

# FINANCIAL QUESTIONS TO ASK YOUR CHIEF FINANCIAL OFFICER



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# Questions To Ask Professionals.....

## *Your Chief Financial Officer*

- Fund Balance
- External Audit
- Internal Controls/Manuals
- Procurement Audit/Pcard Policies and Procedures
- 8% Borrowing Capacity
- Long Range Facilities Plan
- Food Service
- Budgets
- Cash Management
- Software Agreements
- Bonus Question!!



# Questions To Ask Professionals.....

## *Your Chief Financial Officer*

### *Fund Balance – what is it and why have it?*

- Fund Balance = Assets (What a district owns) – Liabilities (What a district owes)
- Some have board policy on minimum amount of fund balance.
- What is a "good" fund balance?
  - GFOA Best Practices = 5-15% at a minimum
- Critical in the Fall when Districts are "cash poor"
- Can be used for planned smaller renovations or one-time expenditures or when mid-year budget cuts hit.
  - Allows you to react to wide swings in revenues or expenditures without panic and with time to analyze and adjust without major disruption.
- Without a minimum you could find yourself on an SDE Fiscal Watch, Caution or Emergency list.
- Rating Agency Importance
- PROTECT IT!!

# Questions To Ask Professionals.....

## *Your Chief Financial Officer*

### *Annual External Audit*

- Were there any findings that need to be addressed in future years?
- Did we meet State deadlines on filing and if not why?
- Were there any weaknesses noted in internal controls?

# Questions To Ask Professionals.....

## *Your Chief Financial Officer*

### *Internal Controls*

- Do you, as the CFO, feel there are sufficient internal controls to either prevent/detect fraud?
- Do we have written procedures for how we do business?
- Are staff annually trained on those written procedures?
- What other forms of training/communication exist that reduces the likelihood of incorrect business procedures?

# Questions To Ask Professionals.....

## *Your Chief Financial Officer*

### *Purchasing and Procurement Cards*

- Are staff knowledgeable about our Purchasing limits and authority?
- Do you have written procedures for use of P-Cards?
- Are staff trained on appropriate use of a District P-Card?
- Who reviews P-Card transactions?
- What are the ramifications of inappropriate use or delinquent reconciliation of use?

# Questions To Ask Professionals.....

## *Your Chief Financial Officer*

### *8% Borrowing Capacity and Long-Range Facilities Planning*

- What is our 8% borrowing capacity and why is that important?
- Do we have a Long-Range Facilities Plan? How often is it updated?
- Do we use that as a tool for priority funding of items?
- Has it been adjusted for growth, shifts in population trends, or other identifiable factors?



# Questions To Ask Professionals.....

## *Your Chief Financial Officer*

### *Food Service Operations*

- Are we profitable and if not why and do we have a plan?
- If we have schools that are not CEP, have we investigated if now they could qualify?



# Questions To Ask Professionals.....

## *Your Chief Financial Officer*

### *Budgets*

- General Fund Budget – are current elements sustainable?
  - Are we relying on one-time revenue for recurring items?
- How many positions are in ESSER II and III and what are plans to retain those positions, if any?
  - How will you handle the loss of those funds in contractual situations?
- What is happening to our tax base? Growing? Declining? And how is that factored into budget building for the future?
- Are we utilizing special revenue budgets to their fullest capacity to achieve academic goals?

# Questions To Ask Professionals.....

## *Your Chief Financial Officer*

### *Cash Management*

- Are we claiming federal reimbursement from all our federal funds in a timely manner?

# Questions To Ask Professionals.....

## *Your Chief Financial Officer*

### *Software Agreements*

- Can be the bottomless pit if not monitored?
- How often is someone reviewing:
  - How many agreements you have?
  - How are they funded?
  - Are they being used?
  - Does the usage still meet our education goals?
  - Is it the best use of our dollars?

# Questions To Ask Professionals.....

## ***BONUS QUESTION TO ASK YOURSELF!!***

- Are you receiving monthly financial reports?
  - Does not have to be detailed to get an idea of where you stand?
- Do these reports include a narrative that really speaks to how you stand that month/time period?

# FINANCIAL QUESTIONS TO ASK YOUR BOND ATTORNEY



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# Financial Questions to Ask Your Bond Attorney

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- How can school districts borrow money?
- Are there limitations on the use of bond proceeds?
- What is a bond premium and how can it be used?
- What is included in the costs of issuance of a bond?
- What is millage rate stabilization?
- What is SCAGO?
- What is the most cost-efficient way to issue annual 8% bonds?

# Financial Questions to Ask Your Bond Attorney

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- What is a bond rating and when and why is it needed?
- What is continuing disclosure and why is it important?
- What are arbitrage and rebate?
- What financial procedures/policies related to debt should a school district have?



# Financial Questions to Ask Your Bond Attorney

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How can school districts borrow money?

- School districts can borrow money through the issuance of debt:
  - General Obligation Bonds
  - General Obligation Bond Anticipation Notes
  - Tax Anticipation Notes
  - Acquisition, Use and Security Agreements for Equipment
  - Capital Leases for Equipment
  - Special Obligation Bonds

# Financial Questions to Ask Your Bond Attorney

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Are there limitations on the use of bond proceeds?

- Pursuant to the School Bond Act, which is the authority for school districts to issue bonds, the use of bond proceeds is limited to capital improvements
- Capital improvements are defined in the School Bond Act as “the constructing, improving, equipping, renovating and repairing of school buildings or other school facilities or the cost of the acquisition of land whereon to construct or establish such school facilities”
- Cannot be used for operating expenses

# Financial Questions to Ask Your Bond Attorney

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What is a bond premium and how can it be used?

- A bond premium is an amount of cash paid by a purchaser of bonds in the public market
- Payment of a bond premium results in a higher coupon rate of interest paid on each bond maturity.
- In effect, a bond premium is pre-paid interest
- It is not “free” money
- Under South Carolina law, for school districts, there appears to be no limitations on how a bond premium can be used

# Financial Questions to Ask Your Bond Attorney

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What is included in the costs of issuance of a bond?

- Bond Counsel Fees and Expenses
- Financial Advisor Fees and Expenses
- Publication Costs
- Rating Fees
- Registrar/Paying Agent's Fees (first year)
- Rebate Analyst
- Continuing Disclosure Dissemination Agent
- External Auditor

# Financial Questions to Ask Your Bond Attorney

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## What is millage rate stabilization?

- Millage rate stabilization is when the school district's debt service millage rate is the same every year
  - School Board would determine the target millage rate, balancing needs vs. taxation
  - Annual 8% bonds are issued to meet annual capital needs and are sized to maintain millage rate stabilization
  - Working with the school district's financial advisor is a key component of millage rate stabilization

# Financial Questions to Ask Your Bond Attorney

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## What is the South Carolina Association of Governmental Organizations (SCAGO)?

- SCAGO is a not-for-profit corporation established in 2002 largely through the efforts of representatives of SCASA and SCASBO
- The primary purpose behind SCAGO is to offer efficient, cost-effective financing programs for South Carolina school districts
- SCAGO undergoes an annual external audit which is published on its website ([www.scago.com](http://www.scago.com))
- More than 900 series of bonds have been issued through the SCAGO general obligation bond programs representing over \$2.7 billion
- The SCAGO general obligation bond program is only available for bonds maturing within one year
- Burr & Forman LLP serves as both general counsel and bond counsel to SCAGO

# Financial Questions to Ask Your Bond Attorney

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What is the South Carolina Association of Governmental Organizations (SCAGO)?

- The SCAGO General Obligation Debt Program is structured as follows:
  - Each school district issues its own general obligation bond
  - Bond proceeds and debt service for each school district are held by the respective county treasurers
  - No school district is responsible for any other school district's debt
  - SCAGO bundles/pools all of the individual bonds and offers them for sale in a publicly-traded transaction as certificates of participation after published notice is given required by South Carolina law
  - Bonds issued through SCAGO mature on March 1 following the issue date



# Financial Questions to Ask Your Bond Attorney

What is the South Carolina Association of Governmental Organizations (SCAGO)?

School Districts that have participated in one or more SCAGO general obligation debt Programs since 2002



# Financial Questions to Ask Your Bond Attorney

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What is the South Carolina Association of Governmental Organizations (SCAGO)?

- SCAGO Board of Directors
  - Made up of appointees of SCASA, SCASBO and at-large appointees of SCAGO
  - Officers are elected by the SCAGO Board
  - Board members are leaders in their respective fields
  - Board members serve as volunteers for the benefit of program participants
  - The names of Board members can be found at

<http://www.scago.com/boardofdirectors.html>

# Financial Questions to Ask Your Bond Attorney

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What is the most cost-efficient way to issue annual 8% bonds?

- The school district can choose to issue a stand-alone bond or bond anticipation note through a bank placement or a publicly-traded transaction

OR

- The school district can issue an annual 8% bond (not bond anticipation notes) through SCAGO's general obligation debt programs

# Financial Questions to Ask Your Bond Attorney

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What is the most cost-efficient way to issue annual 8% bonds?

- By issuing a stand-alone bond or bond anticipation note:
  - If the debt is publicly-traded, a preliminary official statement will need to be prepared and a rating obtained
    - Information needed from the school district
    - Information needed from County officials
    - Requires continuing disclosure
  - Costs of issuance have proven to be higher
  - If the debt is sold as a bank placement, a preliminary official statement would not be needed and costs of issuance would be lower than a publicly-traded transaction, but the interest rate would generally be higher

# Financial Questions to Ask Your Bond Attorney

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What is the most cost-efficient way to issue annual 8% bonds?

- By issuing a bond through SCAGO:
  - Bond Counsel fees and Financial Advisor fees capped regardless of the size of the bond
  - Aa1 enhanced credit rating from Moody's Investors Service pursuant to Section 59-71-155 of the Code of Laws of South Carolina 1976 as amended
  - Pro-rata cost for bond rating resulting in a lower rating fee
  - Low interest rate through a large, rated, publicly-traded transaction
  - Not necessary to prepare official statement reducing staff time
  - Ease and convenience

# Financial Questions to Ask Your Bond Attorney

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What is a bond rating and when and why is it needed?

- A bond rating is the grade a rating agency assigns to indicate the risk of default. Ratings are intended to measure the probability of the timely repayment of principal for and interest on municipal securities and represent the opinion of the rating agency and not a statement of fact or recommendation to purchase, hold or sell a security
- Bond rating(s) are needed in order to sell bonds in a publicly-traded market
- Bonds with higher ratings tend to get more attention by possible bidders and can result in lower interest rates
- Enhanced Constitutional Intercept



# Financial Questions to Ask Your Bond Attorney

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What is continuing disclosure and why is it important?

- Continuing disclosure requirements are imposed by the Securities and Exchange Commission Rule 15c2-12
- Continuing disclosure relates to annual disclosures made *after* bonds are sold in the public market
- Timely-filed continuing disclosure is critical in order for underwriters (prospective purchasers) to be able to bid on bonds
- Contents of continuing disclosure reports included audited financial statements and updated information related to the financial disclosures included in a bond issue's official statement



# Financial Questions to Ask Your Bond Attorney

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## What are arbitrage and rebate?

- Arbitrage can be positive or negative
  - Negative arbitrage results when the interest paid on an investment of bond proceeds is lower than the interest rate paid on tax-exempt bonds
  - Positive arbitrage results when the interest paid on an investment of bond proceeds is higher than the interest rate paid on tax-exempt bonds

# Financial Questions to Ask Your Bond Attorney

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## What are arbitrage and rebate?

- The difference between the interest earned and the amount allowed by the Internal Revenue Service must be paid to the U.S. Treasury which is called rebate
  - There are certain exceptions to rebate
- Is making a rebate payment a “bad” thing? The answer is “no” as long as the amount rebated has been set aside

# Financial Questions to Ask Your Bond Attorney

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What financial procedures/policies related to debt should a school district have?

- Written Procedures related to Continuing Disclosure
- Written Procedures related to Tax-Exempt Debt
- Internal Controls
- Investment Policy

# Questions?

Thanks for your attention

If you would like any additional information related to the topics presented, please e-mail Laura Foster at [lfoster@burr.com](mailto:lfoster@burr.com)



**350** Attorneys.



**19** Offices.



**1** Firm.

**Results** Matter.

# FINANCIAL QUESTIONS TO ASK YOUR EXTERNAL AUDITOR



HALLIDAY, SCHWARTZ & CO.



# Meet the Auditor

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Andrew P. Dobson, CPA

- Shareholder at Halliday, Schwartz & Co. as Managing Partner of School District practice
- Auditing school districts since 2010
- Member of the Single Audit Committee of the SC Department of Education and the SC Department of Education Act 23 Task Force
- Member of the Board of Commissioners at the SC School for the Deaf and Blind since 2021 and a Member of the SC School Boards Association



# Final Communication Letter

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- Was a letter issued to management related to findings or suggestions for the future?
- Planned Scope and Timing: Were there any adjustment or change to the planned timing of the audit?  
If so, why?
- Significant Accounting Policies: Did you adopt any new standards and, if so, what changed with the reporting?
- Uncorrected and Corrected Misstatements
- Disagreements with Management
- Other Significant Matters, Findings or Issues



# Financial Statement Audit

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- Audit Opinion –
  - Was it anything other than unmodified? If so, why?
  - Were there any Emphasis of Matter paragraphs?
- General Fund Analysis
  - Fund Balance Percentages – Current year Expenditures; Current year Budget; Next Year's Budget
  - Revenue and Expenditure changes year over year and final against budget
- “Other Funds”: Special Revenue, Food Service, Debt Service, Capital Projects
  - Spendable fund balances
  - Amounts held for future purposes – Debt and Capital



# Financial Statement Findings

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- Internal Control over Financial Reporting
  - Material Weakness
  - Significant Deficiency
- Compliance and Other Matters
  - Other Matters = Fraud
  - Compliance with Laws, Regulations, Contracts and Provisions of Grant Agreements
    - Both Federal and State Law Reviewed along with grant agreements outside of Major Programs



# Uniform Guidance Compliance Report

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- What are my major programs?
- What is my opinion?
  - If anything other than unmodified, what lead to the modification?
- Internal Control over Compliance
  - Material Weakness
  - Significant Deficiency



# Review of Audit Findings

- All Findings have required elements to be reported:
  - Condition – What was the finding reviewed against or what was not done?
  - Reason Improvement Needed – Auditor's justification on why changes should be made.
  - Cause of Condition – What happened, or didn't happen, that lead to the finding?
  - Effect of Condition – Ramifications of the control deficiency or noncompliance?
  - Perspective – Was this an isolated incident which is self-contained or a pervasive issue to the District?
  - Identification of Repeat Finding – Was this a finding in the past or a new finding?
  - Recommendation – Auditor recommendation on how to correct the issues
  - Benefits of Recommendation – How implementing the recommendation will strengthen the District.
  - Client Response – Your client's response to the finding and how the intend to, or already have corrected the finding.



# Contact Information

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