



Meeting of the Board of Trustees October 26, 2018

Immediately following the Early Childhood Advisory Council Meeting
EdVenture Children's Museum, 211 Gervais Street, Columbia, SC

I. Call to Order and Approve Agenda (Julie Hussey)

Motion: To adopt the agenda as submitted.

II. Approve August 2018 Minutes (Julie Hussey)

Attachments: August 2018 Minutes

Motion: To adopt the August 2018 minutes as submitted.

III. Executive Committee (Julie Hussey)

Attachments: Committee Report, Minutes from Executive Committee – October 5, 2018, Board of Trustees Vacancy Report, Board of Trustees Committee Roster, FY2020 Budget Request

Motion: “To amend and clarify a previous action of the Board of Trustees of South Carolina First Steps as follows:

- Delete “training” from the list of prevalent programs to be evaluated in the 2015 – 2020 evaluation cycle because in FY2018 this program strategy did not receive 10% or more of state-allocated program funding as required by Section 59-152-25(F)
- Amend the due date of the prevalent program evaluation to: FY2019 – FY2020”

IV. Finance and Administration Committee (Walter Fleming)

Attachments: Committee Report, Minutes from Finance and Administration Committee – October 10, 2018, FY2018 Financial Audit as presented by Greene Finney, LLP, FY2019 Donations Report as of October 3, 2018, FY2019 Financial Status Report as of September 30, 2018

Motion: To receive the 2018 Financial Audit as presented by Greene Finney, LLP

Motion: To use the Fund 10 amounts for a Single Cash Reserve Account for the Local Partnerships

V. Program and Grants Committee (Jennifer McConnell)

Attachments: Committee Report, Program and Grants Committee Minutes – October 17, 2018, Carry Forward over 15% FY16-FY18 Report, Competitive Grants Draft Application and Process Document

Motion: Recommendation that the First Steps Board of Trustees approve the “Early Childhood Innovation Grant Application and Process” (see attached final application) for awarding competitive grant funding to eligible Local Partnerships.

VI. Strategic Planning and Evaluation Committee (Amy Williams)

VII. Executive Director’s Report (Georgia Mjartan)

Attachments: Executive Director’s Report, 4K Dashboard including Day 45 Data

VIII. New Business (Julie Hussey)

IV. Adjourn

Motion: To adjourn the meeting of SC First Steps Board of Trustees.



**South Carolina First Steps to School Readiness
Board of Trustees Meeting
August 17, 2018**

**EdVenture Children's Museum - Columbia
11 a.m.**

DRAFT MINUTES

Members Present (15):

Ken Wingate, Chair
Julie Hussey, Vice-Chair
Representative Rita Allison
Josh Baker
Mary Lynne Diggs
Walt Fleming
Representative Jerry Govan
Alexia Newman
Senator Gerald Malloy
David Mathis
Jennifer McConnell
Joan Meacham
Amy Williams
Sue Williams
David Wilson

Members Absent (3):

Senator Greg Hembree
Tim Holt
Roger Pryor

Others Present:

Georgia Mjartan	Shauna Bynum
Dan Wuori	Crystal Campbell
Martha Strickland	Melanie Barton
Debbie Robertson	Pierce McNair
Mark Barnes	Kate Roach
Betty Shouse	Jim Riddle
Derek Lewis	Russ Brown
Candi Lalonde	Tecoria Jones
Barbara Manoski	
Samantha Ingram	
Zack Catoe	
Tammy Compton	



Mr. Ken Wingate called the meeting to order at 11:01 a.m. and stated that a quorum was present.

Mr. Wingate called for a motion to approve the agenda for the meeting. After a motion by Mr. Walt Fleming followed by second from Ms. Amy Williams, the agenda was approved unanimously.

Mr. Wingate called for a motion to approve the minutes of the August 17, 2018 meeting. After a motion by Dr. David Mathis followed by second from Mr. Baker, the minutes were approved unanimously.

Ms. Georgia Mjartan introduced DSS Director, Joan Meacham, to the board. Mr. Wingate thanked Ms. Meacham for joining the board.

Mr. Wingate presented the report on behalf of the Executive Committee. Mr. Wingate said the Executive Committee meetings are now held in person at the SC First Steps State Office which allows for more substantial conversations.

Ms. Julie Hussey spoke briefly about the Agency Head Salary Commission and noted that according to new legislation passed in 2018, a provision was added that establishes the position of Director of SC First Steps as subject to the Commission's review. Upon review of the managerial position description, the Commission established a salary range for the position.

The board entered Executive Session to discuss a personnel matter on a motion by Mr. Josh Baker, seconded by Mr. Walt Fleming.

The board returned to open session on a motion by Senator Gerald Malloy, seconded by Ms. Julie Hussey. Ms. Hussey stated this change in legislation helps further recognize SC First Steps as an agency, and brings the salary of the agency's Executive Director to a level of professionalism.

Senator Malloy gave remarks about the Agency Salary Head Commission. Senator Malloy stated the motion: proposing a 10% increase in salary for the agency's Executive Director which equals \$130,000 annually. Representative Jerry Govan gave the second. The board unanimously approved the motion. Mr. Wingate stated that the board's unanimous vote is a vote of confidence for the agency.

Mr. Wingate introduced Mr. Walt Fleming as the new Chair of the Finance and Administration Committee. Mr. Fleming gave the report on behalf of the committee. Mr. Fleming stated that the State Office has reached out to Max Learner, PhD. to begin discussing the possibility of revising the funding allocation model for the local partnerships. Mr. Learner assisted with both the development of the original allocation model for the local partnerships and the revisiting of the model in 2013-2014. A committee comprised of the Finance and Administration Committee, state office staff, and local partnership Executive Directors will be established to discuss the possibility of revising the model.



Ms. Mjartan updated the board on the 4K funds. Ms. Mjartan stated that this year, we project that the funds being added to the 4K carry forward would be less than in previous years as a result of spending more money with the extended day and extended year options for providers and parents.

Ms. Mjartan gave remarks about Russell Brown, Finance and Audit Director, for the agency. Ms. Mjartan informed the board of Mr. Brown's retirement date of October 1 and thanked him for his service. Mr. Brown made a few remarks to the board.

Ms. Mjartan gave an update regarding the FY2020 Budget Request. Ms. Mjartan stated that staff began work on the budget request early this year and noted that Mr. Mark Barnes had great vision and long-term, detailed thinking during the budgeting process. The budget process was more comprehensive by including senior management and all program managers. By being inclusive, the group was able to create a more effective organizational chart and allocate private funds to be used to hire a Development Coordinator.

Mr. Barnes pointed the board to the Year-to-Date Finance Report and the summary of the FY2020 budget request.

Ms. Mjartan briefed the board on the staff's decision to propose a tax credit initiative in the FY2020 Budget Request that would raise funds from tax payers who will make their own decision to donate to SC First Steps. The money donated would be used for competitive grants to local partnerships that incentivize and support measurable outcomes, leverage resources, expand programs and provide enhancement.

On behalf of the committee, Mr. Fleming made a motion that the Finance and Administration report be approved. The report was unanimously approved.

Ms. Mjartan gave the Early Head Start Governance Council report on behalf of chair, Mr. Roger Pryor. Ms. Hussey reported that staff is working on grant closeout activities to include an inventory of grant-purchased materials and equipment, finalization of records for storage and connecting eligible families to child care vouchers in collaboration with the S.C. Department of Social Services. Ms. Mjartan thanked Michele Bowers and her team who helped connect eligible Early Head Start families to vouchers.

Mr. Fleming officially announced that the Early Head Start grant, relinquished by SC First Steps, would stay in South Carolina. His office was notified earlier in the week that the new grantee would be the SC Association for Community Action Partnerships (SCACAP). Mr. Fleming stated the grant would include all interested existing partners, and SCACAP would look at the funding model and alleviate some funds from personnel and use those funds to compensate the partners properly, while continuing to build and renovate the location in Dillon, SC.

Mr. Fleming thanked Ms. Mjartan and Mr. Barnes for their help in ensuring a smooth transition.



Mr. Wingate mentioned that the public comments made during the June 15, 2018 meeting were heard and all providers and children will continue to have the benefits of Early Head Start.

Ms. Julie Hussey made a motion to terminate the Early Head Start Governance Council, followed by a second from Mr. Fleming. The motion was approved unanimously.

Ms. Mjartan thanked Dr. Dan Wuori for his yeoman's efforts as the Interim Director of Early Head Start along with his duties of Deputy Director.

Ms. Jennifer McConnell gave the Program and Grants Committee report. Ms. McConnell spoke about evidence-based programs and expressed the recommendation of the Program and Grants Committee to add evidence-based programs to the list of Board Approved Evidence-Based Programs.

Ms. McConnell brought forth a motion from the Program and Grants Committee:

To approve the addition of the following evidence-based programs to the First Steps Board of Trustees List of Approved Evidence-Based Programs:

- Conscious Discipline
- Strengthening Families (3-5, 6-11)

The motion was approved unanimously.

Ms. McConnell brought forth an additional motion from the Program and Grants Committee:

To establish \$10,000 as the minimum award amount for competitive grants awarded to local partnerships through the grant process designed to reallocate partnership funds carried forward in excess of 15% for two or more consecutive years.

The motion was approved unanimously.

Ms. Mjartan proceeded to give her Executive Director's report. Ms. Mjartan directed the board to the current agency organizational chart in their packet. Ms. Mjartan explained that the need for new positions was to better perform our jobs as being the connector and supporter of the Local Partnerships. The new positions will help provide funding incentives for Local Partnerships that display interactive practices, performance-based outcomes and quality collaboration. The focus will be in addition to our data and interconnecting with other agencies. Ms. Mjartan asked for thoughts or questions about the new positions. No questions were asked.

Ms. Mjartan discussed the trends of 4K, specifically the Extended Day/Extended Year options. Ms. Mjartan anticipates decreasing the 4K carry forward funds, but clarified this was a projection only and the agency will know more next week once the children begin school. This year the cash balance of FY2018 is a smaller amount of funds compared to FY2017.



Ms. Mjartan highlighted the partnerships, most notably the SC Department of Social Services and the SC Department of Health and Human Services, who both mailed 4K enrollment postcards to TANF/SNAP eligible clients and Medicaid eligible clients.

Mr. Wingate said the vision of agency heads sitting on this board was to have this type of action taken.

Ms. Mjartan thanked Dr. David Mathis and the S.C. Department of Education (SCDE). Dr. Mathis stated that this year was the first time the 4K waiting list from SCDE has been shared with SC First Steps. He gave some of his background and noted his long time, positive relationship with SC First Steps. Dr. Mathis added and told a story of 21 students that will attend 4K on Monday through a particular partnership with a school district and a First Steps child care center.

Ms. Mjartan discussed the committees of the board and Mr. Baker suggested a motion to move the interagency committee to the Early Childhood Advisory Committee. Upon a motion by Mr. Baker, followed by a second by Ms. Sue Williams, the motion passed unanimously. Ms. Mjartan nominated Dr. David Mathis as chair of the Interagency Committee.

Ms. Joan Meacham gave a great report on Greg Hembree and his positive recovery.

Mr. Wingate discussed his position and announced that he would step down as the Governor's Designee after this board meeting. Mr. Wingate stated that Governor McMaster would appoint his successor. Mr. Wingate thanked the group and continues to believe in the important work of this agency, and continues to expect huge success from the board and the agency.

Ms. Hussey thanked Ms. Wingate and gave him a token of appreciation for his time on the board.

Upon a motion by Ms. Meacham, followed by a second by Ms. Williams, the meeting was adjourned at 1:05p.m.



To: SC First Steps Board of Trustees
From: Julie Hussey, Vice Chair / Acting Chair, Board of Trustees
Date: October 5, 2018

RE: Executive Committee of the Board of Trustees

The Executive Committee of the Board of Trustees met in person with one member dialing in and one member absent on October 5, 2018. Detailed meeting minutes are attached. The committee brings forward the following action items and updates.

ACTION: Revise and Clarify Evaluation Plan for Prevalent Programs

In developing a scope of services for an evaluation of “prevalent programs” a challenge was identified which would require action from the board to address. Legislation requires the board to set an evaluation timeline for prevalent programs and a systemic review of the organization as a whole.

In June 2015, the Board of Trustees, approved the following motion:

“The committee recommended a proposed evaluation timeline for both prevalent programs and the next systemic review required by statute. The proposed cycle, to begin immediately with the development of a research methodology for Parents as Teachers is as follows:

	<u>To Be Evaluated During:</u>
1. Parents as Teachers - \$3.97M	FY16-FY17
2. Child Care - \$4.43M (Quality Enhancement - \$1.89M) (Training - \$1.39M) (Scholarships – \$1.15M)	FY17-FY18
3. General System Review	FY19-FY20

After discussion, the Board unanimously adopted the committee recommendations as presented.”

This motion of the board, made in 2015, creates a problem as we are currently approaching prevalent program evaluation now, in FY2019. Georgia proposed a motion that would amend and clarify the previous action of the board, which would address the challenges. The following information was considered by the committee:

Relevant Information Re: Percentage of Program Expenditures from State Allocation to Local Partnerships, FY2018:

- Child Care QE – 12%
- Child care Training 9%
- Child Care Scholarships – 13%

The following was motioned by Jennifer McConnell and seconded by Walt Fleming and was approved by the full committee. It now comes to the full board out of committee, with no need for a second.

Motion: A motion to amend and clarify a previous action of the Board of Trustees of South Carolina First Steps as follows:

- Delete “training” from the list of prevalent programs to be evaluated in the 2015 – 2020 evaluation cycle because in FY2018 this program strategy did not receive 10% or more of state-allocated program funding as required by Section 59-152-25(F)
- Amend the due date of the prevalent program evaluation to: FY2019 – FY2020

INFORMATION & ACTION: FY2020 Budget Request & Provisos

The Executive Committee discussed at length the FY2020 Budget Request and Provisos. Attached to this report is the full Budget Request and Provisos packet for your review. Please take the time to familiarize yourself with these documents and to ask question or provide feedback about this to Executive Director Georgia Mjartan or to the Executive Committee of the Board. This is currently being presented to the Governor’s Office with the hope of inclusion and will be presented to the General Assembly in the new year.

Action: Please be on the lookout for opportunities to support these requests.



**Minutes from Executive Committee Meeting, Board of Trustees
October 5, 2018**

Committee Members Present: Julie Hussey, Vice Chair; Jennifer McConnell, Program and Grants Committee Chair; Amy Williams, Strategic Planning and Evaluation Chair; Walter Fleming, Finance Committee Chair

Committee Members Absent: Senator Gerald Malloy, Legislative Committee Chair

Staff Liaison: Georgia Mjartan, Executive Director

Julie Hussey introduced a new framework for committee discussion: a “brag,” a “challenge,” an “opportunity” and then “information.” Ms. Hussey noted that the Executive Committee would try out this new format and would see if it was productive and helped focus conversation and discussion in a way that would be valuable.

“Brag”

Georgia led a discussion about the Preschool Development Grant Birth Through Five funding opportunity, highlighting the way in which a collaborative group of agencies, nonprofits, and advocacy organizations are working together to envision a more integrated and effective early childhood system for the state of South Carolina. In addition to discussion about the process, Georgia brought up the fact that the Executive Committee might want to propose a motion to the full board revising the Early Childhood Advisory Council’s initial motion recommending South Carolina First Steps as the lead applicant for the grant, replacing the motion with a new action that would recommend the Department of Social Services as the lead applicant.

In August 2018, prior to the release of the federal Preschool Development Grant Birth Through Five Funding Opportunity Announcement (FOA), the SC Early Childhood Advisory Council voted to recommend that “the Governor’s Office designate South Carolina First Steps, the state’s Early Childhood Advisory Council, as the lead applicant for the State of South Carolina for the Preschool Development Grant Birth Through Five, working collaboratively to develop and implement the project with SC Department of Education, Department of Social Services, the Head Start Collaboration Office, and others.” Ahead of this meeting, staff from DSS and South Carolina First Steps had met on a number of occasions to try to decide which agency would be the ideal “lead applicant” for this grant, and without seeing the FOA, both agreed ahead of the ECAC meeting that SC First Steps would be an appropriate lead. Once the FOA was released in early September and DSS and SC First Steps staff closely reviewed the opportunity, both parties agreed that they believed DSS would make a more appropriate lead applicant as the funding notice seemed to be more narrowly focused on “Early Childhood Care and Education” rather than the entire “Birth Through Five Early Childhood System” as originally anticipated.

SC First Steps reached out to DSS and proposed that DSS take the role as lead applicant and grant manager for this project, allowing SC First Steps to take the lead on activities 1, 2, and 3, which include: Birth Through Five Early Childhood State System Needs Assessment, Strategic



Plan and Increasing Parenting Choice and Knowledge, critical and large year-one projects that would require dedicated focus from SC First Steps and ECAC.

The Executive Committee considered the following, motioned by Walt Fleming and seconded by Jennifer McConnell. All members voted in favor, with the plan to bring this motion to the Early Childhood Advisory Council for a full vote, with a unanimous recommendation from the committee.

Motion: Having reviewed the federal funding opportunity announcement for the Preschool Development Grant Birth Through Five, the Early Childhood Advisory Council recommends that the Governor’s Office designate the SC Department of Social Services as the lead applicant for the State of South Carolina for the Preschool Development Grant Birth Through Five, working collaboratively to develop and implement the project with South Carolina First Steps and the SC Early Childhood Advisory Council, SC Department of Education, and the Head Start Collaboration Office.

Challenge

Next, a matter was brought to the Executive Committee that might have otherwise been brought to the Strategic Planning and Evaluation Committee. Ms. Mjartan explained that because that committee has not met over the past year, the staff have moved forward to ensure statutory compliance with evaluation requirements. In developing a scope of services for an evaluation of “prevalent programs” a challenge was identified which would require action from the board to address.

Legislation requires the board to set an evaluation timeline for prevalent programs and a systemic review of the organization as a whole.

In June 2015, the Board of Trustees, approved the following motion:

“The committee recommended a proposed evaluation timeline for both prevalent programs and the next systemic review required by statute. The proposed cycle, to begin immediately with the development of a research methodology for Parents as Teachers is as follows:

	<u>To Be Evaluated During:</u>
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3. General System Review	FY19-FY20

Additionally, the committee noted that it anticipates a comprehensive review of First Steps’ data systems and data requirements, stemming from the current strategic planning process.



As pertains to systems development, the Committee noted that this is the goal of the Board's current 2015-2020 strategic planning process. A well-articulated process is underway that will comprehensively meet the intent of this recommendation, with a final report anticipated in December 2015.

After discussion, the Board unanimously adopted the committee recommendations as presented.”

This motion of the board, made in 2015, creates a problem as we are currently approaching prevalent program evaluation now, in FY2019. Georgia proposed a motion that would amend and clarify the previous action of the board, which would address the challenges. The following was motioned by Jennifer McConnell and seconded by Walt Fleming and was approved by the full committee:

“A motion to amend and clarify a previous action of the Board of Trustees of South Carolina First Steps as follows:

- Delete “training” from the list of prevalent programs to be evaluated in the 2015 – 2020 evaluation cycle because in FY2018 this program strategy did not receive 10% or more of state-allocated program funding as required by Section 59-152-25(F)
- Amend the due date of the prevalent program evaluation to: FY2019 – FY2020”

The below relevant information was considered as the committee took this vote:

Relevant Information Re: Percentage of Program Expenditures from State Allocation to Local Partnerships, FY2018:

- Child Care QE – 12%
- Child care Training 9%
- Child Care Scholarships – 13%

Opportunities

Georgia presented the committee with the FY2020 Budget Request & Provisos and then answered questions about the items and the budgeting process. The committee discussed ways the board and other stakeholders can be involved in supporting these requests.

Information

In the “information” portion of the meeting, the committee received information about and discussed the following items:

- Sumter County First Steps
- 4K center-level fraud charges – update on investigation of private center
- Financial Reports including 4K carry-forward and projected carry-forward reports
- Clean Audit – no findings and no concerns to management
- Hurricane Florence – Response re: 4K centers in closed school districts
- Board Vacancies – Appointments
 - Ask: Help with identifying strong candidates
- Early Head Start - CCP Transition



- New Hires:
 - Lavinia Tejada, Finance and Audit Director
 - Valerie Johnson, Local Partnership Fiscal Manager
 - Jon Artz, Program Officer
- Promotions:
 - Kristine Jenkins
 - Joy Mazur
 - Betty Gardiner



Board Vacancies and Expiring Terms as of September 2018

Governor Appointed:

Chairman of the Board, Governor or Governor’s Designee
(Former Designee: Ken Wingate)

Parent of a Young Child
(Former Representative: Kathryn Burkhalter)

Early Childhood Educator
(Former Representative: Evelyn Patterson)
This position has historically been the elected leader of the
Head Start Association.

Business Community

Child Care and Development Provider
Roger Pryor, 1st term expired August 1, 2018

Speaker of the House Appointed:

Early Childhood Educator
(Former Representative: Julia-Ellen Davis)

Parent of a Young Child
(Former Representative: Judith Aughtry)

Medical or Child Care and Development
Alexia Newman, 1st term expires September 2018

Business Community
Tim Holt, 1st term expires October 2018

Senate President Pro Temp Appointed: Early Childhood Educator
(Former Representative: Rick Noble)

Medical or Child Care and Development Provider
Jennifer McConnell, 1st term expired February 20, 2018

Board Matrix – Demographic Breakout as of September 6, 2018

<u>Race</u>	<u>Ethnicity</u>	<u>Gender</u>
African-American: 5	Hispanic: 0	Female: 10
Asian / Pacific Islander: 0	Non-Hispanic: 18	Male: 8
Caucasian: 13		
Native American: 0		
Other: 0		

Geographic Representation: Congressional District (appointed only)

District 1: 2 District 2: 2 District 3: 0 District 4: 3 District 5: 0 District 6: 1
District 7: 3



Board of Trustees Committees

<p>EXECUTIVE COMMITTEE</p> <p>Meeting Dates: The 3rd or 4th Friday of every other month (months where no board meeting is scheduled), and as needed for necessary actions, 11 a.m. – 2 p.m., State Office, Columbia or by phone (as needed)</p>	<p>CHAIR: Julie Hussey (Interim)</p> <p>Members: Senator Gerald Malloy, Julie Hussey, Jennifer McConnell, Amy Williams, Walter Fleming</p> <p>Staff: Georgia Mjartan</p>
<p>LEGISLATIVE COMMITTEE</p> <p>Meeting Dates:</p>	<p>CHAIR: Senator Gerald Malloy</p> <p>Members: Senator Greg Hembree, Representative Rita Allison, Representative Jerry Govan</p> <p>Staff: Georgia Mjartan</p>
<p>INTERAGENCY COLLABORATION COMMITTEE</p> <p>Meeting Dates: November 19, 2018</p>	<p>CHAIR: David Mathis</p> <p>Members: Superintendent Molly Spearman, Mary Lynne Diggs, Sue Williams, David Wilson, Josh Baker, Mary Poole, Joan Meacham</p> <p>Staff: Georgia Mjartan</p>
<p>STRATEGIC PLANNING AND EVALUATION COMMITTEE</p> <p>Meeting Dates: 2nd Monday of every other month at noon starting in November</p>	<p>CHAIR: Dr. Amy Williams</p> <p>Members: Alexia Newman</p> <p>Staff: Georgia Mjartan</p>
<p>FINANCE AND ADMINISTRATION COMMITTEE</p> <p>Meeting Dates: September 26, November 14, January 2019, March 2019, State Office, Columbia or by phone (as needed)</p>	<p>CHAIR: Walter Fleming</p> <p>Members: Tim Holt</p> <p>Staff: Mark Barnes</p>
<p>PROGRAM AND GRANTS COMMITTEE</p> <p>Meeting Dates: February, April, June, August, October, November, and as needed for necessary actions, 11 a.m. – 1 p.m., State Office, Columbia, SC or by phone (as needed)</p>	<p>CHAIR: Jennifer McConnell</p> <p>Members: Roger Pryor, Julie Hussey</p> <p>Staff: Debbie Robertson</p>

Fiscal Year 2019-20 Budget Request Executive Summary

Agency Code: H630
 Agency Name: Department Of Education
 Section: 1

BUDGET REQUESTS			FUNDING					FTES				
Priority	Request Type	Request Title	State	Federal	Earmarked	Restricted	Total	State	Federal	Earmarked	Restricted	Total
1	B2 - Non-Recurring	Outcome and Accountability Data System (First Steps)	595,000				595,000					0.00
2	B1 - Recurring	Outcome and Accountability Data System (First Steps)	142,448				142,448	1.00				1.00
3	B1 - Recurring	IT Coordinator (First Steps)	105,000				105,000	1.00				1.00
4	B1 - Recurring	Staffing FTE's (First Steps)	0				0	9.00				9.00
5							0					0.00
6							0					0.00
7							0					0.00
8							0					0.00
9							0					0.00
10							0					0.00
11							0					0.00
12							0					0.00
13							0					0.00
14							0					0.00
15							0					0.00
16							0					0.00
17							0					0.00
18							0					0.00
19							0					0.00
20							0					0.00
21							0					0.00
22							0					0.00
23							0					0.00
24							0					0.00
25							0					0.00
26							0					0.00
27							0					0.00
28							0					0.00
29							0					0.00
30							0					0.00
TOTAL BUDGET REQUESTS			842,448	0	0	0	842,448	11.00	0.00	0.00	0.00	11.00

AGENCY NAME:	South Carolina First Steps to School Readiness		
AGENCY CODE:	(H630) SC Dept of Education	SECTION:	SC First Steps



Fiscal Year 2019-20 Agency Budget Plan

FORM A - BUDGET PLAN SUMMARY

**OPERATING
REQUESTS
(FORM B1)**

For FY 2019-20, my agency is (mark "X"):	
<input checked="" type="checkbox"/>	Requesting General Fund Appropriations.
<input type="checkbox"/>	Requesting Federal/Other Authorization.
<input type="checkbox"/>	Not requesting any changes.

**NON-RECURRING
REQUESTS
(FORM B2)**

For FY 2019-20, my agency is (mark "X"):	
<input checked="" type="checkbox"/>	Requesting Non-Recurring Appropriations.
<input type="checkbox"/>	Requesting Non-Recurring Federal/Other Authorization.
<input type="checkbox"/>	Not requesting any changes.

**CAPITAL
REQUESTS
(FORM C)**

For FY 2019-20, my agency is (mark "X"):	
<input type="checkbox"/>	Requesting funding for Capital Projects.
<input checked="" type="checkbox"/>	Not requesting any changes.

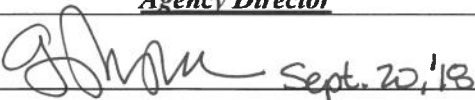
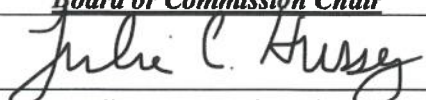
**PROVISOS
(FORM D)**

For FY 2019-20, my agency is (mark "X"):	
<input checked="" type="checkbox"/>	Requesting a new proviso and/or substantive changes to existing provisos.
<input type="checkbox"/>	Only requesting technical proviso changes (such as date references).
<input type="checkbox"/>	Not requesting any proviso changes.

Please identify your agency's preferred contacts for this year's budget process.

	<i>Name</i>	<i>Phone</i>	<i>Email</i>
PRIMARY CONTACT:	Mark Barnes, COO/CFO	803-734-8079	MBarnes@scfirststeps.org
SECONDARY CONTACT:	Georgia Mjartan, Director	803-734-1020	gmjartan@scfirststeps.org

I have reviewed and approved the enclosed FY 2019-20 Agency Budget Plan, which is complete and accurate to the extent of my knowledge.

	<i>Agency Director</i>	<i>Board or Commission Chair</i>
SIGN/DATE:	 Sept. 20, '18	
TYPE/PRINT NAME:	Georgia Mjartan, Executive Director	Julie Hussey, Vice-Chair (Acting Board Chair)

This form must be signed by the agency head – not a delegate.

AGENCY NAME:	South Carolina First Steps to School Readiness		
AGENCY CODE:	(H630) SC Dept. of Education	SECTION:	SC First Steps

FORM B1 – RECURRING OPERATING REQUEST

AGENCY PRIORITY	1.
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Provide the Agency Priority Ranking from the Executive Summary.

TITLE	First Steps Outcomes and Accountability Data System
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Provide a brief, descriptive title for this request.

AMOUNT	General: \$142,448 Federal: Other: Total: \$142,448
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What is the net change in requested appropriations for FY 2019-20? This amount should correspond to the total for all funding sources on the Executive Summary.

NEW POSITIONS	1 Data Administrator
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Please provide the total number of new positions needed for this request.

FACTORS ASSOCIATED WITH THE REQUEST	Mark "X" for all that apply:	
	<input checked="" type="checkbox"/>	Change in cost of providing current services to existing program audience
	<input type="checkbox"/>	Change in case load/enrollment under existing program guidelines
	<input type="checkbox"/>	Non-mandated change in eligibility/enrollment for existing program
	<input type="checkbox"/>	Non-mandated program change in service levels or areas
	<input type="checkbox"/>	Proposed establishment of a new program or initiative
	<input type="checkbox"/>	Loss of federal or other external financial support for existing program
	<input type="checkbox"/>	Exhaustion of fund balances previously used to support program
	<input checked="" type="checkbox"/>	IT Technology/Security related
	<input checked="" type="checkbox"/>	Related to a Non-Recurring request – If so, Priority # <u> 2 </u>

STATEWIDE ENTERPRISE STRATEGIC OBJECTIVES	Mark "X" for primary applicable Statewide Enterprise Strategic Objective:	
	<input checked="" type="checkbox"/>	Education, Training, and Human Development
	<input type="checkbox"/>	Healthy and Safe Families
	<input type="checkbox"/>	Maintaining Safety, Integrity, and Security
	<input type="checkbox"/>	Public Infrastructure and Economic Development
	<input type="checkbox"/>	Government and Citizens

AGENCY NAME:	South Carolina First Steps to School Readiness		
AGENCY CODE:	(H630) SC Dept. of Education	SECTION:	SC First Steps

ACCOUNTABILITY OF FUNDS	<p>All agency strategies.</p> <p>This request would help meet all of the objectives in our accountability report. First Steps currently makes use of multiple data collection platforms, the most prominent of which is badly outdated and not well-suited meet the agency’s own accountability goals. An updated accountability data system will allow us to comprehensively capture and report critical data including unduplicated clients served and outcomes and will create the capacity for SC First Steps data to be integrated with other data sets for longitudinal tracking. It will also support First Steps in meeting significant new reporting requirements established by statute.</p>
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What specific strategy, as outlined in the FY 2018-19 Strategic Planning and Performance Measurement template of agency’s accountability report, does this funding request support? How would this request advance that strategy? How would the use of these funds be evaluated?

RECIPIENTS OF FUNDS	<p>These recurring funds would be used to contract for the ongoing maintenance and license fees associated with such a data system (to be procured through a competitive process). They would also be used to fund 1 FTE charged with managing and monitoring the system and associated data needs.</p>
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What individuals or entities would receive these funds (contractors, vendors, grantees, individual beneficiaries, etc.)? How would these funds be allocated – using an existing formula, through a competitive process, based upon predetermined eligibility criteria?

JUSTIFICATION OF REQUEST	<p>This request is for the recurring cost of maintaining/licensing and utilizing a comprehensive accountability data system. First Steps’ current partnership data system was originally created 17 years ago and is in urgent need of updating. This is a longstanding request, unfunded in recent years.</p> <p>This request will support First Steps in meeting multiple statutory requirements, including Section 59-152-50, item 7, which requires us to provide for ongoing data collection and Section 59-125-160, which requires First Steps to provide evaluations of each prevalent program investment using valid and reliable measures.</p> <p>This data system will support First Steps in documenting, monitoring, and reporting across its broad spectrum of program investments. During the 2017 legislative session, the General Assembly passed H.3969 which would require a new longitudinal data system for children and education. This system is necessary to collect the data needed for the state system.</p> <p>The funds being requested would cover the cost of recurring maintenance, licensing fees, and 1 FTE – a Research and Planning Administrator for this joint system to be used by multiple SC First Steps programs. We are working with DTO and DIS with all of our data systems and they are currently under contract with SC First Steps. This was included in the request for our IT Plan for 2019-20. Currently, the organization has no IT staff.</p>
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Please thoroughly explain the request to include the justification for funds, potential offsets, matching funds, and method of calculation. Please include any explanation of impact if funds are not received. If new positions have been requested, explain why existing vacancies are not sufficient.

AGENCY NAME:	South Carolina First Steps to School Readiness		
AGENCY CODE:	(H630) SC Dept. of Education	SECTION:	SC First Steps

AGENCY NAME:	South Carolina First Steps to School Readiness		
AGENCY CODE:	(H630) SC Dept. of Education	SECTION:	SC First Steps

FORM B1 – RECURRING OPERATING REQUEST

AGENCY PRIORITY	2
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Provide the Agency Priority Ranking from the Executive Summary.

TITLE	Information Technology Coordinator
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Provide a brief, descriptive title for this request.

AMOUNT	General: \$105,000 Federal: Other: Total: \$105,000
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What is the net change in requested appropriations for FY 2019-20? This amount should correspond to the total for all funding sources on the Executive Summary.

NEW POSITIONS	1 IT Consultant II
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Please provide the total number of new positions needed for this request.

FACTORS ASSOCIATED WITH THE REQUEST	Mark "X" for all that apply:	
	<input checked="" type="checkbox"/>	Change in cost of providing current services to existing program audience
	<input type="checkbox"/>	Change in case load/enrollment under existing program guidelines
	<input type="checkbox"/>	Non-mandated change in eligibility/enrollment for existing program
	<input type="checkbox"/>	Non-mandated program change in service levels or areas
	<input type="checkbox"/>	Proposed establishment of a new program or initiative
	<input type="checkbox"/>	Loss of federal or other external financial support for existing program
	<input type="checkbox"/>	Exhaustion of fund balances previously used to support program
	<input checked="" type="checkbox"/>	IT Technology/Security related
	<input checked="" type="checkbox"/>	Consulted DTO during development
	Related to a Non-Recurring request – If so, Priority # _____	

STATEWIDE ENTERPRISE STRATEGIC OBJECTIVES	Mark "X" for primary applicable Statewide Enterprise Strategic Objective:	
	<input checked="" type="checkbox"/>	Education, Training, and Human Development
	<input type="checkbox"/>	Healthy and Safe Families
	<input checked="" type="checkbox"/>	Maintaining Safety, Integrity, and Security
	<input type="checkbox"/>	Public Infrastructure and Economic Development
	<input checked="" type="checkbox"/>	Government and Citizens

AGENCY NAME:	South Carolina First Steps to School Readiness		
AGENCY CODE:	(H630) SC Dept. of Education	SECTION:	SC First Steps

ACCOUNTABILITY OF FUNDS	<p>All agency strategies.</p> <p>This request will fund an IT Consultant II position (and an associated FTE box) that would function as the Coordinator for all IT issues for SC First Steps. This would allow First Steps to better meet state requirements for IT security, planning, support, and response.</p>
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What specific strategy, as outlined in the FY 2018-19 Strategic Planning and Performance Measurement template of agency's accountability report, does this funding request support? How would this request advance that strategy? How would the use of these funds be evaluated?

RECIPIENTS OF FUNDS	<p>SC First Steps would receive funding for a staff member to coordinate and support the information technology needs of the organization. The organization currently contracts externally with DTO for IT services and currently has no in-house IT staff.</p>
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What individuals or entities would receive these funds (contractors, vendors, grantees, individual beneficiaries, etc.)? How would these funds be allocated – using an existing formula, through a competitive process, based upon predetermined eligibility criteria?

JUSTIFICATION OF REQUEST	<p>There is a critical need for one FTE with funding for an IT Coordinator for the agency. First Steps has never had a person to fulfill this role. The need for this is more critical every day. We have almost 50 employees with over 200 contractors and 46 local partnerships with no support for IT other than a current contract with DTO and DIS which cannot provide services outside of Columbia. Our services and support cover the entire state. Agency operations are negatively affected every day due to this unmet need. This funding would cover the salary and fringe costs of this position.</p>
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Please thoroughly explain the request to include the justification for funds, potential offsets, matching funds, and method of calculation. Please include any explanation of impact if funds are not received. If new positions have been requested, explain why existing vacancies are not sufficient.

AGENCY NAME:	South Carolina First Steps to School Readiness		
AGENCY CODE:	(H630) SC Dept. of Education	SECTION:	SC First Steps

FORM B1 – RECURRING OPERATING REQUEST

AGENCY PRIORITY	3.
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Provide the Agency Priority Ranking from the Executive Summary.

TITLE	FTE's
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Provide a brief, descriptive title for this request.

AMOUNT	General: 0 Federal: Other: Total: 0
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What is the net change in requested appropriations for FY 2019-20? This amount should correspond to the total for all funding sources on the Executive Summary.

NEW POSITIONS	9
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Please provide the total number of new positions needed for this request.

FACTORS ASSOCIATED WITH THE REQUEST	Mark "X" for all that apply:	
	<input checked="" type="checkbox"/>	Change in cost of providing current services to existing program audience
	<input type="checkbox"/>	Change in case load/enrollment under existing program guidelines
	<input type="checkbox"/>	Non-mandated change in eligibility/enrollment for existing program
	<input type="checkbox"/>	Non-mandated program change in service levels or areas
	<input type="checkbox"/>	Proposed establishment of a new program or initiative
	<input type="checkbox"/>	Loss of federal or other external financial support for existing program
	<input type="checkbox"/>	Exhaustion of fund balances previously used to support program
	<input type="checkbox"/>	IT Technology/Security related
	<input type="checkbox"/>	Consulted DTO during development
<input type="checkbox"/>	Related to a Non-Recurring request – If so, Priority # _____	

STATEWIDE ENTERPRISE STRATEGIC OBJECTIVES	Mark "X" for primary applicable Statewide Enterprise Strategic Objective:	
	<input checked="" type="checkbox"/>	Education, Training, and Human Development
	<input type="checkbox"/>	Healthy and Safe Families
	<input type="checkbox"/>	Maintaining Safety, Integrity, and Security
	<input type="checkbox"/>	Public Infrastructure and Economic Development
<input type="checkbox"/>	Government and Citizens	

AGENCY NAME:	South Carolina First Steps to School Readiness		
AGENCY CODE:	(H630) SC Dept. of Education	SECTION:	SC First Steps

ACCOUNTABILITY OF FUNDS	<p>All agency strategies.</p> <p>No additional funding is being requested. These 9 FTE's will assist in the staffing of multiple needs within the agency. These include building capacity, meeting the needs of growing programs, and replacing temporary employees with staff in permanent positions.</p>
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What specific strategy, as outlined in the FY 2018-19 Strategic Planning and Performance Measurement template of agency's accountability report, does this funding request support? How would this request advance that strategy? How would the use of these funds be evaluated?

RECIPIENTS OF FUNDS	<p>There are no new funds being requested.</p>
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What individuals or entities would receive these funds (contractors, vendors, grantees, individual beneficiaries, etc.)? How would these funds be allocated – using an existing formula, through a competitive process, based upon predetermined eligibility criteria?

JUSTIFICATION OF REQUEST	<p>This request would provide 9 additional FTE boxes to meet the needs of the organization. They would build capacity and allow temporary staff to be replaced with permanent employees. The FTE's would provide the following:</p> <ul style="list-style-type: none"> 1 Staff Attorney: Currently the agency has no attorney on staff 1 Development Coordinator: 1 Information Resource Coordinator 2 4K Coordinators 1 Local Partnership Communications Coordinator 1 Local Partnership Administrative Assistant 2 4K Administrative Assistants (Data and Enrollment) <p>Funding is currently available for these positions. Without permanent FTE's, we have trouble retaining and recruiting staff to meet our mission. These FTE's would allow us to stabilize our workforce and allow critical benefits for the employees. All other vacancies in the agency are being utilized.</p>
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Please thoroughly explain the request to include the justification for funds, potential offsets, matching funds, and method of calculation. Please include any explanation of impact if funds are not received. If new positions have been requested, explain why existing vacancies are not sufficient.

AGENCY NAME:	South Carolina First Steps to School Readiness		
AGENCY CODE:	(H630) SC Dept. of Education	SECTION:	SC First Steps

FORM B2 – NON-RECURRING OPERATING REQUEST

AGENCY PRIORITY	1.
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Provide the Agency Priority Ranking from the Executive Summary.

TITLE	Outcomes and Accountability Data System
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Provide a brief, descriptive title for this request.

AMOUNT	\$595,000
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What is the net change in requested appropriations for FY 2019-20? This amount should correspond to the total for all funding sources on the Executive Summary.

FACTORS ASSOCIATED WITH THE REQUEST	Mark "X" for all that apply:	
	<input type="checkbox"/>	Change in cost of providing current services to existing program audience
	<input type="checkbox"/>	Change in case load/enrollment under existing program guidelines
	<input type="checkbox"/>	Non-mandated change in eligibility/enrollment for existing program
	<input type="checkbox"/>	Non-mandated program change in service levels or areas
	<input type="checkbox"/>	Proposed establishment of a new program or initiative
	<input type="checkbox"/>	Loss of federal or other external financial support for existing program
	<input type="checkbox"/>	Exhaustion of fund balances previously used to support program
	<input checked="" type="checkbox"/>	IT Technology/Security related
	<input type="checkbox"/>	Consulted DTO during development
	<input checked="" type="checkbox"/>	Request for Non-Recurring Appropriations
<input type="checkbox"/>	Request for Federal/Other Authorization to spend existing funding	
<input checked="" type="checkbox"/>	Related to a Recurring request – If so, Priority # <u> 1 </u>	

STATEWIDE ENTERPRISE STRATEGIC OBJECTIVES	Mark "X" for primary applicable Statewide Enterprise Strategic Objective:	
	<input checked="" type="checkbox"/>	Education, Training, and Human Development
	<input type="checkbox"/>	Healthy and Safe Families
	<input type="checkbox"/>	Maintaining Safety, Integrity, and Security
	<input type="checkbox"/>	Public Infrastructure and Economic Development
<input type="checkbox"/>	Government and Citizens	

ACCOUNTABILITY OF FUNDS	<p>All agency strategies.</p> <p>This request would help meet all of the objectives in our accountability report. This data system would allow us to collect the data necessary to meet our mission and the objectives that have been outlined for the organization in state statute.</p>
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What specific strategy, as outlined in the FY 2018-19 Strategic Planning and Performance Measurement template of agency's accountability report, does this funding request support? How would this request advance that strategy? How would the use of these funds be evaluated?

AGENCY NAME:	South Carolina First Steps to School Readiness		
AGENCY CODE:	(H630) SC Dept. of Education	SECTION:	SC First Steps

RECIPIENTS OF FUNDS	<p>A competitive procurement process will be conducted to award funding to an IT vendor qualified to create a comprehensive, integrated, web-based Outcomes and Accountability Data system for SC First Steps - replacing an outdated system insufficient to meet current accountability needs.</p>
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What individuals or entities would receive these funds (contractors, vendors, grantees, individual beneficiaries, etc.)? How would these funds be allocated – using an existing formula, through a competitive process, based upon predetermined eligibility criteria?

JUSTIFICATION OF REQUEST	<p>This request is for the non-recurring cost of developing a comprehensive, web-based Outcomes and Accountability Data System to replace (among other data collection tools) First Steps’ outdated local partnership data system. Created 17 years ago, and last meaningfully updated in 2007, the existing system is in critical need of replacement if First Steps is to successfully meet statutory accountability and reporting requirements. Additionally, First Steps hopes to unify its data collection processes (to include 4K data) now collected across multiple systems.</p> <p>This request will support First Steps in meeting multiple statutory requirements, including Section 59-152-50, item 7 (which requires us to provide for ongoing data collection) and Section 59-125-160 (which requires First Steps to provide evaluations of each prevalent program investment using valid and reliable measures) as well as a variety of new reporting requirements mandated by Act 152 of 2018.</p> <p>The enhanced data system will support First Steps in documenting, monitoring, and reporting across its broad spectrum of program investments.</p>
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Please thoroughly explain the request to include the justification for funds, potential offsets, matching funds, and method of calculation. Please include any explanation of impact if funds are not received. Does this non-recurring appropriation request create an annualization or need for recurring funds?

AGENCY NAME:	South Carolina First Steps to School Readiness		
AGENCY CODE:	(H630) SC Dept. of Education	SECTION:	SC First Steps

FORM D – PROVISIO REVISION REQUEST

NUMBER	NEW
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Cite the proviso according to the renumbered list for FY 2019-20 (or mark "NEW").

TITLE	Early Childhood Innovation Grants Tax Credit
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Provide the title from the FY 2018-19 Appropriations Act or suggest a short title for any new request.

BUDGET PROGRAM	Sec. 1, XII First Steps to School Readiness, Sec. 1, XIII Employee Benefits
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Identify the associated budget program(s) by name and budget section.

RELATED BUDGET REQUEST	No
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Is this request associated with a budget request you have submitted for FY 2019-20? If so, cite it here.

REQUESTED ACTION	Add
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Choose from: Add, Delete, Amend, or Codify.

OTHER AGENCIES AFFECTED	South Carolina Department of Revenue
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Which other agencies would be affected by the recommended action? How?

SUMMARY & EXPLANATION	<p>Proviso creates a tax credit allowing state taxpayers to direct up to 60% of their state tax liability to a fund established by South Carolina First Steps, a 501(c)(3) nonprofit, supporting the work of local First Steps partnerships through a new competitive grant structure that would incentivize and support measurable outcomes, the leveraging of public and private resources, program expansion, and program enhancement across the state to help accomplish the mission of First Steps. Each local partnership could apply for competitive grants established through the revenue generated by this tax credit. These grants would expand effective, evidence-based school readiness programming to children in local communities. Grants will be closely monitored and evaluated to ensure the accountable and optimal use of all funds. The process would create competition, reward demonstrated outcomes, strengthen accountability, and expand activities documented to improve school readiness in each community.</p>
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Summarize the existing proviso. If requesting a new proviso, describe the current state of affairs without it. Explain the need for your requested action. For deletion requests due to recent codification, please identify SC Code section where language now appears.

AGENCY NAME:	South Carolina First Steps to School Readiness		
AGENCY CODE:	(H630) SC Dept. of Education	SECTION:	SC First Steps

FISCAL IMPACT	<p>The maximum amount of the tax credit in any given fiscal year would be capped at \$5,000,000. .</p>
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Provide estimates of any fiscal impacts associated with this proviso, whether for state, federal, or other funds. Explain the method of calculation.

PROPOSED PROVISOR TEXT	<p>NEW. (SDE: Early Childhood Innovation Grants Tax Credit)</p> <p>There is hereby created the Early Childhood Innovation Grants Tax Credit. This tax credit will create a fund that will be used to provide for a competitive grants structure that will be used by the local First Steps partnerships to improve the school readiness of South Carolina children. The SC First Steps Board will create a process that will be used to create, approve, monitor, evaluate, and report on the success of each approved grant request.</p> <p>(A) As used in this proviso:</p> <p style="padding-left: 40px;">(1) ‘Person’ means an individual, partnership, corporation, or other similar entity.</p> <p style="padding-left: 40px;">(2) Grant means an amount of funds awarded to a local First Steps partnership based on an approved application process by the SC First Steps Board of Trustees. It will include amount limitations, monitoring, evaluation and reporting requirements for each grant awarded.</p> <p style="padding-left: 40px;">(3) SC First Steps and its associated local First Steps partnerships, for the purpose of this proviso, are 501(c)(3) nonprofit organizations that are exempt from federal tax.</p> <p>(B) A person is entitled to a tax credit for the amount of money the person contributes to the Early Childhood Innovation Grants – Tax Credit fund up to the limits of this proviso if:</p> <p style="padding-left: 40px;">(1) The tax credits authorized by this proviso may not exceed cumulatively five million dollars for the grants program for this fiscal year. If the Department of Revenue determines that the total of such credits claimed by all taxpayers exceed this amount, it shall allow credits only up to the amount on a first come, first serve basis.</p>
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AGENCY NAME:	South Carolina First Steps to School Readiness		
AGENCY CODE:	(H630) SC Dept. of Education	SECTION:	SC First Steps

(2) No taxpayer may claim more than sixty percent of their total tax liability for the year in contribution towards the tax credit authorized by this proviso. This credit is not refundable.

(3) If a married couple files separate returns, they may each only claim one-half of the tax credit they would have been allowed for a joint return for the year.

(4) The person shall apply for a credit under this proviso on or with the tax return for the period for which the credit is claimed.

(5) The Department of Revenue shall develop a method of informing tax payers if the credit limits have been met for the current fiscal year.

(6) The Department of Revenue will create a process and a fund to collect all appropriate amounts committed to the fund from tax payers identification on approved forms.

(C) This tax credit may not be conveyed, assigned, or transferred to any entity.

Paste FY 2018-19 text above, then bold and underline insertions and strikethrough deletions. For new proviso requests, enter requested text above.

AGENCY NAME:	South Carolina First Steps to School Readiness		
AGENCY CODE:	(H630) SC Dept. of Education	SECTION:	SC First Steps

FORM D – PROVISO REVISION REQUEST

NUMBER	1.57 and 1A.29
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Cite the proviso according to the renumbered list for FY 2019-20 (or mark "NEW").

TITLE	SDE-EIA: Full-Day 4K
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Provide the title from the FY 2018-19 Appropriations Act or suggest a short title for any new request.

BUDGET PROGRAM	Sec. 1, VIII. Education Improvement Act, I. First Steps to School Readiness, Sec. 1, XII First Steps to School Readiness, Sec. 1, XIII Employee Benefits
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Identify the associated budget program(s) by name and budget section.

RELATED BUDGET REQUEST	No
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Is this request associated with a budget request you have submitted for FY 2019-20? If so, cite it here.

REQUESTED ACTION	Amend
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Choose from: Add, Delete, Amend, or Codify.

OTHER AGENCIES AFFECTED	SC Department of Education, Education Oversight Committee
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Which other agencies would be affected by the recommended action? How?

SUMMARY & EXPLANATION	<p>The proviso provides annual funding levels and geography for the CDEPP program, the proviso is contained in both General Funds and Education Improvement Act Funding sections of the budget bill.</p> <p>The statutes require an annual increase in the tuition amount based on an inflation factor. This factor was provided by the State of SC Revenue and Fiscal Affairs Office as a projection of 2% for SFY 2019-20. The amount adjusted reflects this increase. This amount has been increased three times since the inception of the program in 2006, contrary to state statutes.</p> <p>In addition, the transportation amount per student has been increased only twice. We have adjusted the amount based on the same inflation factor.</p> <p>As a means of incentivizing the participation of high-quality preschool providers, amendment language (suggested in response to a working recommendation by the Senate Oversight Committee) would permit the SC First Steps Board of Trustees to increase reimbursement by up to 10% for students enrolled at centers rated B+ or higher by the ABC Quality System of the SC Department of Social Services, given available funding to do so using existing appropriations or program carry forward.</p>
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Summarize the existing proviso. If requesting a new proviso, describe the current state of affairs without it. Explain the need for your requested action. For deletion requests

AGENCY NAME:	South Carolina First Steps to School Readiness		
AGENCY CODE:	(H630) SC Dept. of Education	SECTION:	SC First Steps

due to recent codification, please identify SC Code section where language now appears.

FISCAL IMPACT	<p>Increase in tuition rate per child by \$90 to support SC Revenue and Fiscal Affairs inflation factor. This would mean an additional cost of \$219,560 per year, which the current budget levels would support without additional funds based on tuition payments for the 2017-18 state fiscal year for SC First Steps.</p> <p>The increase in cost of the transportation of \$11 per child would be \$3,846 which the current budget levels would support without additional funding which is based on transportation costs for the 2017-18 state fiscal year for SC First Steps.</p> <p>As a means of incentivizing the participation of high-quality preschool providers, amendment language (suggested in response to a working recommendation by the Senate Oversight Committee) would permit the SC First Steps Board of Trustees to increase reimbursement by up to 10% for students enrolled at centers rated B+ or higher by the ABC Quality System of the SC Department of Social Services, given available funding to do so using existing appropriations or program carry forward. No additional funding is requested for this purpose.</p>
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Provide estimates of any fiscal impacts associated with this proviso, whether for state, federal, or other funds. Explain the method of calculation.

PROPOSED PROVISO TEXT	<p>(SDE: Full-Day 4K) Eligible students residing in a school district that met the poverty level for participation in the prior school year are eligible to participate in the South Carolina Early Reading Development and Education Program in the current school year. Public and private providers shall be funded for instructional costs at a rate of \$4,510 \$4,600 per student enrolled. <u>In the event that sufficient annual or carry-forward funding is available to do so, the reimbursement rate for students enrolled by private providers rated B+ or higher in the ABC Quality System operated by the SC Department of Social Services may be increased by up to 10% of the per-student base – at the discretion of the First Steps Board of Trustees.</u> Eligible students enrolling during the school year or withdrawing during the school year shall be funded on a pro rata basis determined by the length of their enrollment. Private providers transporting eligible children to and from school shall also be eligible for a reimbursement of \$574 \$585 per eligible child transported. All providers who are reimbursed are required to retain records as required by their fiscal agent. New providers participating for the first time in the current fiscal year and enrolling between one and six eligible children shall be eligible to receive up to \$1,000 per child in materials and equipment funding, with providers enrolling seven or more such children eligible for funding not to exceed \$10,000. Providers receiving equipment funding are expected to participate in the program and provide high-quality, center-based programs as defined herein for a minimum of three years. Failure to participate for three years will require the provider to return a portion of the equipment allocation at a level determined by the Department of Education and the Office of First Steps to School Readiness. Funding to providers is contingent upon receipt of data as requested by the Department of Education and the Office of First Steps. The Department of Education shall only provide funding for public school students whose complete records have been entered into PowerSchool based on the one hundred and thirty-five day student average daily membership.</p> <p>Annually, the Department of Education is directed to audit the annual allocations to</p>
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AGENCY NAME:	South Carolina First Steps to School Readiness		
AGENCY CODE:	(H630) SC Dept. of Education	SECTION:	SC First Steps

public providers to ensure that allocations are accurate and aligned to the appropriate pro rata per student allocation, materials, and equipment funding. In the event the department, during the audit process determines that the annual allocations of the prior fiscal year are not accurate, the department must adjust the allocations for the current fiscal year to account for the audit findings. The department must provide the results of the annual audit findings to the General Assembly no later than December first. Likewise, in the event the Office of First Steps determines that the annual allocations of the prior fiscal year to private providers are not accurate, the Office of First Steps must adjust the allocations for the current fiscal year to account for the findings.

Of the funds appropriated, \$300,000 shall be allocated to the Education Oversight Committee to conduct an annual evaluation of the South Carolina Child Development Education Pilot Program and to issue findings in a report to the General Assembly by January fifteenth of each year. To aid in this evaluation, the Education Oversight Committee shall determine the data necessary and both public and private providers are required to submit the necessary data as a condition of continued participation in and funding of the program. This data shall include developmentally appropriate measures of student progress. Additionally, the Department of Education shall issue a unique student identifier for each child receiving services from a private provider. The Department of Education shall be responsible for the collection and maintenance of data on the public state funded full day and half-day four-year-old kindergarten programs. The Office of First Steps to School Readiness shall be responsible for the collection and maintenance of data on the state funded programs provided through private providers. The Education Oversight Committee shall use this data and all other collected and maintained data necessary to conduct a research based review of the program's implementation and assessment of student success in the early elementary grades.

Paste FY 2018-19 text above, then bold and underline insertions and strikethrough deletions. For new proviso requests, enter requested text above.

AGENCY NAME:	South Carolina First Steps to School Readiness		
AGENCY CODE:	(H630) SC Dept. of Education	SECTION:	SC First Steps

FORM D – PROVISIO REVISION REQUEST

NUMBER	1.66
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Cite the proviso according to the renumbered list for FY 2019-20 (or mark "NEW").

TITLE	SDE: First Steps 4K Technology
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Provide the title from the FY 2018-19 Appropriations Act or suggest a short title for any new request.

BUDGET PROGRAM	Sec. 1, VIII. Education Improvement Act, I. First Steps to School Readiness, Sec. 1, XII First Steps to School Readiness, Sec. 1, XIII Employee Benefits
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Identify the associated budget program(s) by name and budget section.

RELATED BUDGET REQUEST	No
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Is this request associated with a budget request you have submitted for FY 2019-20? If so, cite it here.

REQUESTED ACTION	Amend
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Choose from: Add, Delete, Amend, or Codify.

OTHER AGENCIES AFFECTED	None
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Which other agencies would be affected by the recommended action? How?

SUMMARY & EXPLANATION	<p>Proviso allows \$75,000 of unspent 4K funds from the 2018-19 fiscal year to be used to fund technology needs for private providers with certain restrictions.</p> <p>Amendment language would remove a specific fiscal year reference and replace it with "the current fiscal year" to prevent the need for annual amendment.</p>
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Summarize the existing proviso. If requesting a new proviso, describe the current state of affairs without it. Explain the need for your requested action. For deletion requests due to recent codification, please identify SC Code section where language now appears.

AGENCY NAME:	South Carolina First Steps to School Readiness		
AGENCY CODE:	(H630) SC Dept. of Education	SECTION:	SC First Steps

FISCAL IMPACT	<p>This proviso enables the use of up to \$75,000 of available 4K carry forward. It has no additional fiscal impact.</p>
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Provide estimates of any fiscal impacts associated with this proviso, whether for state, federal, or other funds. Explain the method of calculation.

PROPOSED PROVISO TEXT	<p>1.66. (SDE: First Steps 4K Technology) During the current fiscal year, South Carolina Office of First Steps to School Readiness is authorized to expend up to \$75,000 from the four-year-old kindergarten carry forward funds to purchase electronic devices for the administration of required school readiness assessments to children enrolled in the full-day 4K program in private centers in the current fiscal year. The State Office of First Steps may purchase one device, which would be the property of the Office of First Steps, for every ten centers serving children in the program. The regional coordinators who provide support to the centers shall coordinate the usage of the devices among the centers. First Steps shall provide a report documenting its technology and materials expenditures to the Chairman of the Senate Finance Committee and the Chairman of the House Ways and Means Committee no later than January 15 <u>of the current fiscal year 2019</u>.</p> <p>Providers receiving this one-time technology supplement are expected to participate in the program and provide high-quality, center-based programs as defined herein for a minimum of three years. Failure to participate for three years will require the provider to return a portion of the supplemental allocation at a level determined by the Office of First Steps to School Readiness.</p>
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Paste FY 2018-19 text above, then bold and underline insertions and strikethrough deletions. For new proviso requests, enter requested text above.

AGENCY NAME:	South Carolina First Steps to School Readiness		
AGENCY CODE:	(H630) SC Dept. of Education	SECTION:	SC First Steps

FORM D – PROVISIO REVISION REQUEST

NUMBER	1.69 & 1A.59
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Cite the proviso according to the renumbered list for FY 2019-20 (or mark "NEW").

TITLE	SDE: CDEPP Unexpended Funds & SDE-EIA: CDEPP Unexpended Funds
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Provide the title from the FY 2018-19 Appropriations Act or suggest a short title for any new request.

BUDGET PROGRAM	Sec. 1, VIII. Education Improvement Act, I. First Steps to School Readiness, Sec. 1, XII First Steps to School Readiness, Sec. 1, XIII Employee Benefits
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Identify the associated budget program(s) by name and budget section.

RELATED BUDGET REQUEST	No
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Is this request associated with a budget request you have submitted for FY 2019-20? If so, cite it here.

REQUESTED ACTION	Amend
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Choose from: Add, Delete, Amend, or Codify.

OTHER AGENCIES AFFECTED	None
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Which other agencies would be affected by the recommended action? How?

SUMMARY & EXPLANATION	<p>Proviso directs the use of 4K carry forward funds at SC First Steps.</p> <p>Requested change would permit First Steps to utilize up to \$550,000 in available carry forward funding to pilot the provision of evidence-based parent education programming for families of enrolled 4-year olds and replaces a fiscal year reference with "the current fiscal year" to prevent the need to amend this proviso annually.</p>
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Summarize the existing proviso. If requesting a new proviso, describe the current state of affairs without it. Explain the need for your requested action. For deletion requests due to recent codification, please identify SC Code section where language now appears.

AGENCY NAME:	South Carolina First Steps to School Readiness		
AGENCY CODE:	(H630) SC Dept. of Education	SECTION:	SC First Steps

FISCAL IMPACT	<p>The proviso would allow for expenditures of up to \$1,550,000 for SC First Steps and \$1,000,000 for the Education Oversight Committee but it would not have a fiscal impact as it would only include carry forward amounts.</p>
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Provide estimates of any fiscal impacts associated with this proviso, whether for state, federal, or other funds. Explain the method of calculation.

PROPOSED PROVISO TEXT	<p>(SDE: CDEPP Unexpended Funds) For the current fiscal year Fiscal Year 2018-19, the Office of First Steps to School Readiness is permitted to retain the first \$1,000,000 of any unexpended CDEPP funds of the prior fiscal year and expend these funds to enhance the quality of the full-day 4K program in private centers and provide professional development opportunities.</p> <p>By August first, the Office of First Steps is directed to allocate any additional unexpended CDEPP funds from the prior fiscal year and any CDEPP funds carried forward from prior fiscal years that were transferred to the restricted account for the following purpose: Education Oversight Committee - \$1,000,000 for the South Carolina Community Block Grants for Education Pilot Program.</p> <p>If carry forward funds are less than the amounts appropriated, funding for the items listed herein shall be reduced on a pro rata basis.</p> <p>If by August first, the Department of Education or the Office of First Steps determines there will be funds available, funds shall be allocated on a per pupil basis for districts eligible for participation first, who have a documented waiting list, and funded an extended program per this proviso in the prior school year, then to districts to increase the length of the program to a maximum of eight and a half hours per day or two hundred and twenty days per year or to fund summer programs. <u>In addition to these expanded program models, the Office of First Steps is authorized to expend up to \$550,000 in available CDEPP carry forward to pilot and evaluate the provision of evidence-based parent education programming – on a voluntary basis - to the families of participating children enrolled in any CDEPP program.</u> By August 1, the Department of Education and the Office of First Steps must collect the documented waiting lists and determine a process to notify parents of eligible students of available slots in all approved providers. If a district chooses to fund summer enrollment the program funding shall conform to the funding in this act for full year programs, however shall be reduced on a pro rata basis to conform with the length of the program. A summer program shall be no more than eight and a half hours per day and shall be not more than ten weeks in length. The per pupil allocation and classroom grant must conform with the appropriated amount contained in this Act and end of year adjustments shall</p>
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AGENCY NAME:	South Carolina First Steps to School Readiness		
AGENCY CODE:	(H630) SC Dept. of Education	SECTION:	SC First Steps

be based on the one hundred and thirty five day student average daily membership or later student average daily membership for districts choosing to extend the program past one hundred and eighty days. Funds may also be used to provide professional development and quality evaluations of programs.

No later than April first, the Department of Education and the Office of First Steps must report to the Chairman of the Senate Finance Committee and the Chairman of the House Ways and Means Committee on the expenditure of these funds to include the following information: the amount of money used and specific steps and measures taken to enhance the quality of the 4K program and the amount of money used for **parent education and** professional development as well as the types of professional development offered and the number of participants.

Paste FY 2018-19 text above, then bold and underline insertions and strikethrough deletions. For new proviso requests, enter requested text above.

AGENCY NAME:	South Carolina First Steps to School Readiness		
AGENCY CODE:	(H630) SC Dept. of Education	SECTION:	SC First Steps

FORM D – PROVISIO REVISION REQUEST

NUMBER	1.76
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Cite the proviso according to the renumbered list for FY 2019-20 (or mark "NEW").

TITLE	SDE: First Steps 4K Underserved Communities
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Provide the title from the FY 2018-19 Appropriations Act or suggest a short title for any new request.

BUDGET PROGRAM	Sec. 1, VIII. Education Improvement Act, I. First Steps to School Readiness, Sec. 1, XII First Steps to School Readiness, Sec. 1, XIII Employee Benefits
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Identify the associated budget program(s) by name and budget section.

RELATED BUDGET REQUEST	No
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Is this request associated with a budget request you have submitted for FY 2019-20? If so, cite it here.

REQUESTED ACTION	Amend
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Choose from: Add, Delete, Amend, or Codify.

OTHER AGENCIES AFFECTED	None
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Which other agencies would be affected by the recommended action? How?

SUMMARY & EXPLANATION	<p>Proviso allows private 4K providers to apply for up to \$30,000 in one-time supplemental funds to expand new classroom access to 10 or more CERDEP-eligible children. Additionally, the specific fiscal year reference associated with mandated reporting has been replaced with "current fiscal year" to prevent the need for annual proviso amendment.</p>
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Summarize the existing proviso. If requesting a new proviso, describe the current state of affairs without it. Explain the need for your requested action. For deletion requests due to recent codification, please identify SC Code section where language now appears.

AGENCY NAME:	South Carolina First Steps to School Readiness		
AGENCY CODE:	(H630) SC Dept. of Education	SECTION:	SC First Steps

FISCAL IMPACT	<p>The fiscal impact to this change would result in approximately \$450,000 in additional cost. This is based on 15 additional grants. No additional funding is requested as this need can be accommodated with funds on hand.</p>
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Provide estimates of any fiscal impacts associated with this proviso, whether for state, federal, or other funds. Explain the method of calculation.

PROPOSED PROVISO TEXT	<p>1.76. (SDE: First Steps 4K Underserved Communities) Using funds appropriated for the Child Early Reading and Development Education Program, South Carolina First Steps shall develop a pilot program to expand four-year-old kindergarten enrollment within underserved communities eligible for participation during the most recent fiscal year. Newly created and/or newly approved private providers proposing to expand service to ten or more CERDEP eligible children in communities enrolling less than 80% of unable to enroll all eligible students in a public, private, or Head Start setting during the prior fiscal year, may apply for up to \$30,000 in one-time supplemental, needs-based incentives designed to address building renovations, documented as necessary to bring proposed classrooms into compliance with licensing regulations, materials and staffing costs, and/or other obstacles currently preventing their participation in the First Steps 4K program. The First Steps Board of Trustees shall develop and approve an application process that incorporates formal review and fiscal safeguards designed to ensure grant funds are used solely to address documented barriers to program participation. Providers receiving this one-time supplement are expected to participate in the program and provide high-quality, center-based programs as defined herein for a minimum of three years. Failure to participate for three years will require the provider to return a portion of the supplemental allocation at a level determined by the Office of First Steps to School Readiness. First Steps shall submit a report detailing its process, expenditures and expanded enrollment to the Chairman of the House Ways and Means Committee and the Chairman of the Senate Finance Committee by March 15 <u>of the current fiscal year, 2019.</u></p>
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Paste FY 2018-19 text above, then bold and underline insertions and strikethrough deletions. For new proviso requests, enter requested text above.

AGENCY NAME:	South Carolina First Steps to School Readiness		
AGENCY CODE:	(H630) SC Dept. of Education	SECTION:	SC First Steps

**FORM E – AGENCY COST SAVINGS AND GENERAL FUND REDUCTION
CONTINGENCY PLAN**

TITLE	Agency Cost Savings and General Fund Reduction Contingency Plan
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AMOUNT	<p>\$195,645</p> <p><i>What is the General Fund 3% reduction amount (minimum based on the FY 2018-19 recurring appropriations)? This amount should correspond to the reduction spreadsheet prepared by EBO.</i></p>
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ASSOCIATED FTE REDUCTIONS	<p>No FTE's would be reduced. Any general fund reductions for staffing would be covered by other sources of funds.</p>
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How many FTEs would be reduced in association with this General Fund reduction?

PROGRAM/ACTIVITY IMPACT	<p>The CDEPP (4K) Program would be the only program impacted by a potential 3% general fund reduction. The total amount would be \$195,646. This program provides full day funding for 4 year old kindergarten at private providers for children in low income families.</p>
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What programs or activities are supported by the General Funds identified?

AGENCY NAME:	South Carolina First Steps to School Readiness		
AGENCY CODE:	(H630) SC Dept. of Education	SECTION:	SC First Steps

SUMMARY	<p>3% of the total amount of General Funds received by the organization in SFY 2018-19 would be \$6,521,510 X .03 = \$195,645. This consists of the following:</p> <table style="margin-left: 20px;"> <tr> <td>Classified Positions</td> <td style="text-align: right;">\$ 2,029</td> </tr> <tr> <td>Employer Contrib.</td> <td style="text-align: right;">\$ 891</td> </tr> <tr> <td>CDEPP</td> <td style="text-align: right;">\$192,725</td> </tr> <tr> <td>Total</td> <td style="text-align: right;">\$195,645</td> </tr> </table> <p>These funds are allocated for the CDEPP Program for children. These reductions could be absorbed with no reduction in services at this point in time.</p>	Classified Positions	\$ 2,029	Employer Contrib.	\$ 891	CDEPP	\$192,725	Total	\$195,645
Classified Positions	\$ 2,029								
Employer Contrib.	\$ 891								
CDEPP	\$192,725								
Total	\$195,645								

Please provide a detailed summary of service delivery impact caused by a reduction in General Fund Appropriations and provide the method of calculation for anticipated reductions. Agencies should prioritize reduction in expenditures that have the least significant impact on service delivery.

AGENCY COST SAVINGS PLANS	<p>The agency is constantly evaluating ways to be more efficient and provide greater benefit to the people we serve. This includes working on quality of services, and working to keep costs as low as possible, while accomplishing our mission.</p>
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What measures does the agency plan to implement to reduce its costs and operating expenses by more than \$50,000? Provide a summary of the measures taken and the estimated amount of savings. How does the agency plan to repurpose the savings?

AGENCY NAME:	South Carolina First Steps to School Readiness		
AGENCY CODE:	(H630) SC Dept. of Education	SECTION:	SC First Steps

FORM F – REDUCING COST AND BURDEN TO BUSINESSES AND CITIZENS

TITLE	SC First Steps
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Provide a brief, descriptive title for this request.

EXPECTED SAVINGS TO BUSINESSES AND CITIZENS	SC First Steps does not assess fines or fees associated with its services. First Steps has no regulations on businesses or members of the public.
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What is the expected savings to South Carolina’s businesses and citizens that is generated by this proposal? The savings could be related to time or money.

FACTORS ASSOCIATED WITH THE REQUEST	<p>Mark “X” for all that apply:</p> <input type="checkbox"/> Repeal or revision of regulations. <input type="checkbox"/> Reduction of agency fees or fines to businesses or citizens. <input type="checkbox"/> Greater efficiency in agency services or reduction in compliance burden. <input type="checkbox"/> Other
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METHOD OF CALCULATION	
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Describe the method of calculation for determining the expected cost or time savings to businesses or citizens.

REDUCTION OF FEES OR FINES	
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Which fees or fines does the agency intend to reduce? What was the fine or fee revenue for the previous fiscal year? What was the associated program expenditure for the previous fiscal year? What is the enabling authority for the issuance of the fee or fine?

REDUCTION OF REGULATION	
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Which regulations does the agency intend to amend or delete? What is the enabling authority for the regulation?

AGENCY NAME:	South Carolina First Steps to School Readiness		
AGENCY CODE:	(H630) SC Dept. of Education	SECTION:	SC First Steps

SUMMARY

*Provide an explanation of the proposal and its positive results on businesses or citizens.
How will the request affect agency operations?*



To: SC First Steps Board of Trustees
From: Walter Fleming, Chair, Finance and Administration Committee
Date: October 10, 2018

RE: Finance and Administration Committee Report

The Finance and Administration Committee met via conference call on October 10, 2018 to receive two action items and updates from staff. Detailed meeting minutes are attached. The committee brings forward the following action items and updates.

ACTION: Receive the 2018 Financial Audit Report

The 2018 Financial Audit Report was presented to the Finance and Administration Committee by Emily Sobczak, CPA, Partner with Greene Finney, LLP. The organization received an unqualified opinion, which is the best an organization can receive. There were no findings and no discussion with management about issues. We have asked her to present her report to the Board. Once she has presented her report we make the following motion.

Motion: To receive the 2018 Financial Audit as presented by Greene Finney, LLP.

ACTION: Approve the Use of the Fund 10 Remaining Funds

There is currently \$612,000 in Fund 10 accounts for the Local Partnerships. These funds were collected during the years that the Board of Trustees did not allow carry forward funds to be retained by the Local Partnerships. These funds at one time totaled \$2.1 Million. \$1.4 of these funds were used to prevent cuts to the Local Partnerships in 2013-14. At that point, these funds were moved around to keep about \$12,000 in each Local Partnerships account for a cash reserve. This would provide the only documented reserve for all of the Local Partnerships and these funds would provide over 2 weeks of operating cash in an emergency. The Committee reviewed the use and purposes of these funds and makes the following motion.

Motion: To use the Fund 10 amounts for a Single Cash Reserve Account for the Local Partnerships.

The Committee provides the following information.

First Steps State Office

Financial Report

The YTD financial report is attached. The financial position of the organization continues to be strong.

New Director of Finance and Audit

Mrs. Lavinia Tejada has been hired as the new Director of Finance and Audit. Lavinia was a dual language learner when she came to this country at the age of 12. She grew up in New Jersey, completed her Bachelor's Degree in Accounting and Psychology at Rutgers University and

earned her CPA in 2001. Prior to being the Fiscal Manager for the Early Head Start Grant, she worked as the Assistant Treasurer for the City of Rahway, New Jersey where she supervised a number of the accounting functions and staff for the city. In addition, once she moved to the south, she worked for Allen University for a number of years as the Associate Vice President of Fiscal Affairs where she also supervised a number of the accounting functions and staff.

Local Partnerships

Administrative Rate

The Committee is reviewing the recently revised 13% Administrative Rate in use by the Local Partnerships so that a permanent rate can be set for the next 5 years, as required by the new statute. There are a number of accounting changes that have taken place in the last several months related to the way Local Partnerships track their costs. We will be evaluating those changes so we can make a recommendation to the Board by the first of the new calendar year.

Allocation Model Review Update

The Committee is reviewing the current allocation model so that it can make recommendations for changes. Max Learner, PhD, who assisted the Board twice before related to the allocation model, has agreed to assist again. Tentative dates for the Allocation Model Review are set. The effort will include a number of Local Partnership Executive Directors, State Office staff, Manley Garvin staff, and others. We hope to have a recommendation in time for the allocations for next year.

New Financial Management System for the Local Partnerships

We received an update on the status of the new system being requested through the State's Materials Management Office. There has been a delay in getting the new system awarded. The current system will no longer be supported by the vendor after December of this year. The solicitation has been posted. The current expectation is that the new system will be in place by the beginning of the new 2019-20 fiscal year.

EHS-CCP Grant Close Out

Early Head Start – Child Care Partnership Grant

Mark Barnes provided an update on the close out of the EHS-CCP Grant. The majority of the assets from the Round 1 Grant have been turned over to the new grantee. The last of the EHS staff will be removed from the grant by the end of October. We are still waiting on guidance from Region IV on how to proceed with Round 2 Inventory. The federal program staff reached out to us to ask us to move forward with using our supplemental funds for the Round 1 grant to develop the proposed Latta Child Care Center which will be operated by Dillon County First Steps. We are excited about the opportunity to do this but they have not yet given us the authorization to commit the funds, nor an extension for cash drawdowns necessary to spend the funds. These would be necessary to do the renovations and provide other needs for the site. Our grant ended on July 31, 2018, per the Board's previous vote, and that ended our ability to commit funds other than the amount approved for the close out.

4K Program

Year End Cash Balance

The organization ended the year having come close to expending all of this year's appropriation for the program. We finished the year close to what we had estimated. We added approximately \$1 million to the cash balance from the previous year. The biggest impact for 2017-18 came from the extended day and year for the 4K providers.

SLED Investigation

As the Committee is aware, 4K Program Management asked for a SLED investigation into one of our child care providers. This provider was suspected for fraudulently billing for children to the program. The investigation is now complete and a number of charges have been brought against the owner of the facility. These include fraud, child identity theft, and others.

Other Discussion

We also received updates on the Sumter County School District Forensic Audit and the new 4K Fiscal Manager position.



Minutes from Finance and Administration Committee Meeting October 10, 2018

Members present: Walter Fleming, Vice Chairman; Tim Holt; Julie Hussey, Acting Chair of the Board of Trustees

Nonmembers present: Emily Sobczak, CPA, Partner, Greene Finney, LLP; Mark Barnes, COO/CFO; Lavinia Tejada, CPA

Absent: N/A

Meeting was called to order by Walter Fleming at 10:05 am.

Audit Report

Required Action Item: Receipt of 2017-18 Financial Audit

Presentation by Emily Sobczak, CPA Partner with Greene Finney, LLP. Ms. Sobczak delivered a presentation regarding the SC First Steps Financial Audit for 2018 and its conclusion. She mentioned that the audit delivered an unqualified opinion, which is the best an organization can receive during an audit. She also mentioned there were no findings, and no discussion with management on issues. She reviewed the financial reports and the audit in detail.

Mr. Holt had questions related to the increase of Other Post-Employment Benefits (OPEB) determined liability percentage rates for retirement funds. Ms. Sobczak clarified that these rates were determined based on assumed lowered annual rates of return on investments. Mr. Barnes mentioned that OPEB increase on liability rates was also assessed while SC First Steps had additional staff that included BabyNet and rates were a year behind. This meant that the rates in the current statements were from SFY 2017 as applied to SFY 2018. Those liabilities should decrease next year.

The Committee voted to receive the Financial Statements Audit. Mrs. Hussey inquired about the Financial Statements presentation to the Board. Mr. Barnes noted that Ms. Sobczak would do the same presentation at the Board of Trustees Meeting in person if the Committee thought that was best. The members agreed that this would be the way it would be presented.

Required Action Item: Fund 10 Local Partnership Funds

Mr. Barnes presented the recommendations received by the State Office Staff from multiple sources including several input sessions from the Local Partnership Executive Directors. The issue resolves around funds that were collected during the 2005 through the 2008 fiscal years from funds that were not spent by the Local Partnerships. The Board of Trustees, at that time, did not allow any carry forward funds to be retained by the Local Partnerships. Those rules were changed in 2008 to allow the Local Partnerships to carry forward funds. During the time the carry forward was prohibited by the Board almost \$2.1 million was collected. These funds were set aside to meet the needs of the organization, but were not spent. In 2013-14, it was decided that \$1.4 million would be distributed to the Local Partnerships in order to avoid that amount in cuts. This left about \$612,000. These amounts were distributed out to every partnership in their Fund 10 with an average \$12,000 going to each one, even if



they never generated any carry forward. These funds have been in those accounts in case there was a cash need.

Recently the question has been raised to the best use of these funds. Input has been sought from the Finance and Administration Committee of the Board, as well as the same committee of the Executive Directors.

Feedback allowed for the following possible options.

1. Allow each partnership to have these funds based on the amount in each account.
2. Collect the funds in a single account and distribute these to the Local Partnerships with the greatest needs.
3. Collect the funds into a single account and let the Local Partnerships request Grants from the funds.
4. Collect the funds into a single account and split the funds between having Grant funds for the Local Partnerships and using the remainder for a cash reserve account.
5. Collect the funds into a single account and distribute them based on the allocation model.
6. Collect the funds into a single account and use for a cash reserve fund for the Local Partnerships.

Mr. Barnes presented the options and then mentioned that staff recommends using the funds as a cash reserve account for the partnership which they can use but would replenish once cash was available. This would be Option #6.

He reminded the Committee that for several years we have not been able to get enough cash in the first months of the new fiscal year, due to our funding coming primarily from funding through the Education Improvement Act, (EIA), to cover the Local Partnerships cash needs. We have had to borrow from state office programs, primarily the 4K Program. The agency has plans to reduce the cash in that account and those funds will most likely not be available after the next few years. We continue to work with the General Assembly, the State Department of Education, and the Education Oversight Committee to find a long term solution to this issue. Generally the recommendation is that organizations have 2 months of operating funds in reserve. This amount available would provide a little more than 2 weeks of operating cash for the Local Partnerships.

The account would remain at the Finance Manager with no funds coming to the State Office. Mr. Holt asked questions about how to ensure that funds are paid back and Mr. Barnes mentioned that the control for those funds would be at the Finance Manager, and there should be no problem with that issue. Mr. Holt requested that the Committee be informed as to local partnership, amount, and time limitation with reporting to show the activity in the account. Mr. Barnes recommendation was to have an annual report showing the activity. Mr. Holt motioned to accept the recommendation. The committee unanimously supported the recommendation.

First Steps State Office

Financial Report

The YTD financial report was reviewed by the committee with general discussion. The financial position of the organization continues to be strong. We have received \$28,000 in donations as of the date of the report.



New Director of Finance and Audits

Mr. Barnes introduced Mrs. Lavinia Tejada, the new Director of Finance and Audit. He mentioned that Lavinia was a dual language learner when she came to this country at the age of 12. She grew up in New Jersey, completed her Bachelor's Degree in Accounting and Psychology at Rutgers University and earned her CPA in 2001. Prior to working with the Early Head Start Grant, she worked as the Assistant Treasurer for the City of Rahway, New Jersey where she supervised a number of the accounting functions and staff for the city. In addition, once she moved to the south, she worked for Allen University for a number of years as the Associate Vice President of Fiscal Affairs where she also supervised a number of the accounting functions and staff. Lavinia spoke about her background and expressed her enthusiasm for the new position.

Local Partnerships

Administrative Rate

Last year the Board of Trustees approved a new Administrative Rate for the Local Partnerships. The Local Partnerships are now allowed to spend up to 13% of the total state funding they receive on administrative costs. We are required in the new state statute to establish this rate, and once established, it cannot change for 5 years. There are a number of accounting changes that have taken place in the last few months pertaining to ways that the Local Partnerships document their costs, including new allocation methods, as well as new codes for items like Core Services. We are monitoring the current fiscal year and are evaluating if the revised 13% administrative rate will meet the needs of the Local Partnerships after all of these changes. State Staff will bring this issue up at the next Committee meeting with more data so that a permanent 5 year rate can be established by the Board of Trustees.

Sumter: Forensic Audit

Staff gave an update on the activity of the Sumter Forensic Audit. The audit is ongoing and we hope to have a final report before the next Committee meeting. The audit is related to a SLED investigation taking place at the Sumter County School District. Sumter County First Steps is not being investigated in this audit.

Allocation Model Review Update

Max Learner, PhD, who assisted the Board twice before related to the allocation model, has agreed to assist again. Mr. Barnes discussed tentative dates for the Allocation Model Review. He is predicting the first meeting will be at tentatively, November 14, 2018. The meeting will include 8 Local Partnership Executive Directors, Mr. Barnes and others. Lunch will be included. Mr. Barnes will set up the meeting and send out notifications.

Update on New Local Partnership Financial Management System

The solicitation for the New Financial Management System is now posted and there have been a couple of amendments. It should close soon. Once closed, vendors will present their capabilities and software evaluation. We hope to have the new system in place and operating before the beginning of the new 2019-20 fiscal year. There will be a number of changes, including a revised chart of accounts, and new purchasing procedures.



Early Head Start-Child Care Partnership

SC First Steps has turned over the majority of Round 1 assets to the new grantee. Final payments are being made and final financial reports will be completed. We are still waiting on guidance from Region IV on how to proceed with Round 2 Inventory. The federal program staff reached out to us to ask us to move forward with using our supplemental funds for the Round 1 grant to develop the proposed Latta Child Care Center which will be operated by Dillon County First Steps. We are excited about the opportunity to do this, however, Region IV have not yet given SC First Steps the authorization to commit the funds, nor an extension for cash drawdowns necessary to spend the funds. These would be necessary to do the renovations and provide other needs for the site. Our grant ended on July 31, 2018, per the Board's previous vote, and that ended our ability to commit funds other than the amount approved for the close out. We will be working with them to find a way to help meet this need.

4K Program

Year End Cash Balance

Mr. Barnes discussed year end cash balances and appropriations. The organization ended the year having come close to expending all of this year's appropriation for the program. We finished the year close to what we had estimated. We added approximately \$1 million to the cash balance from the previous year. The biggest impact for this last year came from the extended day and year for the 4K providers.

4K Fiscal Manager

There will be a new position added to the 4K Program team. The new 4K Fiscal Manager will be responsible for ensuring proper procedures and controls are in place to manage the fiscal component of the program. This position will be at the same level of the Local Partnership Fiscal Manager and will report to the CFO.

SLED Investigation Update

As the Committee is aware, 4K Program Management asked for a SLED investigation into one of our child care providers. This provider was suspected for fraudulently billing for children to the program. The investigation is now complete and a number of charges have been brought against the owner of the facility. These include fraud, child identity theft, and others. Mr. Holt asked if we had language in our contracts that required a bond on these types of losses. Mr. Barnes mentioned he would evaluate the contracts and let him know. If the language was not adequate, we would get with our attorney to add appropriate language.

South Carolina First Steps to School Readiness

Financial Statements

For the Year Ended June 30, 2018



September 21, 2018

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, 2018, was issued by Greene Finney, LLP, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

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

Respectfully submitted,

George L. Kennedy, III, CPA
State Auditor

GLKIII/cmw

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Greene Finney, LLP

CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of South Carolina First Steps to School Readiness ("First Steps"), a nonmajor discretely presented component unit of the State of South Carolina, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise First Steps' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of South Carolina First Steps to School Readiness as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Change in Accounting Principle

As discussed in Note I.B to the financial statements, for the year ended June 30, 2018 First Steps adopted the provisions of Governmental Accounting Standards Board Statement No. 75 “*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*”. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis, budgetary comparison schedules, schedule of proportionate share of the net pension liability – South Carolina Retirement System, schedule of contributions – South Carolina Retirement System, schedule of proportionate share of the net OPEB liability – South Carolina Health Insurance Trust Fund, and schedule of contributions – South Carolina Health Insurance Trust Fund, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2018 on our consideration of First Steps’ internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering First Steps’ internal control over financial reporting and compliance.

Greene Finney, LLP

Greene Finney, LLP
Mauldin, South Carolina
September 21, 2018

**South Carolina First Steps to School Readiness
Management’s Discussion and Analysis
For the Year Ended June 30, 2018**

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, 2018.

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, 2018:

- First Steps’ total net position increased by \$941,023 and its liabilities and deferred inflows of resources exceeded its assets and deferred outflows of resources (net position) by \$1,855,984, which includes \$10,926,758 in net position restricted for the 4K pre-school program and early childhood services.
- First Steps received \$35,904,451 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, local, and private grants as well as Medicaid reimbursements totaling \$7,642,833.

USING THESE AUDITED FINANCIAL STATEMENTS

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

Government-wide Statements:

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

**South Carolina First Steps to School Readiness
Management's Discussion and Analysis
For the Year Ended June 30, 2018**

Fund Statements:

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

First Steps was created specifically to carry out the objectives of The South Carolina First Steps to School Readiness Act and to lessen the burdens on government by overseeing the initiative for improving early childhood development of the Act.

Statements of Net Position –The Statements of Net Position provides a summary of First Steps' financial condition at the end of the 2018 and 2017 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

	2018	2017*
Current assets	\$ 14,480,921	\$ 11,874,997
Capital assets, net	350,375	663,972
Total assets	14,831,296	12,538,969
Deferred outflows of resources	4,014,817	2,595,398
Current liabilities	899,046	1,311,467
Net pension liability	11,321,231	8,224,476
Net OPEB liability	7,636,576	8,157,559
Other noncurrent liabilities	117,076	228,940
Total liabilities	19,973,929	17,922,442
Deferred inflows of resources	728,168	8,932
Net investment in capital assets	350,375	663,972
Restricted	10,926,758	9,079,585
Unrestricted	(13,133,117)	(12,540,564)
Total net position, as restated	\$ (1,855,984)	\$ (2,797,007)

*June 30, 2017 amounts have been restated due to the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*, which required the retroactive recognition of the net OPEB liability and related deferred outflows of resources.

Current assets have increased from \$11,874,997 at June 30, 2017 to \$14,480,921 at June 30, 2018 which is an increase of \$2,605,924. This is primarily due to an increase in cash which resulted from First Steps not expending all State appropriations it received during the year. During fiscal year 2018, the funding received was greater than cost of the services that the market could accept, based on the requirements and restrictions in the 4K Program. First Steps' net pension liability and related deferred outflows of resources increased substantially, which is based on First Steps' proportionate share of pension related amounts associated with the State's retirement plan. First Steps' also recognized its proportionate share of the OPEB related amounts associated with the State's retiree health plan.

**South Carolina First Steps to School Readiness
Management's Discussion and Analysis
For the Year Ended June 30, 2018**

First Steps reported negative unrestricted net position of \$(13,133,117) which is due primarily to its proportionate share of the net pension and OPEB liabilities of \$18,957,807. First Steps does not anticipate funding these liabilities and will continue to contribute to the respective plans at State required contribution rates.

Statements of Activities – The Statements of Activities reports the revenues and expenses during the 2018 and 2017 fiscal years.

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
STATEMENTS OF ACTIVITIES

	2018	2017
Program Revenues		
Federal and state grants	\$ 7,396,996	\$ 13,904,691
Medicaid reimbursements	178,280	273,540
Local and private grants	67,557	395,227
Total program revenues	7,642,833	14,573,458
General Revenues		
State appropriations	35,904,451	41,804,568
Interest income	194,818	1,257,762
Total general revenues	36,099,269	43,062,330
Total revenues	43,742,102	57,635,788
Expenses		
Allocations to other entities	27,765,507	32,043,605
Contractual services	4,898,214	8,976,041
Salaries	2,949,305	5,015,808
Employer fringe benefits	3,068,059	2,279,358
Rent and leases	424,710	606,537
Materials	2,767,428	2,919,085
Travel	572,821	623,557
Loss on disposal of capital assets	267,035	—
Depreciation	88,000	166,948
Total expenses	42,801,079	52,630,939
Increase in net position	941,023	5,004,849
Net position beginning balance, as restated*	(2,797,007)	123,388
Net position ending balance	\$ (1,855,984)	\$ 5,128,237

*First Steps implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*, during the year ended June 30, 2018. Net position as of July 1, 2017 has been restated in accordance with these provisions. See Note 1.B. for further details regards the restatement. The restatement was recorded as of July 1, 2017, and as such, the ending net position for June 30, 2017 does not agree to net position as of July 1, 2017.

**South Carolina First Steps to School Readiness
Management's Discussion and Analysis
For the Year Ended June 30, 2018**

Operating revenues of First Steps are largely dependent upon appropriations from the State of South Carolina as well as grants from the Federal government. The significant increase in net position is primarily attributed to State budget funds in the 4K Program and associated provisos with amounts that were greater than could be expended due to restrictions and requirements for the program. First Steps' total expenses decreased from \$52,630,939 for the year ended June 30, 2017 to \$42,801,079 for the year ended June 30, 2018 which was a decrease of \$9,829,860. First Steps transferred its BabyNet program to the Department of Health and Human Services ("DHHS") during the year ended June 30, 2018 and reduced its allocations to other entities which caused various classifications of expenses to increase during the year ended June 30, 2018 as compared to the year ended June 30, 2017. These decreases were offset by increases in both pension expense and OPEB expense. The collectively pension and OPEB expense was \$2.5 million, which has caused fringe benefits expense to exceed salaries expense.

Total program revenues decreased by \$6,930,625 primarily due to First Steps receiving additional Federal grant revenue during the year ended June 30, 2017 for its BabyNet program as compared to the year ended June 30, 2018. Total general revenues decreased by \$6,963,061. This decrease was also due primarily to the transfer of the BabyNet program to DHHS. Expenses decreased by \$9,829,860 primarily due to these same causes. First Steps realized an increase in net position from the prior year in the amount of \$941,023.

Fund Highlights:

Governmental Fund:

The focus of First Steps' governmental fund is to provide information regarding actual inflows and outflows of spendable resources. The General Fund is the only operating fund of First Steps. The General Fund's operating revenues are primarily appropriations from the State of South Carolina and federal grants. For state appropriations, revenues are not budgeted by First Steps, therefore, expenditures are typically matched with appropriations so long as expenditures do not exceed budget. Additionally, State appropriations that exceeded First Steps' program expenses resulted in revenues exceeding expenditures by \$2,892,195 for the year ended June 30, 2018. This resulted in an increase in fund balance from the beginning fund balance amount of \$10,821,701 to \$13,713,896, which includes \$10,962,758 in fund balance restricted for the 4K pre-school program and early childhood services and \$2,787,138 in unassigned fund balance.

Capital Assets:

First Steps purchased 2 vehicles for \$41,438 during the fiscal year ended June 30, 2018. These vehicles were purchased to help First Steps implement the Early Head Start Child Care Partnership Grant. First Steps also disposed of equipment and computer software with a net book value of \$267,035 as part of its transfer of the BabyNet program to DHHS during the fiscal year ended June 30, 2018. See note 4 to the financial statements for additional information regarding First Steps' capital assets.

Noncurrent Liabilities:

First Steps' noncurrent liabilities consist of compensated absences and its proportionate share of the State of South Carolina's net pension 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 \$460,003 while another \$221,989 were accrued. See note 5 to the financial statements for additional information regarding First Steps' noncurrent liabilities.

**South Carolina First Steps to School Readiness
Management's Discussion and Analysis
For the Year Ended June 30, 2018**

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, 2017 was \$8,224,476 and at June 30, 2018, it had increased to \$11,321,231. The increase is due to an overall increase in the net pension liability in the pension plan of the SCRS. 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.

First Steps' was 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, 2018 was \$7,636,576. The implementation of GASB Statement No. 75 also required the restatement of beginning net position for First Steps' proportionate share of the net OPEB liability as of June 30, 2017. This resulted in a reduction in beginning net position of \$7,925,244. See note 7 to the financial statements for additional information regarding First Steps' OPEB plan.

Budget Highlights:

First Steps budgets State appropriations and other funds (earmark, restricted and federal) as they are received during the year. First Steps' original and final budget for the General Fund was \$6,521,510 and \$6,582,010, respectively, for the year ended June 30, 2018. Actual expenditures, on the budgetary basis, totaled \$6,484,700. These amounts were spent primarily on the CDEPP programs. The total other funds budget was originally \$35,519,369 and was revised to \$42,274,554 with actual expenditures of \$33,496,392. The amount of expenditures budgeted exceeded actual expenditures as First Steps was not able to expand its programs rapidly enough during the year to consume all budgeted amounts. Those funds will be used in future fiscal years.

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

Due to the continually increasing costs of services central to the First Steps' mission and operations, First Steps does intend to request additional budgetary funding from the State of South Carolina General Assembly in future fiscal years to help ensure that these programs continue for the benefit of the State. The South Carolina General Assembly and the Governor reauthorized First Steps with its Legislative Bill H3591 effective July 1, 2018. Bill H3591 extended SC First Steps authorization from July 1, 2018 (FY 19) thru June 30, 2025 (FY 25).

First Steps has discontinued its Early Head Start program and is in the process of closing out related grants during fiscal year 2019. The discontinuation of this program will reduce related revenues and expenditures. Revenues and expenditures for fiscal year 2018 were approximately \$5.7 million.

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
1300 Sumter Street, Suite 100
Columbia, South Carolina 29201

**South Carolina First Steps to School Readiness
Statement of Net Position
June 30, 2018**

ASSETS

Current assets:

Cash and cash equivalents	\$ 13,147,010
Due from Federal government and other grantors	1,333,911
Total current assets	14,480,921

Noncurrent assets:

Capital assets, net	350,375
Total noncurrent assets	350,375
Total assets	14,831,296

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows of resources related to pensions	3,840,630
Deferred outflows of resources related to OPEB	174,187
Total deferred outflows of resources	4,014,817

LIABILITIES

Current liabilities:

Accounts payable	415,421
Accrued salaries and benefits	351,604
Compensated absences	132,021
Total current liabilities	899,046

Noncurrent liabilities:

Compensated absences	117,076
Net OPEB liability	7,636,576
Net pension liability	11,321,231
Total noncurrent liabilities	19,074,883
Total liabilities	19,973,929

DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources related to OPEB	721,893
Deferred inflows of resources related to pensions	6,275
Total deferred inflows of resources	728,168

NET POSITION

Net investment in capital assets	350,375
Restricted for the 4K pre-school program and early childhood services	10,926,758
Unrestricted	(13,133,117)
Total Net Position	\$ (1,855,984)

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, 2018**

Expenses

Governmental Activities – General Government

Allocations to other entities	\$ 27,765,507
Contractual services	4,898,214
Salaries	2,949,305
Employer fringe benefits	3,068,059
Rent and leases	424,710
Materials	2,767,428
Travel	572,821
Loss on disposal of capital assets	267,035
Depreciation	88,000
Total expenses	<u>42,801,079</u>

Program Revenues – Operating Grants and Contributions

Federal and state grants	7,396,996
Medicaid reimbursements	178,280
Local and private grants	67,557
Total program revenues	<u>7,642,833</u>
Net expenses	<u>(35,158,246)</u>

General Revenues

State appropriations	35,904,451
Interest income	194,818
Total general revenues	<u>36,099,269</u>

Increase in net position	941,023
Net position, July 1, 2017, as restated	<u>(2,797,007)</u>
Net position, June 30, 2018	<u><u>\$ (1,855,984)</u></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
Balance Sheet -
Governmental Fund
June 30, 2018**

	General Fund
ASSETS	
Cash and cash equivalents	\$ 13,147,010
Due from Federal government and other grantors	1,333,911
Total Assets	\$ 14,480,921
 LIABILITIES	
Accounts payable	\$ 415,421
Accrued salaries and benefits	351,604
Total liabilities	767,025
 FUND BALANCE	
Restricted for the 4K pre-school program and early childhood services	10,926,758
Unassigned	2,787,138
Total fund balance	13,713,896
Total liabilities and fund balance	\$ 14,480,921

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

**South Carolina First Steps to School Readiness
Reconciliation of the Balance Sheet of the Governmental Fund
to the Statement of Net Position
June 30, 2018**

Total fund balance, governmental fund	\$ 13,713,896
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>	
<p>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 \$445,103 net of accumulated depreciation of \$94,728.</p>	
	350,375
<p>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.</p>	
Net pension liability	(11,321,231)
Net OPEB liability	(7,636,576)
Deferred outflows of resources related to pensions	3,840,630
Deferred inflows of resources related to pensions	(6,275)
Deferred outflows of resources related to OPEB	174,187
Deferred inflows of resources related to OPEB	(721,893)
<p>Compensated absences are not due and payable in the current period and are not included in the fund financial statements, but are included in the governmental activities in the Statement of Net Position</p>	
	(249,097)
Net position of governmental activities in the Statement of Net Position	<u>\$ (1,855,984)</u>

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

**South Carolina First Steps to School Readiness
Statement of Revenues, Expenditures, and Change in Fund Balance -
Governmental Fund
For the Year Ended June 30, 2018**

	<u>General Fund</u>
Revenues	
State appropriations	\$ 35,904,451
Federal grants	7,352,282
Medicaid reimbursements	178,280
Local and private grants	67,557
Interest income	194,818
Total revenues	<u>43,697,388</u>
Expenditures	
Allocations to other entities	27,765,507
Contractual services	4,898,214
Salaries	3,187,319
Employer fringe benefits	1,147,756
Materials	2,767,428
Travel	572,821
Capital outlay	41,438
Rent and leases	424,710
Total expenditures	<u>40,805,193</u>
Increase in fund balance	2,892,195
Fund balance, July 1, 2017	10,821,701
Fund balance, June 30, 2018	<u>\$ 13,713,896</u>

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

**South Carolina First Steps to School Readiness
Reconciliation of the Statement of Revenues, Expenditures,
and Change in Fund Balance of the Governmental Fund to the
Statement of Activities
For the Year Ended June 30, 2018**

Net change in fund balance, governmental fund	\$ 2,892,195
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	412,089
Current year OPEB contributions are considered a deferred outflow of resources rather than a current year expense in the Statement of Activities	161,065
Nonemployer contributions to the OPEB plan are recognized in the Statement of Activities as revenues	44,714
Expenditures for capital assets are considered an asset in the Statement of Net Position	41,438
The loss on disposal of capital assets is only recognized in the Statement of Activities as it does not use current financial resources	(267,035)
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	(88,000)
Increase in pension expense due to changes in First Steps' portion of collective pension expense	(2,028,640)
Increase in OPEB expense due to changes in First Steps' portion of collective OPEB expense	(464,817)
Compensated absences	<u>238,014</u>
Increase in net position, governmental activities	<u>\$ 941,023</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, 2018

1. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

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

In addition, First Steps served as the state’s lead agency for the federal Individuals with Disabilities Education Act Part C program, known in South Carolina as “BabyNet”. BabyNet is a system of supports to help the families of infants and toddlers who are experiencing developmental delays. Due to Executive Order No. 60, issued by the Governor of South Carolina in September 2016, the South Carolina Department of Health and Human Services was designated as the lead agency for BabyNet. The Department of Health and Human Services formally assumed the IDEA Part C lead agency responsibility beginning July 1, 2017. Funding related to the BabyNet program was appropriated to the South Carolina Department of Health and Human Service beginning in fiscal year 2018. First Steps transferred software and computer equipment to the Department of Health and Human Services when this transition occurred.

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

1. Summary of Significant Accounting Policies (continued)

A. Reporting Entity (continued)

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

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

Government-wide Financial Statements

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

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

Fund Financial Statements

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

Measurement Focus and Basis of Accounting

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

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

Governmental Fund Types

General Fund – The General Fund, a major fund, is the only operating fund of First Steps and is used to account for all financial transactions and resources.

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

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, 2018

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

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

Due from Federal Government and Other Grantors

Amounts reported as due from Federal government and other grantors represent amounts that have been expended by First Steps and are reimbursable by the grantor agency, but not received by First Steps, as of June 30, 2018.

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

Compensated Absences

Generally, all permanent full-time State employees and certain part-time employees scheduled to work at least one-half of the First Step's work 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, 2018

1. Summary of Significant Accounting Policies (continued)

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

Fund Balance and Net Position

Fund Balance

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

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

Nonspendable fund balance

The nonspendable fund balance classification includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example, inventories and prepaid amounts. It also includes the long-term amount of loans and notes receivable, as well as other assets. As of June 30, 2018, First Steps did not have any nonspendable fund balance.

Restricted fund balance

The restricted fund balance classification includes amounts that are either restricted externally by creditors, grantors, contributors, or laws or regulations of other governments or restricted by law through constitutional provisions or enabling legislation. As of June 30, 2018, First Steps’ restricted fund balance consisted of state appropriations restricted for the 4K pre-school program and early childhood services.

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, 2018, First Steps did not have any committed fund balance.

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

1. Summary of Significant Accounting Policies (continued)

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

Fund Balance and Net Position (continued)

Fund Balance (continued)

Assigned fund balance

The assigned fund balance classification includes amounts that are constrained by First Steps' intent to be used for specific purposes but are not restricted or committed. The authority for making an assignment is not required to be First Steps' highest level of decision-making authority and as such, the nature of the actions necessary to remove or modify an assignment does not require First Steps' highest level of authority. As of June 30, 2018, First Steps did not have any assigned fund balance.

Unassigned fund balance

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

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

Net Position

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

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

Restricted net position

Restricted net position 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, 2018, First Steps' restricted net position consisted of state appropriations restricted for the 4K program and early childhood services.

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

1. Summary of Significant Accounting Policies (continued)

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

Fund Balance and Net Position (continued)

Net Position (continued)

Net Investment in Capital Assets

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

Unrestricted Net Position

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

Deficit Net Position

First Steps reported negative unrestricted net position of \$13,133,117 which is due primarily to its proportionate share of the net pension liability and OPEB liability of \$11,321,231 and \$7,636,576, respectively (see notes 6 and 7 for more details). First Steps will not be required to fully fund these liabilities in any given year, however, they will continue to contribute to the pension plan at State required contribution rates.

Implementation of New Accounting Standard and Restatement of Net Position

First Steps implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions* ("GASB No. 75"), during the year ended June 30, 2018.

The primary objective of GASB No. 75 is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions ("OPEB"). It also improves information provided by state and local government employers about financial support for OPEB that are provided by other entities. In addition, state and local governments who participate in a cost-sharing multiple employer plan are now required to recognize a liability for their proportionate share of the net OPEB liability of the plan.

In particular, GASB No. 75 requires First Steps to recognize a net OPEB liability (and related deferred outflows and inflows of resources) for its participation in the State's Retiree Health Plan on financial statements prepared on the economic resources measurement focus and accrual basis of accounting (i.e., the Statement of Net Position) and present more extensive note disclosures which can be found in Note 7.

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

1. Summary of Significant Accounting Policies (continued)

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

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

The implementation of GASB No. 75 resulted in the restatement of net position reported as of June 30, 2017 as presented below:

Net position at June 30, 2017 as originally reported	\$ 5,128,237
First Steps' share of net OPEB liability	(8,157,559)
Deferred outflows of resources for contributions made after the measurement date	<u>232,315</u>
Net position at June 30, 2017 as restated	<u>\$ (2,797,007)</u>

2. Budget Policy

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

Transfers of funds may be approved by the State Fiscal Accountability Authority, previously known as the State Budget and Control Board, under its authority or by the agency as set forth in Appropriation Act Proviso 117.9 as follows: Agencies and institutions shall be authorized to transfer appropriations within programs and within the agency with notification to the Executive Budget Office. No such transfer may exceed twenty percent of the program budget. Upon request, details of such transfers may be provided to members of the General Assembly on an agency by agency basis. Transfers of appropriations from personal service accounts to other operating accounts or from other operating accounts to personal service accounts may be restricted to any established standard levels set by the 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. 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.

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

3. Deposits and Investments (continued)

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.

4. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2018, for the primary government was as follows:

	Beginning Balance <u>July 1, 2017</u>	<u>Additions</u>	<u>Disposals</u>	Ending Balance <u>June 30, 2018</u>
Governmental activities				
Capital assets being depreciated:				
Equipment and computer software	\$ 807,111	\$ —	\$ (801,161)	\$ 6,010
Vehicles	<u>403,665</u>	<u>41,438</u>	<u>—</u>	<u>445,103</u>
	<u>1,210,776</u>	<u>41,438</u>	<u>(801,161)</u>	<u>451,113</u>
Less accumulated depreciation for:				
Equipment and computer software	(540,076)	—	534,066	(6,010)
Vehicles	<u>(6,728)</u>	<u>(88,000)</u>	<u>—</u>	<u>(94,728)</u>
	<u>(546,804)</u>	<u>(88,000)</u>	<u>534,066</u>	<u>(100,738)</u>
Capital assets for governmental activities, net	<u>\$ 663,972</u>	<u>\$ (46,562)</u>	<u>\$ (267,035)</u>	<u>\$ 350,375</u>

Depreciation expense for the year ended June 30, 2018 was \$88,000. The equipment and computer software were transferred to DHHS on July 1, 2017 as part of the transfer of the BabyNet program as discussed in Note 1 and a loss on disposal of the assets of \$267,035 was recorded as a result of the transfer.

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

5. Long-term Liabilities

Long-term liabilities consist of compensated absences. Compensated absence activity for the fiscal year ended June 30, 2018, for the primary government was as follows:

	Beginning Balance <u>July 1, 2017</u>	<u>Increases</u>	<u>Decreases</u>	Ending Balance <u>June 30, 2018</u>	Current Portion <u></u>
Compensated absences	\$ 487,111	\$ 221,989	\$ (460,003)	\$ 249,097	\$ 132,021
Total	<u>\$ 487,111</u>	<u>\$ 221,989</u>	<u>\$ (460,003)</u>	<u>\$ 249,097</u>	<u>\$ 132,021</u>

6. Pension Plan

The South Carolina Public Employee Benefit Authority (PEBA), which was created July 1, 2012, administers the various retirement systems and retirement programs managed by its Retirement Division. PEBA has an 11-member Board of Directors, appointed by the Governor and General Assembly leadership, which serves as co-trustee and co-fiduciary of the systems and the trust funds. By law, the State Fiscal Accountability Authority (SFAA), which consists of five elected officials, also reviews certain PEBA Board decisions regarding the funding of the South Carolina Retirement Systems (Systems) and serves as a co-trustee of the Systems in conducting that review. Effective July 1, 2017, the Retirement System Funding and Administration Act of 2017 assigned the PEBA Board of Directors as the Custodian of the Retirement Trust Funds and assigned SC PEBA and the Retirement Systems Investment Commission (RSIC) as co-trustees of the Retirement Trust Funds.

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 a Comprehensive Annual Financial Report (CAFR) containing financial statements and required supplementary information for the Systems' Pension Trust Funds. The CAFR is publicly available through the Retirement Benefits' link on PEBA's website at www.peba.sc.gov, or a copy may be obtained by submitting a request to PEBA, 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 effective July 1, 1945, pursuant to the provisions of Section 9-1-20 of the South Carolina Code of Laws for the purpose of providing retirement allowances and other benefits for employees of the state, its public school districts, and political subdivisions.

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

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 certain newly hired state, public school, and higher education employees. State ORP participants direct the investment of their funds into a plan administered by one of four investment providers.

Membership

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

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

- State ORP - As an alternative to membership in SCRS, newly hired state, public school, and higher education employees and individuals newly elected to the S.C. General Assembly beginning with the November 2012 general election have the option to participate in the State Optional Retirement Program (State ORP), which is a defined contribution plan. State ORP participants direct the investment of their funds into a plan administered by one of four investment providers. PEBA assumes no liability for State ORP benefits. Rather, the benefits are the liability of the investment providers. For this reason, State ORP programs are not part of the retirement systems’ trust funds for financial statement purposes. Employee and Employer contributions to the State ORP are at the same rates as SCRS. A direct remittance is required from the employers to the member’s account with investment providers for the employee contribution 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. A brief summary of the benefit terms for each system is presented below.

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

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

6. Pension Plan (continued)

Plan Descriptions (continued)

Benefits (continued)

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

Contributions

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

If the most recent annual actuarial valuation of the Systems for funding purposes shows a ratio of the actuarial value of system assets to the actuarial accrued liability of the system (the funded ratio) that is equal to or greater than ninety percent, then the board, effective on the following July first, may decrease the then current contribution rates upon making a finding that the decrease will not result in a funded ratio of less than ninety percent. Any decrease in contribution rates must maintain the 2.9 and 5 percent differentials between the SCRS employer and employee contribution rates respectively. If contribution rates are decreased pursuant to this provision, and the most recent annual actuarial valuation of the system shows a funded ratio of less than ninety percent, then effective on the following July first, and annually thereafter as necessary, the board shall increase the then current contribution rates until a subsequent annual actuarial valuation of the system shows a funded ratio that is equal to or greater than 90 percent.

The Retirement System Funding and Administration Act increased employer contribution rates to 13.56 percent for SCRS, effective July 1, 2017. It also removes the 2.9 percent and 5 percent differential and increases and establishes a ceiling on employee contribution rates at 9 percent for SCRS. The employer contribution rates will continue to increase annually by 1 percent through July 1, 2022. The legislation's ultimate scheduled employer rate is 18.56 percent for SCRS. The amortization period is scheduled to be reduced one year for each of the next 10 years to a twenty-year amortization schedule. The recent pension reform legislation also changes the long term funded ratio requirement from ninety to eighty-five.

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2018

6. Pension Plan (continued)

Plan Descriptions (continued)

Contributions (continued)

Required employee contribution rates¹ are as follows:

	<u>Fiscal Year 2018</u>	<u>Fiscal Year 2017</u>
SCRS		
Employee Class Two	9.00%	8.66%
Employee Class Three	9.00%	8.66%
State ORP		
Employee	9.00%	8.66%

Required employer contribution rates¹ are as follows:

	<u>Fiscal Year 2018</u>	<u>Fiscal Year 2017</u>
SCRS		
Employer Class Two	13.41%	11.41%
Employer Class Three	13.41%	11.41%
Employer Incidental Death Benefit	0.15%	0.15%
State ORP		
Employer Contribution ²	13.41%	11.41%
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.

First Steps has contributed \$412,089, \$586,573, and \$412,387 to the SCRS and ORP for the years ended June 30, 2018, 2017, and 2016, respectively.

Actuarial Assumptions and Methods

Actuarial valuations involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. Actuarial assumptions and methods used during the annual valuation process are subject to periodic revision, typically with an experience study, as actual results over an extended period of time 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 was most recently issued as of July 1, 2015.

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2018

6. Pension Plan (continued)

Actuarial Assumptions and Methods (continued)

The June 30, 2017, total pension liability (TPL), the net pension liability (NPL), and sensitivity information shown in this report were determined by the consulting actuary, Gabriel, Roeder, Smith and Company (GRS) and are based on an actuarial valuation performed as of July 1, 2016. The total pension liability was rolled-forward from the valuation date to the plans' fiscal year end, June 30, 2017, using generally accepted actuarial principles. The Retirement System Funding and Administration Act of 2017 was signed into law April 25, 2017, and included a provision to reduce the assumed rate of return from 7.50% to 7.25% effective July 1, 2017. As a result of this legislation, GRS made an adjustment to the calculation of the roll-forward total pension liability for this assumption change as of the measurement date of June 30, 2017.

The following table provides a summary of the actuarial assumptions and methods used to calculate the TPL as of June 30, 2017.

	SCRS
Actuarial cost method	Entry age normal
Investment rate of return ¹	7.25%
Projected salary increases ¹	3.0% to 12.5% (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 2016 Public Retirees of South Carolina Mortality table (2016 PRSC), was developed using the Systems' mortality experience. These base rates are adjusted for future improvement in mortality using published Scale AA projected from the year 2016.

Assumptions used in the determination of the June 30, 2017, TPL are as follows.

Former Job Class	Males	Females
Educators	2016 PRSC Males multiplied by 92%	2016 PRSC Females multiplied by 98%
General Employees and Members of the General Assembly	2016 PRSC Males multiplied by 100%	2016 PRSC Females multiplied by 111%
Public Safety and Firefighters	2016 PRSC Males multiplied by 125%	2016 PRSC Females multiplied by 111%

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2018

6. Pension Plan (continued)

Net Pension Liability

The net pension liability (“NPL”) is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB No. 67 less that System's fiduciary net position. As of June 30, 2017, First Step’s proportional share of the NPL amounts 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	\$ 48,244,437,494	\$ 25,732,829,268	\$ 22,511,608,226	53.3384%

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 Step’s proportionate share of the net pension liability was calculated on the basis of historical employer contributions. Although GASB 68 encourages the use of the employer's projected long-term contribution effort to the retirement plan, allocating on the basis of historical employer contributions is considered acceptable. For the year ending June 30, 2017, First Step’s percentage of the SCRS net pension liability was 0.038504%. For the year ending June 30, 2018, the First Step’s percentage of the SCRS net pension liability was 0.050291% which is an increase of 0.011787%. First Step’s proportionate share is determined by its percentage of total contributions to SCRS during the respective fiscal year. The change in percentage resulted in First Step’s 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 7.25 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers in SCRS and PORS 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.

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

6. Pension Plan (continued)

Net Pension Liability (continued)

Long-term Expected Rate of Return

The long-term expected rate of return on pension plan investments is based upon 30-year capital market assumptions. The long-term expected rate of returns represents assumptions developed using an arithmetic building block approach primarily based on consensus expectations and market-based inputs. Expected returns are net of investment fees.

The expected returns, along with the expected inflation rate, form the basis for the target asset allocation adopted at the beginning of the 2017 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 on the following page. For actuarial purposes, the 7.25 percent assumed annual investment rate of return used in the calculation of the TPL includes a 5.00 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>
Global Equity	45.0%		
Global Public Equity	31.0%	6.72%	2.08%
Private Equity	9.0%	9.60%	0.86%
Equity Options Strategies	5.0%	5.91%	0.30%
Real Assets	8.0%		
Real Estate (Private)	5.0%	4.32%	0.22%
Real Estate (REITs)	2.0%	6.33%	0.13%
Infrastructure	1.0%	6.26%	0.06%
Opportunistic	17.0%		
GTAA/Risk Parity	10.0%	4.16%	0.42%
Hedge Funds (non-PA)	4.0%	3.82%	0.15%
Other Opportunistic Strategies	3.0%	4.16%	0.12%
Diversified Credit	18.0%		
Mixed Credit	6.0%	3.92%	0.24%
Emerging Markets Debt	5.0%	5.01%	0.25%
Private Debt	7.0%	4.37%	0.31%
Conservative Fixed Income	12.0%		
Core Fixed Income	10.0%	1.60%	0.16%
Cash and Short Duration (Net)	2.0%	0.92%	0.02%
Total Expected Real Return	<u>100.0%</u>		<u>5.31%</u>
Inflation for Actuarial Purposes			<u>2.25%</u>
Total Expected Nominal Return			<u>7.56%</u>

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

6. Pension Plan (continued)

Sensitivity Analysis

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

Sensitivity of the Proportional Share of Net Pension Liability to Changes in the Discount Rate			
System	1.00% Decrease (6.25%)	Current Discount Rate (7.25%)	1.00% Increase (8.25%)
SCRS	\$ 14,591,513	\$ 11,321,231	\$ 9,336,940

Deferred Outflows (Inflows) of Resources

For the year ended June 30, 2018, First Steps recognized pension expense of \$2,028,641 which is included in employer fringe benefits in the accompanying financial statements. At June 30, 2018, 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, 2017 was 4.073 years for SCRS:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 412,089	\$ —
Differences in actual and expected plan experience	50,470	6,275
Change in proportionate share and differences between First Steps' contributions and proportionate share of contributions	2,399,298	—
Changes in assumptions	662,737	—
Net differences between projected and actual earnings on plan investments	316,036	—
	<u>\$ 3,840,630</u>	<u>\$ 6,275</u>

Measurement Period Ending June 30,	Fiscal Year Ending June 30,	<u>SCRS</u>
2018	2019	\$ (1,189,733)
2019	2020	(1,357,992)
2020	2021	(916,240)
2021	2022	41,699

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

6. Pension Plan (continued)

Deferred Outflows (Inflows) of Resources (continued)

First Steps reported \$412,089 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, 2019.

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, 2018

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 these postemployment and long-term disability benefits to be funded through annual appropriations by the General Assembly for active employees to the PEBA, Insurance Benefits and participating retirees to PEBA, except for the portion funded through the pension surcharge and provided from the other applicable sources of the PEBA, Insurance Benefits. For active employees who are not funded by State General Fund appropriations, participating employers are mandated by State statute to contribute at a rate assessed each year by the Department of Administration Executive Budget Office. The covered payroll surcharge for the year ended June 30, 2017 was 5.33 percent and for the year ended June 30, 2018 was 5.50 percent. The South Carolina Retirement System collects the monthly surcharge for all participating employers and remits it directly to the SCRHITF. Other sources of funding for the SCRHITF include mandatory transfers of accumulated PEBA, Insurance Benefits' reserves and income generated from investments. Employer contributions 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.

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. The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2018

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, 2016
Actuarial Cost Method:	Entry Age Normal
Inflation:	2.25%
Investment Rate of Return:	4.00%, net of OPEB Plan investment expense; including inflation
Single Discount Rate:	3.56% as of June 30, 2017
Demographic Assumptions:	Based on the experience study performed for the South Carolina Retirement Systems for the 5-year period ending June 30, 2015
Mortality:	For healthy retirees, the 2016 Public Retirees of South Carolina Mortality Table for Males and the 2016 Public Retirees of South Carolina Mortality Table for Females are used with fully generational mortality projections based on Scale AA from the year 2016. Multipliers are applied to the base tables based on gender and employment type.
Health Care Trend Rate:	Initial trend starting at 7.00% and gradually decreasing to an ultimate trend rate of 4.15% over a period of 15 years
Aging Factors:	Based on plan specific experience
Retiree Participation:	79% for retirees who are eligible for funded premiums
Notes:	There were no benefit changes during the year; the discount rate changed from 2.92% as of June 30, 2016 to 3.56% as of June 30, 2017

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. This method is expected to be reflective of the employer's long-term contribution effort.

The following table represents the components of the net OPEB liability as of June 30, 2017:

OPEB Trust	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability	Plan Fiduciary Net Position as a % of Total OPEB Liability
SCRHITF	\$ 14,659,610,970	\$ 1,114,774,760	\$ 13,544,836,210	7.60%

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

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, 2018, First Steps reported a liability of \$7,636,576 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2016 and rolled forward to June 30, 2017. First Steps' proportion of the net OPEB liability was based on a projection of the 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, 2017, First Steps' proportion was 0.056381%.

Single Discount Rate

The Single Discount Rate of 3.56% 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 returns 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 2017 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. For actuarial purposes, the 4.00 percent assumed annual investment rate of return includes a 1.75 percent real rate of return and a 2.25 percent inflation component. 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%	2.09%	1.67%
Cash	20.00%	0.84%	0.17%
Total Expected Real Return	<u>100.0%</u>		<u>1.84%</u>
Expected Inflation			<u>2.25%</u>
Total Return			<u>4.09%</u>
Investment Return Assumption			<u>4.00%</u>

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

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

Net OPEB Liability (continued)

Sensitivity Analysis

The following table represents First Steps' proportionate share of the SCRHITF's net OPEB liability calculated using a Single Discount Rate of 3.56%, as well as what the First Steps' proportionate share of the 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 (2.56%)	Current Discount Rate (3.56%)	1.00% Increase (4.56%)
SCRHITF	\$ 8,993,891	\$ 7,636,576	\$ 6,542,498

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	\$ 6,262,422	\$ 7,636,576	\$ 9,416,092

OPEB Expense and Deferred Outflows and Inflows of Resources

For the year ended June 30, 2018, First Steps recognized OPEB expense of \$465,480. At June 30, 2018, First Steps reported deferred outflows and inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
OPEB contributions subsequent to measurement date	\$ 161,065	\$ —
Differences in actual and expected plan experience	—	3,314
Changes in assumptions	—	718,579
Net differences between projected and actual earnings on plan investments	13,122	—
	<u>\$ 174,187</u>	<u>\$ 721,893</u>

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2018

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 \$161,065 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, 2019. 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, 2017 was 7.246 years for SCRHITF:

Measurement Period Ending June 30,	Fiscal Year Ending June 30,	SCRHITF
2018	2019	\$ 112,296
2019	2020	112,296
2020	2021	112,296
2021	2022	112,296
2022	2023	115,577
Thereafter		144,010

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, 2018.

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 \$1,054,000 for the year ended June 30, 2018, including approximately \$35,000 in insurance premiums described below.

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2018

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, 2018 of \$35,064 were paid to the State Accident Fund.

The executive director of Richland County First Steps Partnership serves as a voting member of the First Steps Board of Trustees. Richland County First Steps Partnership receives a significant amount of its funding from First Steps. The amount of funding authorized to each county First Steps partnership is determined by a mathematical formula which uses a variety of demographics of children 0-5 that serve as a proxy for the level of need in each county. Richland County First Steps Partnership's general fund budget authorization for the year ended June 30, 2018 was \$799,336. As a First Steps Board of Trustees member, the Richland County First Steps Partnership executive director abstains from voting on county partnership funding authorizations.

11. Commitments and Contingencies

Leases

First Steps has entered into a non-cancellable lease, considered an operating lease, for a facility used to house operations critical to First Steps' mission. Rent expense related to this lease was approximately \$121,000. Total lease and rental expense was approximately \$451,776, for the year ended June 30, 2018. Future base rental payments under non-cancellable leases are as follows:

Fiscal year ending June 30:

2019	\$ 137,185
2020	129,953
2021	49,463
Total	<u>\$ 316,601</u>

As discussed in Note 1, the BabyNet program was moved to DHHS effective July 1, 2017. With this change, a number of operating leases to which First Steps is a party, were also transferred to DHHS. As such, those future commitments are not included the above table.

Grants

First Steps receives financial assistance from various federal, state, and local governmental agencies in the form of grants. Disbursements of funds received under these programs generally require compliance with the terms and conditions specified in the grant agreements. The disbursements are also subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements included herein or on the overall financial position of First Steps at June 30, 2018.

SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

11. Commitments and Contingencies (continued)

County Partnership Regional Finance Managers

During 2018, First Steps entered into a contract with a single Regional Finance Manager for its County Partnerships. The contract has a five-year term with estimated remaining payments as follows:

Fiscal year ending June 30:

2019	\$	392,500
2020		392,500
2021		392,500
2022		392,500
		<u>\$ 1,570,000</u>

Reauthorization

The South Carolina General Assembly and the Governor reauthorized First Steps with its Legislative Bill H3591 effective July 1, 2018. Bill H3591 extended SC First Steps authorization from July 1, 2018 (FY 19) thru June 30, 2025 (FY 25).

**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, 2018**

	<u>Budgeted Amounts</u>			Variance Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Expenditures:				
First Steps to School Readiness				
Personal Services				
Classified Positions	\$ 67,621	\$ 67,621	\$ —	\$ 67,621
Special Items				
Teacher Supplies	—	60,500	60,500	—
CDEPP	6,424,200	6,424,200	6,424,200	—
Employer Contributions	<u>29,689</u>	<u>29,689</u>	<u>—</u>	<u>29,689</u>
Total First Steps to School Readiness	<u>\$ 6,521,510</u>	<u>\$ 6,582,010</u>	<u>\$ 6,484,700</u>	<u>\$ 96,950</u>

**South Carolina First Steps to School Readiness
Required Supplementary Information -
Budgetary Comparison Schedule – Other Budgeted Funds
(Non-GAAP Budgetary Basis – Unaudited)
For the Year Ended June 30, 2018**

	Budgeted Amounts			Variance Positive (Negative)
	Original	Final	Actual	
Expenditures:				
First Steps to School Readiness				
Personal Services				
Classified Positions	\$ 2,873,885	\$ 1,383,000	\$ 926,870	\$ 456,130
Unclassified Positions	121,540	65,000	61,440	3,560
Other Personal Services	425,000	1,655,197	1,208,797	446,400
Other Operating Expenses	1,906,225	3,009,945	1,754,534	1,255,411
Special Items				
County Partnerships	14,435,228	14,435,228	14,435,228	—
Babynet	—	421,000	185,245	235,755
Early Head Start	3,182,392	9,223,158	5,739,058	3,484,100
CDEPP	9,767,864	9,662,864	8,210,507	1,452,357
Office of First Steps	1,821,000	1,400,000	193,304	1,206,696
Employer Contributions	986,235	1,019,162	781,409	237,753
Total First Steps to School Readiness	\$ 35,519,369	\$ 42,274,554	\$ 33,496,392	\$ 8,778,162

**SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -
BUDGETARY COMPARISON SCHEDULES
FOR THE YEAR ENDED JUNE 30, 2018**

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 the First Steps' General Fund. However, Section 115 (*Recapitulations*) of the Appropriation Act includes net source of funds amounts (i.e. estimated cash brought forward from the previous fiscal year plus estimated revenue for the current fiscal year minus estimated cash to be carried forward to the following fiscal year) for three categories of Other Budgeted Funds: Federal, Earmarked, and Restricted. A budget versus actual comparison for the First Steps' General Funds and Other Budgeted Funds are presented as required supplementary information.

**SOUTH CAROLINA FIRST STEPS TO SCHOOL READINESS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -
BUDGETARY COMPARISON SCHEDULES
FOR THE YEAR ENDED JUNE 30, 2018**

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, 2018**

5. Budget to GAAP Reporting Differences (continued)

Reconciliation of Budget Basis to GAAP Basis Expenditures
For the Year Ended June 30, 2018

	General Fund	Other Budgeted Funds	Total
Total expenditures, budgetary basis	\$ 6,484,700	\$ 33,496,392	\$ 39,981,092
Perspective differences:			
All expenditures are reported in the General Fund for GAAP	33,496,392	(33,496,392)	—
Basis of accounting differences:			
Change in accrued salaries	48,981	—	48,981
Change in accounts payable	(335,250)	—	(335,250)
Amounts grossed up for GAAP basis that represent a transfer of appropriations on the budgetary basis	1,105,000		1,105,000
Other basis differences	5,370	—	5,370
Total expenditures, GAAP basis	<u>\$ 40,805,193</u>	<u>\$ —</u>	<u>\$ 40,805,193</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, 2018
Last Five Fiscal Years**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
First Steps' proportion of the net pension liability	0.050291%	0.038504%	0.031435%	0.031390%	0.031390%
First Steps' proportionate share of the net pension liability	\$ 11,321,231	\$ 8,224,476	\$ 5,961,706	\$ 5,404,384	\$ 5,630,315
First Steps' covered payroll	\$ 5,074,161	\$ 3,728,634	\$ 2,947,293	\$ 2,849,840	\$ 2,889,764
First Steps' proportionate share of the net pension liability as percentage of covered payroll	223.12%	220.58%	202.28%	189.64%	194.84%
Plan fiduciary net position as a percentage of the total pension liability	53.3%	52.9%	57.0%	59.9%	56.4%

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

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

**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, 2018
Last Eight Fiscal Years**

	2018	2017	2016	2015	2014
Contractually required contribution	\$ 412,089	\$ 586,573	\$ 412,387	\$ 321,255	\$ 302,083
Contributions in relation to the contractually required contribution	412,089	586,573	412,387	321,255	302,083
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
First Steps covered payroll	\$ 3,039,003	\$ 5,074,161	\$ 3,728,634	\$ 2,947,293	\$ 2,849,840
Contributions as a percentage of covered payroll	13.56%	11.56%	11.06%	10.90%	10.60%
	2013	2012	2011		
Contractually required contribution	\$ 306,315	\$ 219,508	\$ 189,512		
Contributions in relation to the contractually required contribution	306,315	219,508	189,512		
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>		
First Steps covered payroll	\$ 2,889,764	\$ 2,302,129	\$ 2,018,232		
Contributions as a percentage of covered payroll	10.60%	9.54%	9.39%		

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

**South Carolina First Steps to School Readiness
Required Supplementary Information -
Schedule of the South Carolina First Steps
to School Readiness' Proportionate Share of the Net
OPEB Liability – South Carolina Health Insurance Trust Fund
As of June 30, 2018
Last Two Fiscal Years**

	2018	2017
First Steps' proportion of the net OPEB liability	0.056381%	0.056381%
First Steps' proportionate share of the net OPEB liability	\$ 7,645,667	\$ 8,157,559
First Steps' covered payroll	\$ 4,760,094	\$ 3,728,634
First Steps' proportionate share of the net OPEB liability as percentage of covered payroll	160.62%	218.78%
Plan fiduciary net position as a percentage of the total OPEB liability	7.60%	6.62%

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

Note: Only two years of data was available; thus, only two 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, 2018
Last Two Fiscal Years**

	<u>2018</u>	<u>2017</u>
Contractually required contribution	\$ 161,065	\$ 232,315
Contributions in relation to the contractually required contribution	<u>161,065</u>	<u>232,315</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
First Steps covered payroll	\$ 2,928,455	\$ 4,358,630
Contributions as a percentage of Covered payroll	5.50%	5.33%

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



Greene Finney, 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 the major fund of South Carolina First Steps to School Readiness ("First Steps") as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise First Steps' basic financial statements, and have issued our report thereon dated September 21, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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OPEN BY APPOINTMENT ONLY

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, LLP

Greene Finney, LLP
Mauldin, South Carolina
September 21, 2018

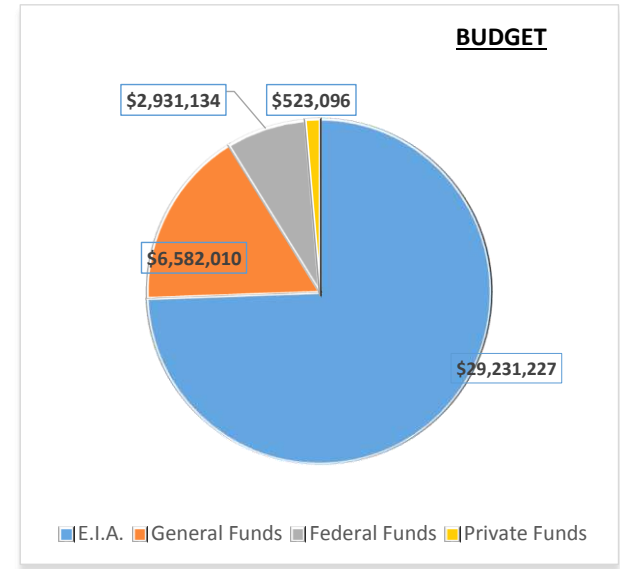
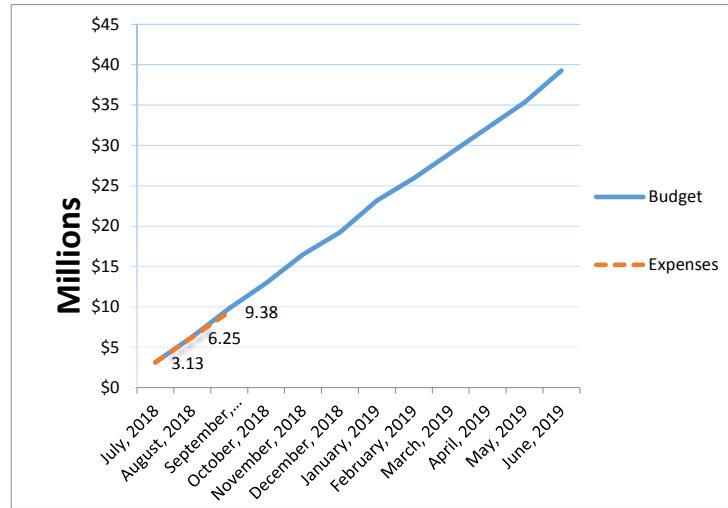


FY 2019 FINANCIAL STATUS REPORT

As of
September 30, 2018

Spending Rates

Projected=25%
Actual = 22%



PROGRAMS / OPERATIONS Description	EIA APPROPRIATIONS			GENERAL FUNDS & FEDERAL GRANTS			PRIVATE FUNDS			GRAND TOTAL		
	Budget	Expenses	Balance	Budget	Expenses	Balance	Budget	Expenses	Balance	Budget	Expenses	Balance
LOCAL PARTNERSHIPS	14,898,228	3,669,816	\$ 11,228,412							14,898,228	3,669,816	\$ 11,228,412
LOCAL PARTNERSHIPS SUPPORT & TECH ASST.	1,845,500	448,397	\$ 1,397,103				422,096	0	\$ 422,096	2,267,596	448,397	\$ 1,819,199
PRIVATE 4-K	9,662,864	4,107,805	\$ 5,555,059	6,582,010	0	\$ 6,582,010				16,244,874	4,107,805	\$ 12,137,069
EARLY HEAD START CHILD CARE PARTNERSHIP				2,931,134	852,274	2,078,860				2,931,134	852,274	\$ 2,078,860
POLICY & ACCOUNTABILITY	2,824,635	298,319	2,526,316				101,000	450	100,550	2,925,635	298,769	\$ 2,626,866
GRAND TOTAL:	29,231,227	8,524,337	20,706,890	9,513,144	852,274	8,660,870	523,096	450	522,646	39,267,467	9,377,061	29,890,406

Notes:

1) Local Partnerships:

- a. Funding Sources: Education Improvement Act (EIA) Funds
- b. Formula allocation cash advances are disbursed on a quarterly basis.
- c. Expenditures reflect disbursements from SC First Steps (state-level)
- d. Does not include local-level actual expenses to staff and vendors

2) Private budgets based on income & prior year cash.

3) LP Support & Technical Assistance

- a. Contracted accounting firm (Manley Garvin, LLC)
- b. Accounting Software network support & Data Housing
- c. Programmatic data housing & network support
- d. Workers' compensation insurance coverage
- e. External programmatic evaluation
- f. Financial audits-annually each LP

3) LP Support & Technical Assistance (cont.)

- g. Does not include local-level actual expenses to staff and vendors
- h. OFS program & finance staff (payroll, rent, contractual, supplies, travel, etc.)
- i. Includes LP Countdown to Kindergarten program

29,231,227 **E.I.A.**
6,582,010 **General Funds**
2,931,134 **Federal Funds**
523,096 **Private Funds**



To: First Steps Board of Trustees
From: Jennifer McConnell, Chair, Program and Grants Committee
Date: October 26, 2018

RE: Report of the Program and Grants Committee

The Program and Grants Committee met on Wednesday, October 17, 2018, to prepare a recommendation to the board regarding a Competitive Grant Process for Partnership FY18 Unspent Funds (state carry forward > 15% of state allocation for more than 2 years). The intent is that this process can be used moving forward for funds (public and private) specified to be made available to the partnerships through a competitive bid process.

Committee members discussed a draft application and process) that includes the following elements:

- Total funding available for competition of \$100,000 (mix of state and private funds)
- Minimum grant award amounts of \$10,000
- Timeline - applications submitted and reviewed so that final awards are made by State Board meeting on December 6, 2018.
- Grant Eligibility Requirements
- Priority Funding Factors
- Application Process
- Application Score Sheet

1. Action Item: Recommendation that the First Steps Board of Trustees approve the “Early Childhood Innovation Grant Application and Process” (see attached final application) for awarding competitive grant funding to eligible Local Partnerships.

Motion: To approve the “Early Childhood Innovation Grant Application and Process” as presented (see attachment 3- final competitive grant application) for awarding competitive grant funding to eligible Local Partnerships.

Attachment 1: Program and Grants Committee Minutes – October 17, 2018

Attachment 2: Carry Forward over 15% FY16-FY18

Attachment 3: Competitive Grants Draft Application and Process



Program and Grants Committee Meeting
October 17, 2018
Conference Call
1-888-537-7715, code-52045398#
12:00 PM – 1:40 PM

Meeting Minutes

Committee Members Present: Jennifer McConnell (chair), Julie Hussey, Roger Pryor
Staff Present: Debbie Robertson

1. **Information Item:** Update on State Board decision to recapture excessive carry forward

The committee reviewed final figures for the three counties with carry forward in excess of 15% of their state allocation for three consecutive years (see attachment 1). The amount of funding to be recaptured totals \$97,294 from the following counties: Barnwell (\$1,668), Hampton (\$3,781) and Sumter (\$91,845). All three Partnership Board Chairs and Executive Directors have been notified that their carry forward for 2019 will be reduced by the respective amounts above. In addition each executive director is required to review their monthly expenditure reports with their board treasurer and have the treasurer notify the state finance office that this review has taken place. In the case of Sumter First Steps, the Sumter Legislative Delegation was notified by Senator Gerald Malloy, Chair of the Board's Legislative Committee. A memorandum was also sent to the Sumter Board Chair requesting a meeting with the Chair, other Sumter First Steps Board members, the Sumter First Steps Executive Director, the First Steps State Office Director and staff, the Chair of the State Board Program and Grants Committee, as well as any interested members of the legislative delegation. The memorandum outlined areas of concern and Sumter Board actions requested. A meeting date of November 5th has been proposed.

2. **Information Item:** Proposal for Competitive Grant Process for Partnership FY18 Unspent Funds (state carry forward > 15% of state allocation for more than 2 years) totaling \$97,294

Prior Committee Motions approved by board:

Motion: Partnerships whose carry forward exceeds 15% for two or more consecutive fiscal years will not receive any carry forward funds in excess of 15% of their state allocation, effective for the fiscal year beginning July 1, 2018.

The plan would be for these funds to then be reallocated to local partnerships through a competitive grant process approved by the Programs and Grants Committee and the Board of Trustees.

Motion: To establish \$10,000 as the minimum award amount for competitive grants awarded to local partnerships through the grant process designed to reallocate partnership funds carried forward in excess of 15% for two or more consecutive fiscal years.



Committee Discussion:

Committee members agreed that grants should be “Early Childhood Innovation Grants” awarded to local partnerships for incentivizing measurable outcomes, leveraging of resources, program expansion and program enhancement. The intent of the grants are to reward outstanding performance of existing programs and services.

Committee members discussed a draft application and process (see attachment 2) that includes the following elements:

- Total funding available for competition of \$100,000 (mix of state and private funds)
- Minimum grant award amounts of \$10,000
- Timeline - applications submitted and reviewed so that final awards are made by State Board meeting on December 6, 2018.
- Grant Eligibility Requirements
- Priority Funding Factors
- Application Process
- Application Score Sheet

The Committee agreed that the selection process should be: SC First Steps staff will review and score each application. The Program and Grants Committee will then receive and review the scored applications and present a recommendation to the State Board. The State Board will receive the committee recommendation and make the final decision regarding grant awards.

The Committee would like to receive final input on the application from First Steps Director, Georgia Mjartan. Once committee suggested changes have been incorporated along with those of Georgia. A final draft will be distributed early next week via email providing an opportunity for committee members to review and either make final suggestions or approve the document. If any substantial changes are required, another meeting via conference call will be scheduled prior to the State Board Meeting. Otherwise committee members can signify their approval for the Final Application via their email response.

3. Action Item: Recommendation that the First Steps Board of Trustees approve the “Early Childhood Innovation Grant Application and Process” (see attached final application) for awarding competitive grant funding to eligible Local Partnerships.

A committee vote will be recorded once the members have had a chance to review the final application.

There being no further business, the meeting was adjourned.

Attachment 1. – Carry Forward over 15% FY16-FY18

Attachment 2. – Competitive Grants Draft Application and Process



COMPETITIVE GRANT OPPORTUNITY FOR FIRST STEPS LOCAL PARTNERHIPS

Early Childhood Innovation Grants: Competitive grants to local partnerships that incentivize and support measurable outcomes, leveraging of resources, program expansion and program enhancement. The intent of the grants is to reward outstanding performance of existing programs and services.

Total funding available for competition: \$100,000 (state and private funds)

Minimum grant award amount: \$10,000

Grant period: January 1, 2019 – December 31, 2019

Applications will be accepted through November 23, 2018. Awards will be determined at State Board Annual Meeting, December 6, 2018.

Grant Eligibility Requirements:

1. These funds are limited to Local Partnerships in good standing with all legislative accountability requirements as outlined in the FY19 Grant Agreement.
 - Applicants must demonstrate that existing programs are currently meeting program requirements as evidenced by a data system review.
 - All outstanding documents due to the state office must be submitted prior to the deadline for this grant application in order to be eligible.
 - Partnerships with a conditional approval that has not been corrected are ineligible to apply.
 - Partnerships with carry forward in excess of 15% of their state allocation are ineligible to apply.
2. If proposal is for expansion of existing program, applicant must justify the need for program expansion by waiting lists, new target areas or target populations, identified underserved groups, or other quantitative measures of unmet need.
3. Multiple local partnerships may submit a joint application (designate lead applicant).
4. Private matching funds are not required.

Application and Scoring Process:

SC First Steps staff will review applications for eligibility, and a committee of external reviewers will score each eligible application. The Program and Grants Committee will then receive the scored applications and make final recommendations to the State Board of Trustees. The Board will receive the committee recommendation and make the final decision regarding grant awards.

Application Content:

First Steps Local Partnerships wishing to apply for this grant opportunity shall complete Sections 1 and 2 below and submit along with the required attachments.

SECTION 1 - Description of Program Success:

This grant should build upon the success a Local Partnership has already achieved. In answering the following questions highlight the strengths of projects or programs you are currently implementing or have implemented in the past.

1. **Measurable Outcomes and Impact** – using data and narrative descriptions, describe the measurable outcomes your programs have made, for example, improved parenting skills through improvement in KIPS scores, changes in Child Care Quality of centers through improvement in ERS scores, improvement in family involvement with kindergarten classroom through Countdown To Kindergarten teacher survey results.
2. **Successful Program Implementation** – identify factors such as fidelity to model implementation, retention of staff and families, provision of adequate supervision and oversight, responsiveness to client feedback, and attention to client satisfaction.
3. **Exemplary Program Performance** - provide examples of ways your programs have been recognized for exemplary performance including external recognitions such as national “Blue Ribbon Status” for Parents as Teachers programs or NAEYC Accreditation for Child Care Centers, or other national, state and local recognitions.

SECTION 2 – Description of Proposed Project and/or Program:

This section focuses on the partnership’s plan for enhancing or expanding an existing successful project and/or program or implementing a new project and/or program, to include the following information.

1. **Details about the proposed project and/or program**, including rationale with evidence of impact related to school readiness outcomes, as well as what outputs will be tracked and what outcomes will be used to evaluate success.
2. **Estimated number of children, families, and/or providers** to benefit from the proposed project.
3. If applicable, description of how your proposed program or project will strengthen or initiate new **opportunities for collaboration, partnership, and program or system integration**.
4. **Description of the project and/or program target population**, if a specific population such as children ages 0 to 3 has been designated for focus.
5. **Description of the need for this program or program** enhancement or expansion in the Partnership’s local community, to include relevant county-wide, district, or school-level demographic data relating to the families to be targeted. This description should include a description of any current resources available within the community related to the proposed program.

6. Reference to how this proposal **supports the goals of the Partnership's Comprehensive Plan** and can thus demonstrate a commitment to the sustainability of the grant-funded programming beyond this initial funding.

REQUIRED ATTACHMENTS:

1. Logic model (see attached template or use your own)
2. Detailed timeline for implementation (funds must be expended by December 31, 2019)
3. Detailed budget – include in budget narrative components that can be prioritized so that grant reviewers can consider partial funding for cases where full funding would not be possible
4. Letters of support or MOU's are required for partners currently involved, or proposed to be involved, in the project. Other letters of support or MOU's may also be submitted.

SUBMISSION INSTRUCTIONS:

Submit the entire application - Section One, Section Two and Attachments combined as one PDF-electronically to Debbie Robertson, Droberts@scfirststeps.org

Due date for submission is November 23, 2018

Application can be no longer than 5 pages (not including attachments)

Line spacing – 1 ½

Font - Calibri (11)

Application Deadline: November 23, 2018

Please submit application packet to:

Debbie Robertson, Chief Partnership Officer
drobot@scfirststeps.org

For questions contact Debbie at email above or 803-734-2362(work) / 803-931-2272(cell)



To: First Steps Board of Trustees
From: Georgia Mjartan
Date: October 26, 2018

RE: Executive Director's Report

SC Summit on Early Childhood Education

The purpose of the Summit is to provide an opportunity for leaders and practitioners whose work intersects with early childhood to have a forum to connect across geographies, disciplines and agencies while learning from state and national early childhood experts. Changes this year include:

- Merged with the South Carolina Parenting Conference, providing two-day or one-day options
- Now called the "SC Summit on Early Childhood Education" (rather than "Chairman's Summit on Early Childhood Education")
- Hosted by SC First Steps and the SC Early Childhood Advisory Council

Actions:

- Please:
 - o Plan to participate
 - o Send staff members, colleagues, and other early childhood leaders
- Requesting financial support through sponsorships, highlighting inter-agency effort
- Pulling together an interagency panel, morning of December 7th to include members of the interagency collaboration committee.

National Learning Opportunities

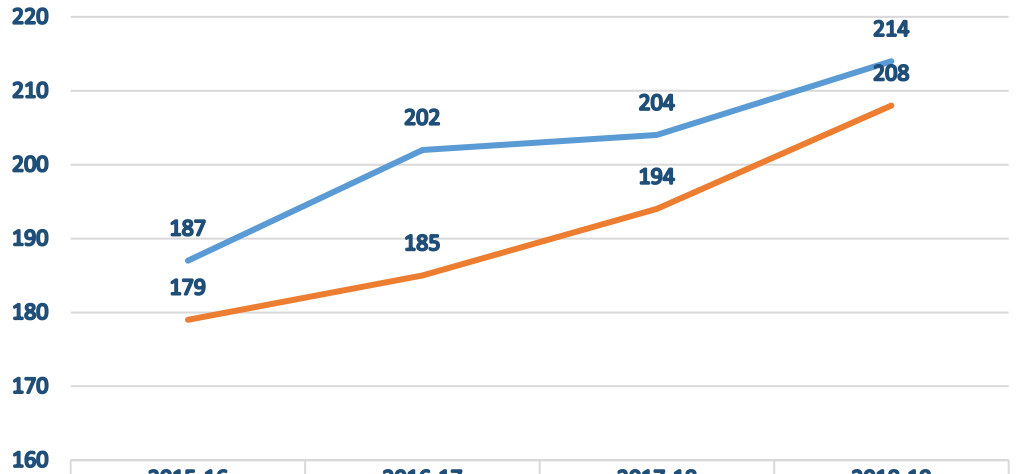
- Aspen Institute Ascend Fellowship: 2-year program focused on whole family, two-generation approaches and strategies
- BUILD Initiative: Support for Preschool Development Grant, support and learning for Equity, Diversity and Inclusion efforts

First Steps 4K Updates & Goals

As part of our ongoing commitment to accountability and transparency, we are pleased to share with you an update on 4K enrollment including an analysis of Day 45 "Point in Time" enrollment trends, slot availability, and center participation along with center participation in the state's Quality Improvement and Rating System, ABC Quality. See attached.

Enrollment for First Steps 4K is ongoing. We believe that even if a child comes into the program late in the year, they will still garner tremendous benefit. Please see the enclosed postcard and consider how you can help us continue to spread the word about availability for children who are on Medicaid *or* would qualify for free or reduced lunch.

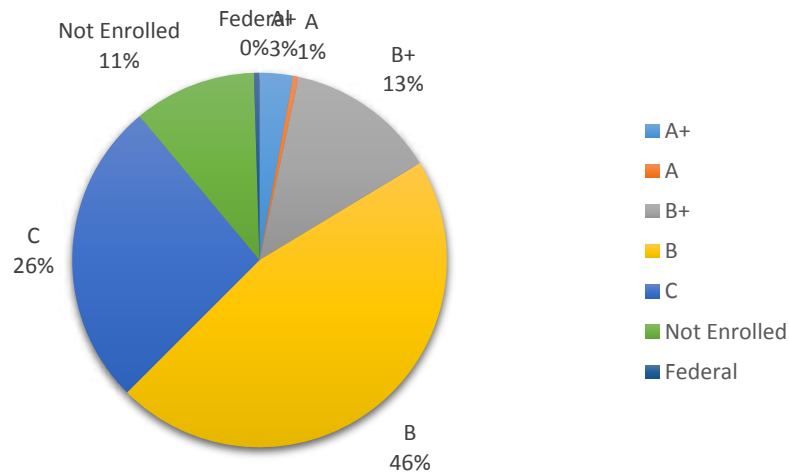
SC First Steps 4K Providers for 2018-2019



	2015-16	2016-17	2017-18	2018-19
Total participating centers	187	202	204	214
Total centers on Day #45	179	185	194	208

— Total participating centers — Total centers on Day #45

ABC Ratings for SC FS 4K Providers 2018-19





	Total 4K students Served	% Change	Day 45 Count	% Change	Total Providers	%Change	Provider # on Day 45	% Change
2015-16	2,300		2,065		187		179	
2016-17	2,619	13.87%	2,226	7.80%	195	4.28%	185	3.35%
2017-18	2,707	3.36%	2,337	4.99%	204	4.62%	194	4.86%
2018-19			2,558	8.64%	214	4.67%	208	6.73%

