026. The agreement was later amended and increased the contract amount to \$1,283,000 and extended to February 28, 2027. Through June 30, 2024, \$411,900 of this was paid, leaving \$871,100 remaining under the agreement. Much of the cost of development of this website and associated services is being paid for by the Preschool Development Grant through a contract between First Steps and DSS.

**South Carolina First Steps to School Readiness
Required Supplementary Information -
Budgetary Comparison Schedule – Budgetary General Funds
(Non-GAAP Budgetary Basis – Unaudited)
For the Year Ended June 30, 2024**

	Budgeted Amounts			Variance Positive (Negative)
	Original	Final	Actual	
Expenditures:				
First Steps to School Readiness				
Personal Services				
Classified Positions	\$ 230,287	\$ 230,287	\$ 230,287	\$ —
Other Operating Expenses	2,401,615	2,401,615	3,973	2,397,642
Special Items				
CDEPP	10,772,177	10,772,177	10,772,109	68
READY	3,000,000	3,000,000	2,350,248	649,752
Employer Contributions	97,360	97,360	97,360	—
Total First Steps to School Readiness	\$ 16,501,439	\$ 16,501,439	\$ 13,453,977	\$3,047,462

**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, 2024**

	Budgeted Amounts			Variance Positive (Negative)
	Original	Final	Actual	
Expenditures:				
First Steps to School Readiness				
Policy and Accountability				
Personal Services				
Classified Positions	\$ 1,330,931	\$ 1,330,931	\$ 865,158	\$ 465,773
Unclassified Positions	136,249	136,249	113,083	23,166
Other Personal Services	194,301	121,500	111,081	10,419
Other Operating Expenses	1,622,529	1,917,242	806,042	1,111,200
Child Development Services				
Personal Services				
Classified Positions	3,007,017	2,760,965	3,187,107	(426,142)
Unclassified Positions	63,798	63,798	32,213	31,585
Other Personal Services	298,766	298,797	680,943	(382,176)
Other Operating Expenses	7,103,138	6,540,885	3,705,142	2,835,743
Special Items				
County Partnerships	26,966,557	25,366,557	20,995,804	4,370,753
CDEPP	25,685,613	22,865,136	21,758,474	1,104,662
Employer Contributions	2,585,122	2,268,022	2,288,789	(20,767)
Total First Steps to School Readiness	\$ 68,994,021	\$ 63,670,052	\$ 54,543,836	\$ 9,126,216

**SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -
BUDGETARY COMPARISON SCHEDULES
FOR THE YEAR ENDED JUNE 30, 2024**

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 State Fiscal Accountability Authority approval. Also, a revision of budgeted amounts over and above the total revenues appropriated requires approval of the State Fiscal Accountability Authority.

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 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 First Steps' General Funds and Other Budgeted Funds are presented as required supplementary information.

**SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -
BUDGETARY COMPARISON SCHEDULES
FOR THE YEAR ENDED JUNE 30, 2024**

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. First Steps has such authorization to carry forward its funds. Cash-basis accounting for payroll expenditures is used, while the accrual basis is used for other expenditures.

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

- 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, 2024**

5. Budget to GAAP Reporting Differences (continued)

Reconciliation of Budget Basis to GAAP Basis Expenditures
For the Year Ended June 30, 2024

	General Fund	Other Budgeted Funds	Total
Total expenditures, budgetary basis	\$ 13,453,977	\$ 54,543,836	\$ 67,997,813
Perspective differences:			
All expenditures are reported in the General Fund for GAAP	54,543,836	(54,543,836)	—
Basis of accounting differences:			
Change in accrued salaries	161,553	—	161,553
Change in accounts payable	46,638	—	46,638
Prepaid expenses are not amortized on the budgetary basis	213,600	—	213,600
Amounts grossed up for GAAP basis that represent a transfer of appropriations on the budgetary basis	105,000	—	105,000
Revenues in the special revenue fund are considered expenditures in the General Fund for budgetary purposes	(30,321,501)	—	(30,321,501)
Other basis differences	619,083	—	619,083
Total expenditures, GAAP basis	<u>\$ 38,822,186</u>	<u>\$ —</u>	<u>\$ 38,822,186</u>

**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, 2024
Last Ten Fiscal Years**

	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>
First Steps' proportion of the net pension liability	0.03491%	0.03489%	0.02902%	0.02563%	0.02409%
First Steps' proportionate share of the net pension liability	\$ 8,439,891	\$ 8,458,219	\$ 6,280,921	\$ 6,548,225	\$ 5,500,745
First Steps' covered payroll	\$ 4,242,465	\$ 3,994,281	\$ 3,132,288	\$ 2,725,077	\$ 2,411,951
First Steps' proportionate share of the net pension liability as percentage of covered payroll	198.93%	211.76%	200.52%	240.30%	228.06%
Plan fiduciary net position as a percentage of the total pension liability	58.6%	57.1%	60.7%	50.7%	54.4%
	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
First Steps' proportion of the net pension liability	0.03153%	0.050291%	0.038504%	0.031435%	0.031390%
First Steps' proportionate share of the net pension liability	\$ 7,063,997	\$ 11,321,231	\$ 8,224,476	\$ 5,961,706	\$ 5,404,384
First Steps' covered payroll	\$ 3,039,003	\$ 3,728,634	\$ 3,728,634	\$ 2,947,293	\$ 2,849,840
First Steps' proportionate share of the net pension liability as percentage of covered payroll	232.44%	223.12%	220.58%	202.28%	189.64%
Plan fiduciary net position as a percentage of the total pension liability	54.1%	53.3%	52.9%	57.0%	59.9%

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 School Readiness' Contributions –
South Carolina Retirement System
As of June 30, 2024
Last Ten Fiscal Years**

	2024	2023	2022	2021	2020
Contractually required contribution	\$ 944,783	\$ 744,977	\$ 661,453	\$ 487,385	\$ 424,022
Contributions in relation to the contractually required contribution	944,783	744,977	661,453	487,385	424,022
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
First Steps covered payroll	\$ 5,090,423	\$ 4,242,465	\$ 3,994,281	\$ 3,132,288	\$ 2,725,077
Contributions as a percentage of covered payroll	18.56%	17.56%	16.56%	15.56%	15.56%
	2019	2018	2017	2016	2015
Contractually required contribution	\$ 351,180	\$ 412,089	\$ 586,573	\$ 412,387	\$ 321,255
Contributions in relation to the contractually required contribution	351,180	412,089	586,573	412,387	321,255
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
First Steps covered payroll	\$ 2,411,951	\$ 3,039,003	\$ 5,074,161	\$ 3,728,634	\$ 2,947,293
Contributions as a percentage of covered payroll	14.56%	13.56%	11.56%	11.06%	10.90%

**South Carolina First Steps to School Readiness
Required Supplementary Information -
Schedule of the South Carolina First Steps
to School Readiness' Proportionate Share of the Net
OPEB Liability – South Carolina Health Insurance Trust Fund
As of June 30, 2024
Last eight Fiscal Years**

	2024	2023	2022	2021	2020
First Steps' proportion of the net OPEB liability	0.040466%	0.040638%	0.033587%	0.029563%	0.027578%
First Steps' proportionate share of the net OPEB liability	\$ 5,297,601	\$ 6,181,745	\$ 6,993,958	\$ 5,336,555	\$ 4,170,259
First Steps' covered payroll	\$ 4,242,465	\$ 3,994,281	\$ 3,132,288	\$ 2,725,077	\$ 2,411,951
First Steps' proportionate share of the net OPEB liability as percentage of covered payroll	124.87%	154.76%	223.29%	195.83%	172.90%
Plan fiduciary net position as a percentage of the total OPEB liability	11.24%	9.64%	7.48%	8.39%	8.44%
	2019	2018	2017		
First Steps' proportion of the net OPEB liability	0.033958%	0.056381%	0.056381%		
First Steps' proportionate share of the net OPEB liability	\$ 4,812,069	\$ 7,645,667	\$ 8,157,559		
First Steps' covered payroll	\$ 2,928,455	\$ 4,760,094	\$ 3,728,634		
First Steps' proportionate share of the net OPEB liability as percentage of covered payroll	164.32%	160.62%	218.78%		
Plan fiduciary net position as a percentage of the total OPEB liability	7.91%	7.60%	6.62%		

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

Note: Only seven years of data was available; thus, only eight years are presented.

**South Carolina First Steps to School Readiness
Required Supplementary Information -
Schedule of the South Carolina First Steps
to School Readiness' Contributions –
South Carolina Health Insurance Trust Fund
As of June 30, 2024
Last Eight Fiscal Years**

	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>
Contractually required contribution	\$ 318,151	\$ 265,154	\$ 249,643	\$ 195,768	\$ 170,317
Contributions in relation to the contractually required contribution	<u>318,151</u>	<u>265,154</u>	<u>249,643</u>	<u>195,768</u>	<u>170,317</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
First Steps covered payroll	\$ 5,090,423	\$ 4,242,465	\$ 3,994,281	\$ 3,132,288	\$ 2,725,077
Contributions as a percentage of Covered payroll	6.25%	6.25%	6.25%	6.25%	6.25%
	<u>2019</u>	<u>2018</u>	<u>2017</u>		
Contractually required contribution	\$ 145,923	\$ 161,065	\$ 232,315		
Contributions in relation to the contractually required contribution	<u>145,923</u>	<u>161,065</u>	<u>232,315</u>		
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>		
First Steps covered payroll	\$ 2,411,951	\$ 2,928,455	\$ 4,760,094		
Contributions as a percentage of Covered payroll	6.05%	5.50%	4.88%		

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

**SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
SUPPLEMENTARY INFORMATION -
SCHEDULE OF PRIVATE 4K PROGRAM EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2024**

	<u>General Fund</u>	<u>Private 4K Special Revenue Fund</u>	<u>Total</u>
Expenditures			
Private 4K provider costs	\$ —	\$ 30,156,041	\$ 30,156,041
Contractual services	1,006,699	—	1,006,699
Salaries	1,971,806	—	1,971,806
Employer fringe benefits	876,080	—	876,080
Materials	1,731,594	—	1,731,594
Travel	139,285	—	139,285
Debt service - principal	1,670	—	1,670
Debt service – interest expense	1,487	—	1,487
Rent and short-term leases	74,858	—	74,858
Total expenditures	<u>\$ 5,803,479</u>	<u>\$ 30,156,041</u>	<u>\$ 35,959,520</u>

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

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Greene Finney Cauley, LLP

CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

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. George L. Kennedy, CPA
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 each major fund of South Carolina First Steps to School Readiness ("First Steps"), a discretely presented component unit of the State of South Carolina, as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise First Steps' basic financial statements, and have issued our report thereon dated October 1, 2024.

Report on 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) as a basis for designing 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 or significant deficiencies may exist that were not identified.

Report on 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 financial statements. 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 Cauley, LLP

Greene Finney Cauley, LLP
Mauldin, South Carolina
October 1, 2024