



Greene Finney & Horton

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

October 5, 2016

Mr. George L. Kennedy, CPA
State Auditor
Office of the State Auditor
Columbia, South Carolina
and
Members of the Board of Trustees
South Carolina First Steps to School Readiness
Columbia, South Carolina

We have audited the financial statements of the governmental activities and the major fund of South Carolina First Steps to School Readiness ("First Steps") for the year ended June 30, 2016 ("2016"). Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 8, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by First Steps are described in Note 1 to the financial statements. No new significant accounting policies were adopted and the application of existing policies was not significantly changed during 2016. We noted no transactions entered into by First Steps during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most significant sensitive estimates affecting First Steps' financial statements were:

Management's estimate of the useful lives of capital assets and the resulting depreciation expense is based on historical data and industry standards. Management's estimate of the net pension liability and deferred outflows/inflows of resources is based on an actuarial valuation (the actuarial valuation assumptions are based on accounting requirements, actuarial standards, historical data, and industry trends) prepared and certified by an independent actuary. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. For purposes of this communication, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on First Steps' financial reporting process (that may or may not cause future financial statements to be materially misstated). Since it is inherently judgmental to determine what adjustments would or would not have been detected except through our auditing procedures, a schedule of all adjusting journal entries is attached.

In our judgment, there were no material known unrecorded and uncorrected misstatements, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 5, 2016.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to First Steps' financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as First Steps' auditor. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Matter for the Board's Consideration

During the course of our audit, we became aware of a finding that has been reported in the schedule of findings and responses in the 2016 financial statements.

Other Matters

We applied certain limited procedures to the management's discussion and analysis, budgetary comparison schedules, schedule of First Steps' proportionate share of the net pension liability – South Carolina Retirement System, and the schedule of First Steps' contributions – South Carolina Retirement System which are required supplementary information ("RSI") that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

This information is intended solely for the information and use of the Office of the State Auditor, Board of Trustees, and management of First Steps and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script that reads "Greene, Finney & Horton LLP".

Greene, Finney & Horton, LLP
Certified Public Accountants

Client: **South Carolina First Steps to School Readiness**
Engagement: **SCFS Audit 2016**
Period Ending: **6/30/2016**
Trial Balance: **Government Fund Trial Balance**
Workpaper: **GP-26 - AJE's**
Fund Level: **All**
Index: **All**

Account	Description	Debit	Credit
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Adjusting Journal Entries

Adjusting Journal Entries JE # 1

To record the additional federal revenues and receivable related to accrued salaries/benefits and accounts payable that will be reimbursed with federal funds.

1200000000	Federal Grants Receivable	1,068,157.00	
4280020002	FED GRANT DEP TO GRANTEE		1,068,157.00
Total		1,068,157.00	1,068,157.00

Adjusting Journal Entries JE # 2

To reduce duplicated revenues and expenditures related to fund 10019001, which is the General Fund Appropriations that are fully expended and transferred to the restricted First Steps funds in accordance with State law.

6100010000	OPERATING TRANSFER IN (CREDIT)	6,518,480.00	
5010580000	CLASSIFIED POSITIONS		65,000.00
5024990000	OTHER CONTRACT SERVICES		6,424,200.00
5130010000	RETIREMENT-SRS		29,280.00
Total		6,518,480.00	6,518,480.00
Total Adjusting Journal Entries		7,586,637.00	7,586,637.00
Total All Journal Entries		7,586,637.00	7,586,637.00