

**South Carolina Association of
Governmental Organizations**

Report on Financial Statements

For the years ended June 30, 2019 and 2018

South Carolina Association of Governmental Organizations

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Independent Auditor's Report

Board of Directors
South Carolina Association of Governmental Organizations
Columbia, South Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of South Carolina Association of Governmental Organizations (“SCAGO”) which comprise the statements of financial position as of June 30, 2019 and 2018, the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of South Carolina Association of Governmental Organizations as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Adoption of a New Accounting Standard

As discussed in Note 1, the Financial Accounting Standards Board issued Accounting Standards Update (“ASU”) No. 2016-14, *Not for Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses presentation of net asset classifications for consistency and understandability, provides information about liquidity and availability of resources, and allows consistency in information provided about expenses and investment return. SCAGO adopted ASU 2016-14 during the year ended June 30, 2019, and it was applied retrospectively. The adoption of this standard did not have any impact on SCAGO's net assets or changes in net assets. Our opinion is not modified with respect to this matter.

A handwritten signature in black ink that reads "Elliott Davis, LLC". The signature is written in a cursive style with a large, sweeping initial "E".

Columbia, South Carolina
January 12, 2021

South Carolina Association of Governmental Organizations

Statements of Financial Position

As of June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 118,219	\$ 122,119
Certificates of deposit	64,666	104,402
Accounts receivable	29,059	-
Prepaid expenses	2,623	2,623
Interest receivable	125	37
Total assets	<u>\$ 214,692</u>	<u>\$ 229,181</u>
Net assets		
Net assets without donor restrictions:		
Undesignated	<u>214,692</u>	<u>229,181</u>
Total net assets	<u>\$ 214,692</u>	<u>\$ 229,181</u>

See Notes to Financial Statements

South Carolina Association of Governmental Organizations

Statements of Activities

For the years ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Net assets without donor restrictions		
Support and revenue		
SC TAN Program	\$ 15,486	\$ 14,700
SC GO Debt Program	133,577	100,487
Interest income	1,425	389
Total support and revenue for net assets without donor restrictions	<u>150,488</u>	<u>115,576</u>
Expenses		
Program services	137,500	57,500
Management and general	27,477	47,815
Total expenses	<u>164,977</u>	<u>105,315</u>
Change in net assets without donor restrictions	(14,489)	10,261
Net assets, beginning of year	229,181	218,920
Net assets, end of year	<u>\$ 214,692</u>	<u>\$ 229,181</u>

See Notes to Financial Statements

South Carolina Association of Governmental Organizations

Statements of Functional Expenses

For the year ended June 30, 2019 and 2018

	2019		
	Program services	Management and general	Total
Advertising	\$ -	\$ 1,110	\$ 1,110
Professional fees	-	17,656	17,656
Supplies	-	243	243
Miscellaneous	-	171	171
Travel	-	3,454	3,454
Sponsorships	137,500	-	137,500
Insurance	-	4,843	4,843
Total expenses	<u>\$ 137,500</u>	<u>\$ 27,477</u>	<u>\$ 164,977</u>

	2018		
	Program services	Management and general	Total
Professional fees	\$ -	\$ 40,802	\$ 40,802
Miscellaneous	-	60	60
Travel	-	2,000	2,000
Sponsorships	57,500	-	57,500
Insurance	-	4,953	4,953
Total expenses	<u>\$ 57,500</u>	<u>\$ 47,815</u>	<u>\$ 105,315</u>

See Notes to Financial Statements

South Carolina Association of Governmental Organizations

Statements of Cash Flows

For the years ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<i>Cash flows from operating activities</i>		
Change in net assets	\$ (14,489)	\$ 10,261
Adjustments to reconcile the change in net assets to net cash (used in) provided by operating activities		
Changes in operating assets:		
Accounts receivable	(29,059)	-
Prepaid expenses	-	111
Interest receivable	(88)	(28)
Net cash (used in) provided by operating activities	<u>(43,636)</u>	<u>10,344</u>
<i>Cash flows from investing activities</i>		
Proceeds from (reinvestment in) certificates of deposit	39,736	(130)
Net cash provided by (used in) investing activities	<u>39,736</u>	<u>(130)</u>
<i>Net (decrease) increase in cash and cash equivalents</i>	(3,900)	10,214
<i>Cash and cash equivalents, beginning of year</i>	122,119	111,905
<i>Cash and cash equivalents, end of year</i>	<u>\$ 118,219</u>	<u>\$ 122,119</u>

See Notes to Financial Statements

South Carolina Association of Governmental Organizations

Notes to Financial Statements

June 30, 2019 and 2018

Note 1. Summary of Significant Accounting Policies

Organization:

South Carolina Association of Governmental Organizations ("SCAGO") is a non-profit organization, organized in 2002 and existing under the South Carolina Nonprofit Corporation Act, Chapter 31, Title 33 Code of Laws of South Carolina 1976, as amended. The management and control of SCAGO is vested in its Board which consists of eight members, three of whom are appointed by the South Carolina Association of School Business Officials ("SCASBO"), two of whom are appointed by the South Carolina Association of School Administrators ("SCASA"), and three of whom are at large. SCASA and SCASBO are sponsoring organizations of SCAGO.

SCAGO is organized exclusively for charitable, scientific, and educational purposes and for the promotion of the welfare of the people of the United States of America and the people of the State of South Carolina, by assisting school districts, municipalities and special purpose districts in the acquisition, operation, sale or leasing of property, by financing expenses, by making loans to/for such purposes or by acquiring obligations, and by making available funds for such purposes by selling and issuing its bonds, notes and other evidences of indebtedness, including, without limitation, lease-purchase agreements between SCAGO and one or more school districts and participation interests therein.

Net assets:

SCAGO's net assets are classified as follows:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of SCAGO. These net assets may be used at the discretion of the SCAGO's management and the board of directors.

Net assets with donor restrictions: Net assets that are subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of SCAGO or by the passage of time (that is, when a stipulated time restriction ends or purpose restriction is accomplished). Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. SCAGO has no net assets with donor restrictions as of June 30, 2019 and 2018.

Cash and cash equivalents:

For purposes of the statements of cash flows, SCAGO considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Certificates of deposit:

Certificates of deposit purchased are recorded at cost. Certificates of deposit donated are recorded at their fair value at the date of the gift. Certificates of deposit are carried at fair value with appreciation being recognized and reported in the statement of activities.

South Carolina Association of Governmental Organizations

Notes to Financial Statements

June 30, 2019 and 2018

Note 1. Summary of Significant Accounting Policies, Continued

Estimates:

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of changes in net assets during the reporting period. Actual results could differ from those estimates.

Availability of funds for general expenditures:

SCAGO has certain net assets that are available for general expenditures within one year of June 30, 2019 based on conducting the normal activities of its programs in the coming year. Accordingly, the related resources have been included in the quantitative information detailing the financial assets available to meet general expenditures within one year (See Note 2).

Contributions and support:

Contributions are required to be recognized when the donor makes a promise to give that, in substance, is unconditional. Contributions that are restricted by the donor are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. SCAGO received no significant contributions of materials or services for the years ended June 30, 2019 and 2018.

SCAGO's primary sources of revenue are from sponsorship of the South Carolina Tax Anticipation Note Program ("TAN Program") and the South Carolina General Obligation Debt Program ("GO Debt Program").

Income taxes:

SCAGO is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code ("IRC") and therefore has made no provision for income taxes in the accompanying financial statements. In addition, SCAGO has been determined by the Internal Revenue Service (IRS) not to be a "private foundation" within the meaning of Section 509(a) of the IRC.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by SCAGO and recognize a tax liability (or asset) if SCAGO has taken an uncertain position that more likely than not would not be substantiated upon examination by the IRS. Management has analyzed the tax positions taken by SCAGO, and has concluded that as of June 30, 2019 and 2018, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. SCAGO is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

South Carolina Association of Governmental Organizations

Notes to Financial Statements

June 30, 2019 and 2018

Note 1. Summary of Significant Accounting Policies, Continued

Expense allocation:

The costs of providing various programs and activities have been summarized on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Expenses of SCAGO include:

Program services - Program expenses represent expenses related to direct support of the mission of SCAGO.

Management and general expenses - Management and general expenses include the general, administrative, and operating costs of SCAGO.

The financial statements may report certain categories of expenses that are attributable to more than one program or supporting function. For the year ended June 30, 2019 and 2018, there were no categories that were attributable to more than one program or supporting function.

New accounting pronouncements:

New accounting pronouncement implemented by the Organization during the year ending June 30, 2019 includes the following:

The Financial Accounting Standards Board ("FASB"), on August 18, 2016, published Accounting Standards Update ("ASU") No. 2016-14, *Not for Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities*. The standard changes how not-for-profit organizations classify their net assets, with groups required to categorize assets as either those with donor restrictions or without. The standard also requires new information about an organization's liquidity and an analysis of expenses by nature and function. The update aims to help charities, universities, foundations, and other not-for-profit groups better convey how they spend and manage their resources. SCAGO has adopted this standard for the year ended June 30, 2019 and has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented. As allowed under the standard, the liquidity footnote disclosure (see Note 2) has not been presented for the year ended June 30, 2018.

New accounting pronouncement required to be implemented in future periods includes the following:

In May 2014, the FASB issued guidance to change the recognition of revenue from contracts with customers. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. In August 2015, the FASB deferred the effective date of ASU 2014-09, Revenue from Contracts with Customers. As a result of the deferral, the guidance in ASU 2014-09 will be effective for SCAGO for reporting periods beginning after December 15, 2019. SCAGO is currently evaluating the impact of this new guidance on its financial statements.

South Carolina Association of Governmental Organizations

Notes to Financial Statements

June 30, 2019 and 2018

Note 1. Summary of Significant Accounting Policies, Continued

New accounting pronouncements, continued:

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on SCAGO's net assets or changes in net assets.

Subsequent events:

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through January 12, 2021, the date the financial statements were available for issue.

Note 2. Availability and Liquidity

Assets available for general expenditure, that are without donor or other restrictions limiting their use within one year of the statement of financial position date of June 30, 2019, are comprised of the following at June 30, 2019:

Assets at year end	\$ 214,692
Less amounts not available to be used within one year due to illiquidity:	
Prepaid expenses	<u>(2,623)</u>
Assets available to meet cash needs for general expenditures within one year	<u><u>\$ 212,069</u></u>

As part of its liquidity plan, SCAGO has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations become due.

Note 3. Fair Value Measurements

Fair values for investments are determined by utilizing a three-tier fair value hierarchy, established by the FASB. The hierarchy prioritizes the inputs used in measuring fair value. These tiers include Level 1, defined as observable inputs such as quoted market prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs about which little or no market data exists, therefore requiring an entity to develop its own assumptions. The carrying values of SCAGO's certificates of deposit are deemed to be a reasonable estimate of fair value and the resulting fair values are categorized as Level 2.

South Carolina Association of Governmental Organizations

Notes to Financial Statements

June 30, 2019 and 2018

Note 4. TAN Program

SCAGO established the TAN Program to facilitate the issuance of tax anticipation notes (Notes) by South Carolina school districts. The purpose of the program is to reduce the cost and improve the ease of issuing tax anticipation notes for school districts in South Carolina. SCAGO does not issue Notes. The Notes are general obligations of each participating school district that are secured by the full faith, credit and taxing authority of that school district. Each participating school district adopted a resolution which authorized the sale of its Notes through SCAGO and the use of the proceeds thereof. SCAGO facilitates the issuance of the Notes through certificates of participation (Certificates) that evidence undivided proportionate interests in the Notes of the participating school districts. The Certificates are in an amount necessary to purchase the principal amount of the Notes and to pay the issuance costs. Once the Notes are purchased with the proceeds of the Certificates, they are assigned to a trustee, pursuant to a Trust Agreement. Each participating school district records in its general ledger, its issuance of the Note and its portion of any premium, discount, issuance costs and other applicable costs. SCAGO is not obligated in any manner for repayment of the Notes. Accordingly, the Notes are not reported as liabilities in the accompanying statements of financial position.

In July 2018, fourteen South Carolina school districts participated in the sixteenth issuance of the TAN Program. Certificates were issued at a par value of \$47,450,000, plus a premium of approximately \$476,000 at an interest rate of 3.0%. The Certificates were repaid in April 2019.

Note 5. SC Leasing Program

SCAGO established the SC Leasing Program to facilitate the issuance of leases or equipment acquisition agreements by South Carolina school districts. The purpose of the SC Leasing Program is to reduce the costs and improve the ease of entering into leases for school districts in South Carolina. Eligible project expenditures for the SC Leasing Program include energy savings, debt refinancing, computers and office equipment, and activity buses. SCAGO is not obligated in any manner for the repayment of the leases. Accordingly, the leases are not reported as liabilities in the accompanying statements of financial position.

There were no new transactions initiated in the SC Leasing Program during fiscal years 2019 and 2018.

As of June 30, 2019 and 2018, there no lease payments outstanding.

South Carolina Association of Governmental Organizations

Notes to Financial Statements

June 30, 2019 and 2018

Note 6. GO Debt Program

SCAGO established the GO Debt Program to facilitate the issuance of general obligation debt (“GO debt”) by South Carolina school districts in fiscal year 2007. The purpose of the program was to provide a way for school districts to use their GO debt margin for financing the purchase of equipment and other capital assets. The GO debt is the general obligation of each participating school district that is secured by the full faith, credit and taxing authority of that school district. This debt is also backed by the State of South Carolina’s School District Credit Enhancement Program (the “Intercept Program”). Each participating school district adopts a resolution which authorizes the sale of its GO debt through the SCAGO GO Debt program and the use of the proceeds thereof. SCAGO facilitates the issuance of the GO debt through certificates of participation (Certificates) that evidence undivided proportionate interests in the GO debt of the participating school districts. The Certificates are in the amount of the principal amount of the GO debt and a portion thereof is used to pay the issuance costs. Upon delivery, the GO debt is assigned to a Trustee, pursuant to a Trust Agreement. The debt is general obligation debt, therefore, any project eligible for financing under South Carolina law may be financed through this program. SCAGO is not obligated in any manner for repayment of the GO debt. Accordingly, the GO debt is not reported as a liability in the accompanying statements of financial position.

In fiscal year 2019, forty school districts participated in the GO Debt Program. Proceeds were used either to make capital improvements or to refinance debt. The issuances ranged from a par value of \$12,070,000 to \$121,420,000 with interest rates ranging from 2.00% to 2.50%.

In fiscal year 2018, forty school districts participated in the GO Debt Program. Proceeds were used either to make capital improvements or to refinance debt. The issuances ranged from a par value of \$12,192,000 to \$111,689,000 with interest rates ranging from 3.00% to 3.50%.

As of June 30, 2019 and 2018, there was one series of GO debt issues outstanding with aggregate principal amounts outstanding of \$65,341,000 and \$63,016,000, respectively.

Note 7. Sponsoring Organizations

SCASA and SCASBO joined to form SCAGO for the purposes described in Note 1. As sponsoring organizations of SCAGO, each organization is entitled to SCAGO sponsorship at the SCASA and SCASBO conferences on a request basis. The cost of these sponsorships is paid by SCAGO from revenues received from its various programs. For SCAGO sponsorships, the sponsoring organizations agree to appoint representatives to the SCAGO Board and to work with SCAGO in several capacities in supporting and growing the TAN, SC Leasing, and GO Debt programs for the benefit of school districts in South Carolina. Sponsorships for SCASA and SCASBO totaled \$137,500 and \$57,500 for the years ended June 30, 2019 and 2018.

Note 8. Risk Management

SCAGO is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets and errors and omissions. SCAGO carries insurance against this risk of loss.

South Carolina Association of Governmental Organizations

Notes to Financial Statements

June 30, 2019 and 2018

Note 9. Subsequent Event

On April 6, 2020, SCAGO was added to a legal action filed by Berkeley County School District (“Berkeley”). There are also a number of other parties named in this lawsuit. This matter relates to actions of Berkeley’s former CFO, who was charged and plead guilty to embezzling money from Berkeley unrelated to SCAGO. However, this CFO was also formerly the chairman of SCAGO. The only cause of action in this lengthy complaint alleged against SCAGO is a claim for alleged negligence by SCAGO in summary by 1) not revealing supposed conflicts; 2) allegedly making representations to Berkeley regarding the financial benefits of Berkeley’s participation with SCAGO generally and specifically SCAGO’s TAN program; and 3) not disclosing certain SCAGO expenses to Berkeley. SCAGO adamantly denies Berkeley’s allegations and intends to vigorously defend its position that Berkeley’s participation in SCAGO was financially beneficial and saved Berkeley significant funds.