Introduction to South Carolina County Government Finances

Reference: GFOA.org Best Practices

Anne Harty, CGFO, CPA

- 34 years of experience as a Government Finance Officer in local government
- 14 years as York County Treasurer/Finance Director
- 20 years with City of Rock Hill – last 15 as Chief Financial Officer
- 5 years in Public Accounting as a CPA
- Presently with First Tryon Advisors as Vice-President Operational Consulting assisting SC local governments
- Presently a City of Rock Hill Councilmember

Served on the GFOA National Executive Board for three years from 2022-2024.
Served as Chair of the GFOA National Finance Committee and served as ex-officio on the National CORBA standing committee.
Served on the GFOA National Nominating Committee from 2017-2019
Served on the leadership team of the Women's Public Finance Network from 2012 – 2018.
Served on the National GFOA Accounting Auditing and Financial Reporting Standing Committee from 2010-2016.
Served GFOA-SC as President in 2020 and 2021 and previously as Board Secretary in 2004.
Served on the SC Association of CPAs Board 2007-2009
Served as President and as Vice-President of the Catawba Chapter of the SC Association of CPAs.

The Rock Hill Mayor and City Council honored Anne with a "Key to the City" upon her retirement in June 2025.
In 2021, Anne was named a Distinguished Graduate of the Winthrop University School of Business Administration.
In 2017, the Charlotte Business Journal named Anne "CFO of the Year" in the Non-Profit/Government category.
In 2015, she received the national Outstanding CPA in Local Government Award from the American Institute of CPAs.
In 2012, Anne received the SC Association of Certified Public Accountants Women to Watch Award.

Today's Agenda

1. Terminology
2. Budget Process
3. AR, AP, Payroll & Internal Controls
4. Debt Issuance
5. Credit Ratings
6. Annual Comprehensive Financial Report
7. Procurement
8. Grants Management
9. Economic Development Tools

Reference: GFOA.org Best Practices

Government Finance Officers Association (GFOA)

- Founded in 1906 — the premier association for public finance officials in the U.S. and Canada
- Provides best practices, training, research, and technical assistance for state and local governments
- Key GFOA resources referenced throughout this course:
    - Best Practices — specific policies and procedures for improved government management
    - GAAFR (Blue Book) — authoritative guide on governmental accounting and financial reporting
    - Certificate of Achievement for Excellence in Financial Reporting (COA Award)
    - Distinguished Budget Presentation Award
- GFOA Best Practices are available free at gfoa.org/best-practices
- South Carolina has many counties actively pursuing GFOA awards — a mark of financial excellence

Section 1

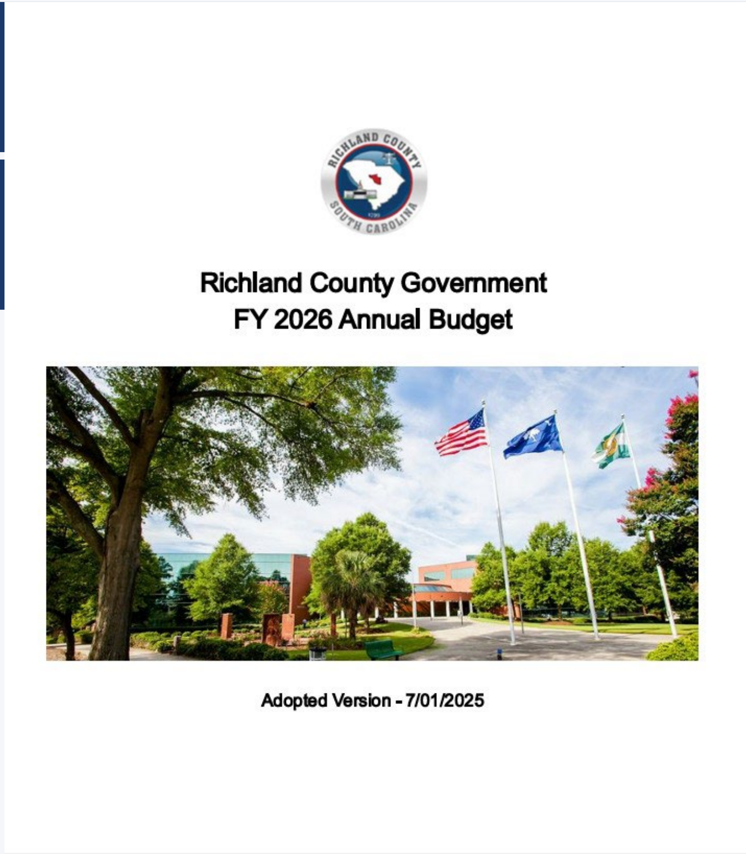
Terminology

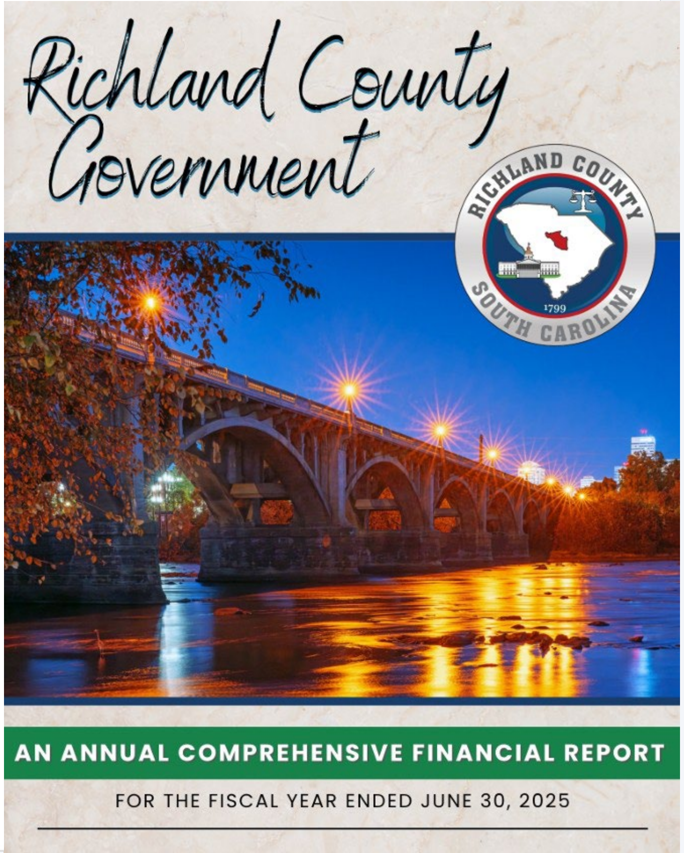
The Language of Government Finance

Budget to Audit

Budget

ACFR





Basic Terminology

Budget	A budget is adopted annually by the County Council and is the direction to staff for collection and expenditure of County resources.
ACFR	The ACFR (Annual Comprehensive Financial Report is the report produced after year end to state how revenues were collected and spent throughout the fiscal year. An independent auditor reviews the statements and issues an opinion as to their accuracy.
Fund	A self-balancing set of accounts used to record activity for a specific purpose (e.g., General Fund, Capital Projects Fund). Think about this as separate bank accounts for separate purposes.
Fiscal Year	A 12-month period of accounting for financial operations. A common fiscal year is July 1 – June 30.
Calendar Year	The 12-month period from January 1 – December 31.

Core Accounting Terminology

GAAP	Generally Accepted Accounting Principles — the standard framework for financial accounting used by governments
GASB	Governmental Accounting Standards Board — sets accounting standards for state and local governments (not FASB which is for private sector)
Fund	A self-balancing set of accounts used to record activity for a specific purpose (e.g., General Fund, Capital Projects Fund)
Modified Accrual	Accounting basis used for governmental funds — revenues recognized when available and measurable; expenditures when incurred
Full Accrual	Accounting basis used for government-wide statements — revenues/expenses recognized when earned/incurred regardless of cash flow

Core Accounting Terminology

Encumbrance	A commitment of funds for a future expenditure (e.g., when a purchase order is issued) — reduces available budget
Appropriation	Legal authorization granted by the governing body to make expenditures and incur obligations for specific purposes
Revenue	Inflow of resources to the government (taxes, fees, grants, intergovernmental aid)
Expenditure	Outflow of resources under modified accrual accounting (used in fund financial statements)
Expense	Outflow of resources under full accrual accounting (used in government-wide statements)

Fund Types in SC County Government

General Fund	Primary operating fund — accounts for all financial resources not required to be in another fund; largest fund in most counties
Special Revenue Funds	Resources legally restricted to specific purposes (e.g., E-911, Hospitality Tax, Accommodations Tax)

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Fund Types in SC County Government

Debt Service Fund	Accumulates resources for payment of principal and interest on long-term debt
Capital Projects Fund	Accounts for financial resources to be used for acquisition or construction of major capital assets
Enterprise Funds	Proprietary fund type for business-like activities (e.g., water/sewer utilities) — uses full accrual accounting

Budget & Tax Terminology

Millage Rate	Property tax rate expressed in mills — 1 mill = $1 of tax per $1,000 of assessed value. SC counties set millage annually.
Assessment Ratio	Percentage of fair market value used to calculate assessed value. Owner-occupied homes: 4%; commercial property: 6%; manufacturing: 10.5%
Ad Valorem Tax	"According to value" — property tax based on assessed value of property
TIF	Tax Increment Financing — captures increased property tax revenue in a defined district to finance development
Fiscal Year	SC county fiscal year runs July 1 through June 30

Debt & Investment Terminology

General Obligation Bond	Bond backed by the full faith, credit, and taxing power of the issuer — requires voter approval in SC
Revenue Bond	Bond repaid solely from revenues of the project it finances (e.g., water/sewer bonds)
Bond Anticipation Note	Short-term borrowing in anticipation of a later bond issue
Arbitrage	Profit from difference in interest rates between tax-exempt borrowing and investment — generally prohibited by IRS
CUSIP	Committee on Uniform Security Identification Procedures — 9-character identifier for each bond

Financial Reporting Terminology

ACFR	Annual Comprehensive Financial Report — the complete annual financial report of a government; formerly CAFR
MD&A	Management's Discussion and Analysis — narrative overview and analysis required as Required Supplementary Information
SEFA	Schedule of Expenditures of Federal Awards — required for single audit when federal expenditures exceed $1 million
Single Audit	Federal audit requirement for entities expending $1M+ in federal awards per year (raised from $750K in 2024)
Net Position	Assets plus deferred outflows minus liabilities minus deferred inflows — government-wide measure of financial health

Governmental vs. Proprietary Accounting

Governmental Funds (Modified Accrual)

- General Fund, Special Revenue, Debt Service, Capital Projects
- Focus: Current financial resources
- Revenues recognized when measurable and available
- Expenditures recognized when fund liability incurred
- No depreciation on capital assets
- Financial Statements: Balance Sheet + Statement of Revenues, Expenditures & Changes in Fund Balance

Proprietary Funds (Full Accrual)

- Enterprise Funds (water, sewer, solid waste) & Internal Service Funds
- Focus: Economic resources (like private sector)
- Revenues and expenses recognized when earned/incurred
- Depreciation recorded on capital assets
- Long-term debt shown on fund statements
- Financial Statements: Net Position, Revenues/Expenses, Cash Flows

Cash in and out-Short Term
One year

More than 1 year-Long Term
More than one year

South Carolina County Finance at a Glance

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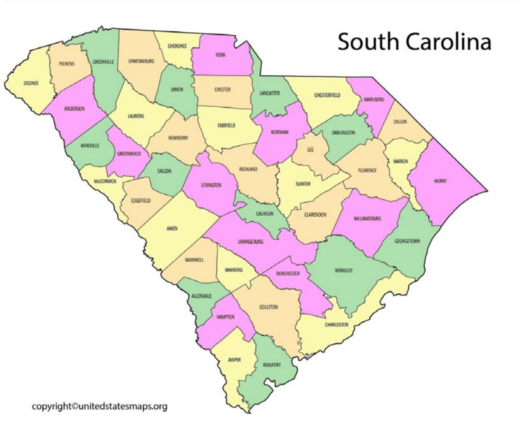
Counties in South Carolina

Jul 1

Fiscal Year Start (all SC counties)

8%

Constitutional GO Debt Limit (% of assessed value)



Key Laws Governing SC County Finance

- South Carolina Local Government Finance Control Act (Title 6, Chapter 5) — general fiscal authority
- South Carolina Budget and Control Board Act — oversight and reporting requirements
- SC Code Title 12 — taxation statutes governing property tax assessment and collection
- SC Code Title 11, Chapter 11 — general obligation bond procedures
- SC Code Title 11, Chapter 35 — South Carolina Consolidated Procurement Code
- Local Government Finance Act requires annual independent audit within 6 months of fiscal year end
- SC Code § 4-9-30 — County Council powers including budget adoption and tax levy
- The SC Association of Counties (SCAC) provides technical assistance on all these statutes

Section 2

Budget Process

Planning, Adopting & Executing the County Budget

What Is the Budget? (GFOA Definition)

- GFOA defines the budget as serving FOUR purposes simultaneously:
  - Policy Document — reflects community priorities and elected official decisions
  - Financial Plan — shows how resources will be raised and allocated
  - Operations Guide — provides departments direction for the fiscal year
  - Communications Device — informs citizens and stakeholders about government activities
- The budget is the single most important fiscal management tool available to local government
- GFOA Distinguished Budget Presentation Award recognizes excellence in budget documents
- Budget must be adopted by County Council annually — it is the legal authorization to spend
- Reference: GFOA "Budget Process 101" at gfoa.org

SC Budget Process: Legal Requirements

- County Council must adopt a balanced budget before the start of each fiscal year (July 1)
- Before adoption, county must hold a PUBLIC HEARING on the proposed budget:
  - Notice must be published in a newspaper of general circulation at least once
  - Notice must include: total revenues and expenditures (current and proposed), projected millage, and % change in operating budget
  - Public hearing notice requirements governed by SC Code § 4-9-140
- Budget must be balanced — projected revenues must equal appropriations
- Counties may adopt a continuing resolution if budget not completed by July 1 (temporary authority)
- Any mid-year amendments require Council action — department heads cannot unilaterally increase budgets
- The adopted budget is a legal document — spending without an appropriation is unlawful

The Budget Calendar: SC County Timeline

- JANUARY — Budget kick-off; departments receive budget instructions and forms
- FEBRUARY — Departments submit budget requests; revenue projections developed
- MARCH — Finance office compiles requests; Administrator/Manager reviews
- APRIL — Administrator presents recommended budget to County Council
- MAY — Council work sessions and public input
- JUNE — Public hearing on proposed budget; Council adopts final budget
- JULY 1 — New fiscal year begins; appropriations become effective
- ONGOING — Monthly/quarterly budget-to-actual reporting to Council
- Key: Early and transparent communication with department heads is critical to an orderly process

Budget Development: Approaches

Traditional (Line-Item) Budgeting

- Focuses on objects of expenditure (salaries, supplies, equipment)
- Based on prior year + incremental changes
- Easy to prepare; familiar to most governments
- Weakness: Does not link resources to results
- Most SC counties use this as primary method
- Good internal control tool

Performance-Based / Results-Focused

- Links budget amounts to measurable outcomes
- Asks: What do we accomplish with each dollar?
- Requires robust performance measurement system
- GFOA recommends identifying, tracking, and communicating performance measures
- More demanding to develop but more useful to policy makers
- Trend: SC counties increasingly adding performance measures

Revenue Forecasting: Foundation of the Budget

- Revenue forecasts drive expenditure capacity — you cannot spend what you don't have
- Major SC county revenue sources to forecast:
    - Property taxes (ad valorem) — largest source for most counties; based on assessed value × millage rate
    - Local Option Sales Tax (LOST) — if enacted; distributed by formula from SC DOR
    - Intergovernmental revenues — state shared revenues, State Aid to Subdivisions
    - Fees and charges — permit fees, EMS fees, recreation fees, court fines
    - Hospitality/Accommodations Taxes — restricted use for tourism/recreation purposes
- GFOA recommends using conservative, multi-year revenue forecasting techniques
- Compare forecasts to actuals each year to improve future accuracy

Fund Balance Policy: GFOA Best Practice

- Fund balance = accumulated surplus in governmental funds — the county's financial cushion
- GASB 54 classifies fund balance in five categories:
  - Nonspendable — amounts not in spendable form (prepaid items, inventory, corpus of permanent funds)
  - Restricted — constrained by external parties (creditors, grantors, law)
  - Committed — constrained by highest level of government action (County Council)
  - Assigned — intended for specific purpose but not formally committed
  - Unassigned — residual; only in General Fund (or negative in other funds)
- GFOA recommends maintaining unassigned General Fund balance of at least 2 months of revenues (16-17%)
- A formal written fund balance policy is a GFOA best practice

Budget Execution & Monitoring

- Adopted budget is just the beginning — execution and monitoring are equally important
- Monthly budget-to-actual reports should be provided to County Council
- Key monitoring activities:
  - Compare actual revenues and expenditures to budget projections
  - Monitor encumbrances — commitments against the budget
  - Track vacancy savings when positions are unfilled
  - Identify and explain material variances early
- GFOA Best Practice: Establish formal processes for comparing budget to actual results
- Mid-year budget amendments — require Council approval; document the need clearly
- Year-end: Budget vs. Actual schedules are included in ACFR and are audited

Capital Budgeting & Capital Improvement Plan (CIP)

- Capital budget addresses large, multi-year investments in infrastructure and equipment
- GFOA recommends a multi-year Capital Improvement Plan (CIP) — typically 5-6 years
- CIP benefits:
    - Identifies infrastructure needs before they become crises
    - Allows for long-term financing planning (bonds, grants, pay-as-you-go)
    - Signals to bond rating agencies sound fiscal management
    - Coordinates with comprehensive land use planning
- Operating budget implications of capital spending must be considered (maintenance, staffing)
- SC counties may use installment purchase agreements, lease-purchase, bonds, or grants for capital
- Projects >$50,000 typically require separate appropriation and project tracking

Budget Best Practices (GFOA)

Process Best Practices

- Establish formal budget policies in writing
- Develop multi-year financial forecasts
- Adopt a structurally balanced budget each year
- Maintain adequate unrestricted fund balance
- Involve the public in the budget process
- Integrate capital and operating planning
- Measure and report performance outcomes

Document Best Practices

- Clearly state budget policies and assumptions
- Include a financial overview understandable to citizens
- Show trend data — at least 3-5 years
- Explain major revenue and expenditure changes
- Include an organization chart and staffing summary
- Submit for GFOA Distinguished Budget Award
- Publish the adopted budget online for public access

Millage Rate Setting: SC Property Tax Process

- County Council sets millage rate each year as part of budget adoption
- Steps in SC millage calculation:
  - 1. Determine total spending need (appropriations) minus non-tax revenues
  - 2. Divide by net taxable assessed value in the county
  - 3. Result expressed in mills (1 mill = $1 per $1,000 assessed value)
- Example: $30M needed from taxes ÷ $1B assessed value = 30 mills
- SC law (Act 388 of 2006) limits increases in owner-occupied tax revenue tied to CPI
- Reassessment equalization: SC requires counties to reassess property every 5 years
- Budget process and tax levy are linked — budget drives the millage rate

Section 3

Accounts Receivable, Accounts Payable, Payroll & Internal Controls

Managing the Day-to-Day Financial Operations

Accounts Receivable (AR): Getting Paid

- AR represents amounts owed TO the county for services rendered or taxes assessed
- Common county AR types:
  - Property taxes receivable — largest AR item for most counties
  - EMS/ambulance billings — often the #1 collection challenge
  - Building and development permit fees
  - Water/sewer utility billings (enterprise fund)
  - Court fines and fees — high uncollectible rate typical
- Timely billing is essential — the longer you wait to bill, the less likely collection
- GFOA recommends: All receipts deposited within 24 hours of receipt
- Establish and maintain a written Revenue Control Policy (GFOA Best Practice)

Accounts Receivable: Best Practices

- Conduct regular aging analysis — categorize AR by how long outstanding (30/60/90/120+ days)
- Establish written procedures for:
  - Invoicing timeframes — bill within X days of service
  - Collection follow-up schedules
  - Use of outside collection services (collection agencies)
  - Write-off policies — who can write off bad debt and at what amounts
  - Allowance for doubtful accounts — recognize realistic collectibility
- Segregate duties: billing ≠ cash receipting ≠ recording ≠ collection
- Reconcile AR ledger to general ledger monthly
- Train frontline staff on proper cash handling and receipting procedures

Accounts Payable (AP): Paying the Bills

- AP represents amounts the county OWES to vendors, contractors, and suppliers
- The AP process: Purchase → Receive goods/services → Invoice arrives → Review & approve → Pay
- Three-way match is a critical control:
    - Purchase Order (what was ordered)
    - Receiving Report (what was actually received)
    - Vendor Invoice (what the vendor says is owed)
- All three must agree before payment is made
- Payment timing: Pay within terms to capture discounts; avoid late fees
- GFOA recommends batch ACH (direct deposit) payments over paper checks — reduces fraud risk
- Require two-party authorization on all wire transfers and large ACH payments

Accounts Payable: Fraud Risks & Prevention

- AP is a prime target for fraud — finance staff must be vigilant
- Common AP fraud schemes in local government:
    - Fictitious vendor fraud — payments to vendors that don't exist
    - Duplicate payments — same invoice paid twice
    - Overbilling by vendors — inflated quantities or rates
    - Personal purchases on county accounts
    - Check tampering — altering checks before or after mailing
- Prevention: Use positive pay at your bank — bank only clears checks that match your issued list
- Regularly audit vendor master file — look for vendors with employee addresses or PO Box only
- GFOA: Reconcile bank accounts monthly; review for anomalies
- Maintain a hotline for reporting suspected fraud anonymously

Payroll: The Largest Expenditure

- Personnel costs (salaries + benefits) typically represent 60-80% of county operating budgets
- Payroll is complex — errors affect employee trust and create legal liability
- Key payroll components:
  - Gross wages (regular, overtime, special pay)
  - Federal and state tax withholding (W-4 based)
  - FICA taxes — Social Security (6.2%) and Medicare (1.45%) — employer matches
  - SC Retirement System (SCRS) or Police Officers Retirement System (PORS) contributions
  - Health insurance, dental, vision deductions
  - Voluntary deductions (457 plans, FSA, etc.)
- GFOA recommends written payroll procedures and annual review of signature authorities

Payroll: Internal Controls & Best Practices

- Critical segregation of duties in payroll:
    - HR authorizes new hires, terminations, and pay changes (payroll should NOT do this)
    - Department supervisors approve hours worked
    - Payroll processes checks/direct deposits
    - Finance/accounting reconciles payroll to general ledger
- Best practices (GFOA):
    - Use direct deposit for all employees — eliminates check fraud
    - Require two-party authorization on payroll ACH file release
    - Conduct periodic payroll audits — look for ghost employees
    - Remove terminated employees from payroll system immediately
    - Reconcile W-2 amounts to payroll registers and GL annually

Internal Controls: The Foundation of Financial Integrity

- GFOA adopts COSO (Committee of Sponsoring Organizations) Internal Control—Integrated Framework as the standard for government
- Five components of the COSO framework:
  - 1. Control Environment — the "tone at the top"; ethical values and governance
  - 2. Risk Assessment — identifying and analyzing financial risks
  - 3. Control Activities — specific policies and procedures (approvals, reconciliations)
  - 4. Information & Communication — timely, accurate financial information flows
  - 5. Monitoring — ongoing evaluation of control effectiveness
- Internal controls are not bureaucracy — they protect Council, management, employees and the public
- Weak controls invite fraud and create liability for officials

Key Control Activities in County Finance

Preventive Controls
(Stop problems before they happen)

- Segregation of duties — no single person controls all aspects of a transaction
- Pre-approval requirements for expenditures
- Purchase order system with budget checking
- Positive pay for check processing
- Dual signatures on checks over threshold
- Background checks for finance staff
- Access controls — limit system access by role

Detective Controls
(Identify problems after they occur)

- Monthly bank reconciliations
- Budget-to-actual variance analysis
- Internal audit function
- External annual independent audit
- Surprise cash counts
- Review of vendor master file changes
- Fraud hotline reporting

Cash Receipting & Treasury Controls

- Cash handling is highest-risk area for misappropriation — where money physically changes hands
- GFOA Cash Receipting Best Practices:
    - Issue receipts for every payment received — no exceptions
    - Never allow one person to receive cash AND record the transaction AND make the deposit
    - Deposit all funds within 24 hours of receipt
    - Use tamper-evident deposit bags; log bag numbers
    - Reconcile cash drawer to receipts daily
    - Conduct unannounced cash counts
- Bank account management: Finance should control all county bank accounts
- Require dual signatories on accounts and checks above defined thresholds
- Investment of idle funds: Must comply with SC Investment of Public Funds Act

Fraud Examples Close to Home

York County
Oconee County
Hampton County
Jasper County

Section 4

Debt Issuance

Financing Capital Needs Through Borrowing

When Should Counties Issue Debt?

- GFOA: Debt is appropriate when the asset's useful life matches or exceeds the term of the debt
- Appropriate uses of debt:
  - Construction or renovation of public buildings (courthouses, jails, administrative buildings)
  - Roads, bridges, and transportation infrastructure
  - Water and sewer system expansion (enterprise fund)
  - Major equipment with multi-year useful life (fire trucks, ambulances)
- NEVER appropriate to borrow for operating expenses — a serious red flag
- Adopt a formal written Debt Management Policy — guides all borrowing decisions
- Key policy questions: What is the maximum debt we will carry? What debt limits apply?
- A debt policy signals to rating agencies that the county manages borrowing prudently

SC County Debt Instruments

General Obligation (GO) Bonds	Backed by full faith and credit; requires voter approval in SC; subject to 8% of assessed value constitutional limit
Revenue Bonds	Repaid from specific revenues (water/sewer rates, parking fees); not subject to GO debt limit; no voter approval required
Installment Purchase	County makes installment payments for capital assets; often used for buildings and equipment; Council-authorized
Lease-Purchase	County leases asset with option to purchase; common for vehicles and equipment
Tax Anticipation Notes (TANs)	Short-term borrowing in anticipation of tax collections; repaid when taxes received

The Bond Issuance Process

- Step 1: Determine financing need and select appropriate debt instrument
- Step 2: Hire financing team:
  - Municipal Advisor (GFOA: hire before proceeding) — fiduciary representing the county
  - Bond Counsel — provides legal opinions on tax-exempt status and validity
  - Underwriter (for negotiated sales) or receiving bids (competitive sale)
  - Disclosure Counsel — ensures proper disclosure documents
- Step 3: Select method of sale — competitive bid or negotiated
- Step 4: Prepare Official Statement (OS) — when a competitive bid process, this is the disclosure document provided to investors
- Step 5: SC law — advertise bond sale 7+ days before bid opening in newspaper or financial journal
- Step 6: Close and fund — proceeds deposited; project begins

- What is a reimbursement resolution?

Competitive vs. Negotiated Bond Sales

- Competitive sale: County advertises and accepts bids from underwriters; lowest true interest cost wins
  - Advantages: Maximum price competition; transparent; avoids conflicts of interest
- Negotiated sale: County selects underwriter; price is negotiated
  - Advantages: More flexibility for complex structures or volatile markets
  - Requires careful management to ensure county gets fair price
- Private placement / direct purchase: Sold directly to a bank or institutional investor
  - No public offering; less disclosure required; competitive interest rates possible
  - Get multiple quotes; negotiate terms carefully
- GFOA recommends adopting a formal policy specifying which method is preferred and when

Debt Limits & Legal Constraints in SC

- Constitutional limit (SC Constitution Art. X, § 14): GO bonds limited to 8% of assessed value
- Example: County with $500M assessed value → max GO bonds of $40M
- Additional statutory limits may apply for specific bond types
- SC law requires public hearing for certain bond issues:
    - Notice published weekly for 3 consecutive weeks
    - Notice must include: proposed amount, purpose, and method of repayment
- Debt Service Fund: SC counties must maintain separate fund for debt repayment
- Post-issuance compliance:
    - IRS arbitrage compliance (invest proceeds appropriately)
    - Continuing disclosure obligations under SEC Rule 15c2-12
    - File annual financial reports with Municipal Securities Rulemaking Board (MSRB) via EMMA

Debt Management Best Practices

Structuring Debt Wisely

- Match debt term to asset life
- Keep structure simple — level annual debt service
- Avoid balloon payments or back-loaded structures
- Limit use of variable rate debt (interest rate risk)
- Build in call provisions for refunding flexibility
- Avoid borrowing more than necessary — no "extra" proceeds
- Consider impact on future budgets before issuing

Managing Debt Prudently

- Adopt and follow a formal Debt Management Policy
- Calculate and track key debt ratios annually
- Maintain required debt service reserve funds
- File all continuing disclosure on time via EMMA
- Conduct arbitrage compliance analysis annually
- Consider refunding opportunities when interest rates fall
- Include debt service schedules in budget documents

Refunding Bonds: Refinancing Opportunities

- Current refunding: New bonds issued and proceeds used immediately to retire old bonds
- Advance refunding: New bonds issued; proceeds placed in escrow to retire old bonds at future call date
  - Note: Tax Reform Act of 2017 eliminated tax-exempt advance refundings — taxable advance refundings still possible
- Refunding is appropriate when it generates savings — GFOA recommends a minimum savings threshold
- Economic test: Present value (PV) savings should typically exceed 3-5% of refunded par
- Avoid refundings that extend the term to lower debt service in the short run
- Your municipal advisor should prepare a refunding analysis showing true economic benefit
- Council should adopt a refunding policy establishing when refunding is appropriate

Section 5

Credit Ratings

Understanding How the Market Values County Creditworthiness

What Is a Credit Rating?

- An independent opinion on an issuer's ability to make timely principal and interest payments
- Three major rating agencies cover SC county debt:
    - Moody's Investors Service
    - S&P Global Ratings
    - Fitch Ratings
- Why ratings matter: Higher rating = lower borrowing cost = savings for taxpayers
- Example: A 1% lower interest rate on a $20M bond over 20 years = ~$2M in savings
- Many institutional investors have minimum rating requirements — unrated bonds reach fewer buyers
- GFOA recommends seeking at least two ratings for most public bond offerings
- SC State: Moody's Aaa / S&P AA+ / Fitch AAA — among the strongest state ratings in the nation

Rating Scales: What the Letters Mean

Aaa / AAA	Highest quality — exceptional credit quality; minimal risk of default
Aa / AA	Very high quality — very low risk; most SC county GOs cluster here
A / A	High quality — low risk; somewhat more susceptible to economic conditions
Baa / BBB	Medium grade — moderate risk; lowest investment grade rating
Ba/BB and below	Speculative grade ("junk") — significant risk; very unusual for SC counties

What Rating Agencies Evaluate

Financial Factors

- Fund balance / reserves — size and trend
- Revenue diversity and stability
- Debt burden (debt per capita, debt/value)
- Debt service coverage
- Budget management and results vs. budget
- Pension and OPEB unfunded liabilities
- Financial flexibility — ability to raise revenue or cut spending

Economic & Management Factors

- Economic base — diversity, growth, unemployment rate
- Population trends and income levels
- Major employers — concentration risk
- Property value trends
- Quality of financial management and reporting
- Governance and political stability
- Timeliness of audited financial statements

The Rating Process: What to Expect

- Rating process typically takes 4-6 weeks from request to published rating
- Steps in the rating process:
    - 1. Issuer contacts rating agency and agrees on fee structure
    - 2. Information package submitted: budget documents, ACFRs, debt schedules, CIP, demographic data
    - 3. Analyst review and draft credit opinion prepared
    - 4. Management meeting / rating presentation — critical opportunity to tell your story
    - 5. Rating committee reviews and votes on rating
    - 6. Rating published; issuer can comment on errors of fact before publication
- The management presentation is your best opportunity to highlight positive factors
- Review rating agency methodology before the meeting — address their specific criteria

Maintaining & Improving Your Rating

- Ongoing obligations after receiving a rating:
  - Keep rating agency informed of material events — budget deficits, major employer loss, disasters
  - Submit audited financial reports annually (ACFR)
  - Respond promptly to analyst inquiries
- Actions that IMPROVE credit ratings:
  - Build and maintain strong fund balance (aim for 20%+ of revenues)
  - Adopt and follow financial policies (debt, reserves, budget)
  - Produce timely, high-quality ACFR (within 6 months of FY end)
  - Maintain diversified revenue base; reduce dependence on any single source
  - Address pension/OPEB liabilities proactively
  - Demonstrate economic growth and stability
- Rating upgrades don't happen overnight — consistent, multi-year financial discipline is key

GFOA Best Practices: Using Credit Rating Agencies

- Evaluate the need for a rating — not all borrowings require a public rating
- Private placements and direct bank purchases may not require a rating
- If rating is needed, consider seeking ratings from TWO agencies
- Understand each agency's published methodology BEFORE the rating meeting
- Negotiate fee structure upfront — fees vary by agency and deal size
- Prepare for significant administrative burden — especially for first ratings
- Do NOT delegate rating agency relationship to your underwriter — this is the county's relationship
- If considering ending a rating relationship, understand the market implications first
- Reference: GFOA Best Practice "Using Credit Rating Agencies" at gfoa.org

Section 6

Annual Comprehensive Financial Report (ACFR)

The County's Complete Annual Financial Report

What Is the ACFR?

- The Annual Comprehensive Financial Report is the county's complete annual financial report
- Prepared in accordance with GAAP as established by GASB
- Formerly called the Comprehensive Annual Financial Report (CAFR) — name changed in 2021
- GFOA Certificate of Achievement for Excellence in Financial Reporting (COA Award):
  - Most prestigious recognition for ACFR quality
  - Reviewed annually against GFOA's comprehensive checklist
  - Many SC counties proudly display this award
- SC law requires an independent audit within 6 months of fiscal year end
- The ACFR goes BEYOND the audited financial statements — includes statistical tables and supplementary info
- Audience: Rating agencies, bondholders, grantors, citizens, state agencies, and Council

ACFR Structure: Three Main Sections

- SECTION 1 — INTRODUCTORY SECTION (not audited):
  - Letter of transmittal from chief finance officer
  - Organization chart
  - List of principal officials
- SECTION 2 — FINANCIAL SECTION (audited):
  - Independent auditor's report
  - Management's Discussion and Analysis (MD&A)
  - Basic Financial Statements (government-wide and fund-level)
  - Notes to financial statements
  - Required Supplementary Information (RSI)
- SECTION 3 — STATISTICAL SECTION (not audited):
  - 10 years of financial trend data, debt capacity tables, demographic and economic information

The Financial Statements: Government-Wide

- Government-wide statements present a big picture — all activities combined on full accrual basis
- Statement of Net Position (SNP) — the balance sheet equivalent:
  - Assets + Deferred Outflows = Liabilities + Deferred Inflows + Net Position
  - Shows ALL assets (including capital assets net of depreciation) and ALL liabilities (including long-term debt)
- Statement of Activities (SOA) — the income statement equivalent:
  - Shows cost of each function/program minus program revenues
  - Net cost = amount borne by general revenues (taxes)
- Two columns: Governmental Activities and Business-type Activities (enterprise funds)
- Net Position is the overall "equity" of the county — is it growing or shrinking over time?
- Negative net position (unrestricted) = financial stress signal

The Financial Statements: Fund-Level

- Fund financial statements present detail by fund type — two bases of accounting
- Governmental Funds (modified accrual):
  - Balance Sheet — assets, liabilities, fund balances by fund
  - Statement of Revenues, Expenditures, and Changes in Fund Balances
  - Major funds presented separately; nonmajor funds combined
  - Required: Budget-to-actual comparison for General Fund (RSI)
- Proprietary Funds (full accrual):
  - Statement of Net Position
  - Statement of Revenues, Expenses, and Changes in Net Position
  - Statement of Cash Flows (direct method required for proprietary funds)
- Fiduciary Funds: Pension trust funds, custodial funds (not county's own resources)

Notes to Financial Statements: Critical Information

- Notes are an integral part of the financial statements
- Key disclosures in notes:
  - Summary of significant accounting policies (basis of accounting, fund structure)
  - Cash and investments — what is held, concentration risk, investment policy compliance
  - Capital assets — schedule of additions, disposals, depreciation
  - Long-term debt — schedule of changes, future debt service requirements
  - Pension obligations (GASB 68) — county's proportionate share of SCRS unfunded liability
  - OPEB obligations (GASB 75) — retiree health benefit liabilities
    - What is OPEB? Other Post-Employment Benefits
  - Contingencies and commitments — lawsuits, purchase commitments
- GASB 68 and 75 pension/OPEB disclosure significantly impacts many county balance sheets

The Audit Process

Types of Audit Opinions

- Unmodified (Clean) Opinion — financial statements fairly presented; what you want
- Modified Opinion:
- • Qualified — except for certain items, fairly presented
- • Adverse — not fairly presented
- • Disclaimer — auditor cannot form opinion
- Most SC counties receive unmodified opinions
- An adverse or disclaimer opinion is a crisis

Audit Findings to Watch

- Material weakness — significant deficiency in internal controls; must be disclosed
- Significant deficiency — less severe than material weakness but still important
- Compliance findings — violations of laws or grant requirements
- Governments should establish whistleblower reporting mechanisms
- Audit findings must be disclosed and corrected action plans developed
- Repeat findings are viewed very negatively

GFOA COA Award: Certificate of Achievement

- GFOA's Certificate of Achievement for Excellence in Financial Reporting is the highest form of recognition
- Award criteria requires the ACFR to go BEYOND minimum GAAP requirements
- Non-GAAP enhancements reviewed include:
  - Comprehensive introductory section including strong letter of transmittal
  - Clear and readable MD&A
  - Complete and well-organized statistical section (10 years of data)
  - Helpful schedules, graphs, and supplementary information
- Submission process: Submit ACFR to GFOA annually after adoption
- GFOA reviewers use a comprehensive checklist (available at gfoa.org)
- Award winner may display the GFOA Certificate plaque — a mark of excellence
- Process of pursuing the award IMPROVES the ACFR even before receiving it

Section 7

Procurement

Purchasing Goods and Services Fairly, Economically & Legally

SC Procurement Framework

- SC counties operate under the South Carolina Consolidated Procurement Code (SC Code Title 11, Chapter 35)
- Each county adopts its own Local Procurement Ordinance — must be at least as restrictive as state code
- Key procurement thresholds (local ordinance defines — example from Lexington County):
  - Under $1,500: Department purchase — reasonable cost standard
  - $1,500–$5,000: Minimum 2 written quotes
  - $5,000–$25,000: Minimum 3 written quotes
  - Over $25,000: Competitive sealed solicitation (formal bid process)
  - Over $50,000: Often requires County Council approval
- Thresholds vary by county — know YOUR county's ordinance
- State contract purchases generally exempt from bid requirements

Types of Procurement Solicitations

- Invitation to Bid (ITB) / Invitation for Bid (IFB):
  - Used when specifications are precise and complete — award goes to lowest responsive, responsible bidder
  - Best for commodities and construction with clear specifications
- Request for Proposals (RFP):
  - Used when price is not the sole criterion — qualifications and approach also evaluated
  - Best for professional services, technology, complex service contracts
- Request for Qualifications (RFQ):
  - Selects vendors based on qualifications only — price negotiated separately
  - Common for architectural and engineering services (SC A/E selection process)
- Sole Source Procurement:
  - Only available from one source — requires justification and often Council approval
- Emergency Procurement: Expedited process for genuine emergencies — must be documented

Procurement Best Practices

- Develop and maintain a clear written procurement policy approved by Council
- Maintain a centralized procurement function with trained staff
- CONFLICT OF INTEREST: County employees cannot benefit personally from county purchases
    - SC Ethics Act prohibits public officials from using their position for personal gain
    - Employees must disclose conflicts — they cannot participate in related procurement decisions
- Vendor relations: Maintain arms-length relationships — gifts prohibited above de minimis amounts
- Maintain complete procurement files: specifications, bids received, evaluation, award documentation
- Protest procedures: Have a defined process for vendors to challenge procurement decisions
- Debarment: Maintain list of vendors ineligible for county contracts
- Annual review of purchasing card (P-card) policies and transactions

Cooperative Purchasing & P-Card Programs

Cooperative Purchasing Contracts

- Counties may piggyback on competitively bid contracts from:
  - SC State procurement contracts
  - GSA (Federal General Services Administration)
  - Sourcewell (formerly NJPA)
  - NASPO ValuePoint
  - Other government cooperative contracts
- Benefits: Saves staff time; competitive prices without rebidding
- Review contract terms before use — ensure they meet county needs

Purchasing Cards (P-Cards)

- Credit cards issued to employees for small purchases
- Benefits: Reduces small POs; vendor accepts immediate payment
- Required controls:
  - Transaction limits per purchase and per cycle
  - Approved merchant category codes
  - Monthly supervisory review of ALL statements
  - Finance audit of sample transactions
  - Written cardholder agreement
- High fraud risk — requires consistent oversight

Construction Procurement: Special Rules

- Construction procurement in SC follows special rules under the Consolidated Procurement Code
- Competitive sealed bidding required for public construction contracts over applicable threshold
- Prequalification: Counties may prequalify general contractors
- Bid bonds required: Typically 5% of bid price — ensures bidder will honor bid if selected
- Performance and payment bonds: Required for contracts over $25,000 under SC law
    - Performance bond: Guarantees contractor will complete the project
    - Payment bond: Guarantees contractor will pay subcontractors and suppliers
- Design-Build: Alternative delivery method gaining popularity — hire one entity for design and construction
- Use professional construction management for complex projects
- Retainage: Withhold 5-10% of progress payments until project complete and accepted

Section 8

Grants Management

Accessing, Administering & Accounting for Grant Funding

Why Grants Management Matters

- Federal and state grants represent significant and growing funding for SC counties
- Common grant sources for SC counties:
  - U.S. Department of Transportation (roads, transit)
  - HUD Community Development Block Grants (CDBG)
  - EPA / USDA Rural Development (water and sewer infrastructure)
  - Department of Homeland Security (emergency management)
  - ARPA (American Rescue Plan Act) — expired; successor programs
  - Bipartisan Infrastructure Law (IIJA) — multiple competitive and formula grants
- Compliance failures can result in "questioned costs" — money the county must repay
- Single Audit required when federal expenditures exceed $1 million per year (effective 2024)
- Establish a formal grants policy before applying for grants

GFOA Guiding Principles for Grants Management

- GFOA recommends 10 steps to effective grants management:
    - 1. Strategic alignment — only pursue grants consistent with county mission and priorities
    - 2. Pre-application assessment — can we comply? Do we have matching funds? Staff capacity?
    - 3. Application controls — designated grant writer; legal review of terms
    - 4. Award documentation — file executed grant agreement; understand all conditions
    - 5. Accounting setup — establish separate grant fund or project code for each grant
    - 6. Budget management — track grant budget vs. actual spending
    - 7. Cash management — drawdown procedures; minimize time between drawdown and expenditure
    - 8. Procurement compliance — federal grants require federal procurement standards
    - 9. Reporting — submit required performance and financial reports on time
    - 10. Closeout — final reporting; resolve open items; retain records

The Uniform Guidance (2 CFR Part 200)

- Federal Uniform Administrative Requirements, Cost Principles, and Audit Requirements — the master rule book
- Applies to ALL federal grants and cooperative agreements
- Key provisions affecting counties:
    - Cost principles: Only allowable, allocable, and reasonable costs can be charged to grants
    - Procurement: Federal grants require competition; no noncompetitive proposals >$10K without justification
    - Property management: Detailed rules for equipment purchased with federal funds
    - Subrecipient monitoring: If county passes grant money to others, must monitor their compliance
    - Record retention: Financial records must be kept for 3 years after final expenditure report
- 2 CFR 200 supersedes individual agency regulations in many areas
- GFOA and federal agencies provide training on Uniform Guidance compliance

Grant Accounting & Compliance

Accounting for Grants

- Establish a separate fund or project ID for each grant
- Revenue recognition: Federal grants typically recognized as revenue when expenditures occur (reimbursement basis)
- Track grant budget vs. actual spending regularly
- Monitor matching fund requirements — document local match carefully
- Prepare monthly/quarterly financial reports as required
- Reconcile drawdown requests to expenditure reports
- Allocate indirect costs using approved indirect cost rate or de minimis rate (10%)

Common Compliance Failures

- Charging unallowable costs (entertainment, lobbying)
- Misclassifying costs to wrong grant
- Insufficient documentation of personnel costs (time and effort reporting)
- Procurement violations under federal rules
- Late financial and performance reports
- Failure to monitor subrecipients
- Property not inventoried or tracked properly
- Failure to return unused grant funds at closeout

Single Audit: Federal Oversight

- Single Audit (formerly A-133) required when federal expenditures exceed $1 million in a fiscal year
- Single Audit is performed IN ADDITION to the regular financial statement audit
- Auditors test compliance with requirements of major federal programs
- Major program designation: Programs with risk-based spending thresholds are selected as "major"
- Findings reported in:
  - Schedule of Expenditures of Federal Awards (SEFA)
  - Auditor's reports on internal control and compliance over federal programs
  - Schedule of Findings and Questioned Costs
- County must respond to findings and develop a corrective action plan
- Federal agencies use single audit findings to determine future grant eligibility
- Avoid repeat findings — agencies take a much harder look at repeated noncompliance

Establishing an Effective Grants Policy

- GFOA recommends every government adopt a formal Grants Policy
- Key elements of a comprehensive grants policy:
  - Eligibility criteria — what grants align with county priorities?
  - Pre-application approval process — who must sign off before applying?
  - Grant acceptance authority — Council approval required above threshold
  - Matching funds requirement — how will local match be funded?
  - Grant management responsibilities — which department leads; finance role
  - Sub-recipient monitoring procedures
  - Record retention requirements (minimum 3 years after closeout)
- Appoint a Grant Manager or designate clear accountability for each grant
  - Ensure good communication between Grant Manager and Finance Department
- Use a grants tracking spreadsheet or grants management system
- Reference: GFOA "Establishing an Effective Grants Policy" at gfoa.org

Section 9

Economic Development Tools

County Financial Incentives for Business Attraction and Retention

Why Economic Development Matters for County Finance

- Economic development expands the tax base — reducing the burden on existing taxpayers
- New businesses and jobs generate:
    - Additional property tax revenue (or FILOT payments)
    - Local sales tax revenue (if county has LOST)
    - State revenue sharing tied to economic activity
    - Employment for county residents → higher income levels
- GFOA cautions: Incentives must be evaluated for their net fiscal impact
- GFOA Best Practice: "Establishing an Economic Development Incentive Policy"
- Counties should require fiscal impact analysis BEFORE granting incentives
- Performance standards must be established — and enforced if not met

Fee in Lieu of Taxes (FILOT) — SC's Primary Tool

- FILOT allows qualifying companies to pay a negotiated fee instead of regular property taxes
- Eligibility: Capital investment of at least $2.5 million over 5 years (Streamlined FILOT)
- Key financial terms of FILOT:
    - Assessment ratio reduced from 10.5% to as low as 6% for manufacturers
    - Millage rate can be fixed for up to 30 years (negotiated with county)
    - Provides tax certainty to the company and revenue predictability to the county
- Types of FILOT:
    - "Big Fee" (original FILOT Act) — minimum $45M investment; up to 30 years
    - "Little Fee" (Streamlined FILOT) — minimum $2.5M investment; up to 30 years
    - "Simplified FILOT" — statutory rates; no negotiation required
- Requires County Council ordinance — 3 readings + public hearing

FILOT: Financial Analysis Example

Without FILOT (Standard Tax)

- Investment: $50 million in personal property
- Assessment ratio: 10.5%
- Assessed value: $5,250,000
- Millage rate: 200 mills
- Annual tax: $1,050,000
- Tax increases with reassessment
- Company has tax uncertainty year to year

With FILOT (Negotiated)

- Investment: $50 million in personal property
- Assessment ratio: 6%
- Assessed value: $3,000,000
- Fixed millage: 200 mills (locked in)
- Annual FILOT payment: $600,000
- Payment stable/predictable for 30 years
- County gains: investment, jobs, stable revenue

Special Source Revenue Credit (SSRC)

- SSRC allows a portion of FILOT payments to be "credited back" for infrastructure improvements
- Company's FILOT payment is partially refunded in exchange for infrastructure improvements:
  - Road improvements, water/sewer extensions, site preparation, utility upgrades
  - Company builds or pays for infrastructure that benefits the project site
- Credit can be up to 20% of FILOT payment in any given year
- Benefits: Company gets partial tax relief for valuable infrastructure; county gets infrastructure it needs
- Alternative: SSRC may fund a county Capital Project instead of direct company credit
- Commonly paired with FILOT agreements in SC industrial recruitment
- Requires separate agreement and Council approval

Tax Increment Financing (TIF) Districts

- TIF captures FUTURE property tax revenue generated by development to finance public improvements
- How it works:
  - 1. County establishes TIF district; "base year" assessed value is frozen
  - 2. Public improvements (roads, utilities, streetscapes) attract private investment
  - 3. Property values rise → tax revenue above the frozen base = "tax increment"
  - 4. Tax increment repays TIF bonds or funds further improvements in the district
- SC TIF districts created under SC Code § 31-6 (Counties) or § 4-1-175
- TIF does not reduce tax rates — it redirects new growth revenue back to the district
- Risk: If development doesn't materialize, TIF revenues may be insufficient to repay bonds
- SC counties use TIF in downtown revitalization and industrial park development

Industrial Development Bonds (IDBs)

- IDBs are tax-exempt bonds issued by the county but securing only private company credit
- County serves as "conduit issuer" — the county's credit is NOT pledged
- Company gets access to tax-exempt financing (lower interest rates)
- County bears minimal financial risk if structured properly
- Eligible uses under IRS rules: Manufacturing facilities, 501(c)(3) nonprofits, airports, docks
- IDB cap: Each state has an annual private activity bond volume cap (SC's cap allocated by SC Jobs-Economic Development Authority — JEDA)
- SC JEDA (Jobs-Economic Development Authority) can issue IDBs and other development bonds statewide
- Key: County must carefully document that it has no obligation to repay — legal opinion critical
- GFOA recommends counties adopt a policy on conduit bond issuance

GFOA Economic Development Incentive Policy

- GFOA recommends governments adopt a formal written economic development incentive policy
- Policy should require:
    - Fiscal impact analysis BEFORE granting any incentive
    - Specific performance standards for each project (jobs, investment level)
    - Clawback provisions — incentive is recaptured if performance standards not met
    - Annual reporting by the company on performance standards compliance
    - Public transparency — annual report to Council on all active incentive agreements
    - Sunset provisions — incentives don't last forever
- Incentive policy helps avoid "deal fever" — committing incentives in competitive situations without proper analysis
- SCAC and SC Department of Commerce can assist with incentive policy development
- Reference: GFOA "Establishing an Economic Development Incentive Policy" at gfoa.org

Additional SC Economic Development Tools

Tax-Based Tools

- Multi-County Industrial Park (MCIP) — two counties create a joint industrial park; FILOT revenue shared by formula
- Joint Industrial Park — economic development across county lines
- Opportunity Zones — federal capital gains tax deferral in designated census tracts
- Historic Tax Credits — SC and federal credits for historic rehabilitation projects
- SC Job Tax Credit — state income tax credits for creating jobs in qualifying counties

Financing & Infrastructure Tools

- SC JEDA (Jobs-Economic Development Authority) — financing for economic development
- SC Rural Infrastructure Authority — grants and loans for rural water/sewer
- USDA Community Facilities grants and loans
- EDA (Economic Development Administration) grants
- SC Commerce competitive grant programs
- SC Land and Timber grants for agricultural preservation

Section

Course Summary & Key Takeaways

Putting It All Together

Key Takeaways from Each Section

- 1. Terminology: Understand GAAP, GASB, fund types, and the two bases of accounting
- 2. Budget Process: The budget is a legal document — adopt balanced, monitor closely, use fund balance policy
- 3. AR/AP/Payroll/Controls: Segregate duties, deposit promptly, use direct deposit, follow COSO
- 4. Debt Issuance: Adopt a debt policy, borrow only for capital, hire a municipal advisor, comply post-issuance
- 5. Credit Ratings: Ratings affect borrowing costs; strong reserves, timely reporting, and good management improve ratings
- 6. ACFR: The complete financial story — pursue GFOA COA Award; clean audit opinion is the goal
- 7. Procurement: Know your local ordinance; three-way match; avoid conflicts of interest; P-card oversight
- 8. Grants Management: Comply or repay — fiscal impact analysis, Uniform Guidance, Single Audit
- 9. Economic Development: FILOT, TIF, IDBs — powerful tools requiring careful fiscal analysis and performance standards

GFOA Resources for Continued Learning

- GFOA Website: gfoa.org — free access to all Best Practices and most materials
- Key free resources at gfoa.org:
    - Best Practices library — covering all topics in this course
    - Budget Award program — criteria and examples
    - Certificate of Achievement (COA Award) — checklists and guidance
    - Grants Management portal — guiding principles and tools
    - Financial Foundations Framework — fiscal health resources
- GFOA Training: learn.gfoa.org — online and in-person courses
- GFOA CPFO Certification: Certified Public Finance Officer — professional credential or GFOA-SC CGFO Certification: Certified Government Finance Officer
- SC Association of Counties (sccounties.org): Technical assistance and training for SC counties
- SC Comptroller General (comptroller.sc.gov): GAAP standards and audit guidance

Thank You

Questions & Discussion

Resources:

gfoa.org | sccounties.org | dor.sc.gov | treasurer.sc.gov | scstatehouse.gov

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Resources:

gfoa.org | sccounties.org | dor.sc.gov | treasurer.sc.gov | scstatehouse.gov