

Report on Audit of Financial Statements
Central Midlands Council of Governments
As of and for the year ended June 30, 2020

SCOTT  COMPANY

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Independent Auditor's Report

To the Board of Directors
Central Midlands Council of Governments
Columbia, South Carolina

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Central Midlands Council of Governments (the "Council") as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Council as of June 30, 2020, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 - 8, the budgetary comparison information on pages 46 - 49, and information concerning the Council's retirement and OPEB plans on pages 42 - 45 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Central Midlands Council of Governments' basic financial statements. The schedules, listed in the table of contents as other supplementary information, and the schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information, as listed in the table of contents, and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 9, 2021, on our consideration of the Council's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Council's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Council's internal control over financial reporting and compliance.

Scott and Company LLC

Columbia, South Carolina

February 9, 2021

CENTRAL MIDLANDS COUNCIL OF GOVERNMENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the Central Midlands Council of Governments' ("the Council") financial performance provides an overview of the Council's financial activities for the fiscal year ended June 30, 2020. The MD&A should be read in conjunction with the accompanying basic financial statements and the accompanying notes to those financial statements. The discussion and analysis includes comparative data for the prior year.

The Central Midlands Regional Planning Council was organized under the provisions of Article 2, Act 487 of the 1967 South Carolina General Assembly, as amended in 1971. On December 12, 1996, the name of the council was renamed, by the approval of the member governments and the governor, to Central Midlands Council of Governments. In general, the Council has the power to carry on such planning activities and to develop such studies and programs related to aging, transportation, workforce innovations and other areas as it deems to be in the interest of the Central Midlands area, which includes Richland, Lexington, Fairfield and Newberry counties.

Financial Highlights

The following are key financial highlights for the fiscal year:

- The net position of the Council was \$(5,115,451) at the close of the most recent fiscal year.
- As the close of the current fiscal year, the Council's governmental funds reported an increase of \$191,964 in the total fund balance with a combined ending fund balance of \$1,167,257.
- The increase in the fund balance was due to closely monitoring expenses and reducing expenses where possible.

Overview of the Financial Statements

The financial statements for FY2020 include the Management's Discussion and Analysis (MD&A), government-wide statements, fund financial statements, notes to the financial statements, required supplemental information and other supplementary information. The statements are highly condensed and present a government-wide view of the Council's finances. Within this view, all Council operations are categorized as governmental. Governmental activities include aging, community development block grants, transportation, workforce development, and general administration. The Council has a component unit, the Central Midlands Development Corporation. The Central Midlands Development Corporation is a separate entity with a separate governing board. For this overview, the Central Midlands Development Corporation is excluded from the Council's financial statements. These government-wide statements are designed to be more corporate-like in that all activities are consolidated into a total for the Council.

Basic Financial Statements

- The Statement of Net Position focuses on resources available for future operations. In simple terms, this statement presents a snapshot view of the assets the Council owns, the liabilities it owes and the net difference. The net difference is further separated into amounts restricted for specific purposes and unrestricted amounts.
- The Statement of Activities focuses on gross and net costs of the Council's programs. This statement summarizes and simplifies the user's analysis to determine the extent to which programs are self-supporting and/or subsidized by general revenues.
- Governmental fund statements follow the more traditional presentation of government financial statements. The Council's major governmental funds are presented in their own columns and the remaining funds are combined into a column title "Non-major Governmental Funds". The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements. A budgetary comparison is presented for the general and major funds with a legally adopted budget.
- The notes to the financial statements provide additional disclosures required by governmental accounting standards and provide information to assist the reader in understanding the Council's financial condition.

CENTRAL MIDLANDS COUNCIL OF GOVERNMENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS

This MD&A is intended to explain the significant changes in financial position and differences in operation between the current and prior years.

Government-wide Financial Statements

A comparative condensed version of the Statement of Net Position at June 30, 2020, and June 30, 2019, follows:

Net Position at Year-End

<u>Governmental Activities</u>	<u>FY2020</u>	<u>FY2019</u>
Cash and Cash Equivalents	\$ 1,009,467	\$ 220,834
Other Assets	2,354,646	3,650,215
Capital Assets	<u>514,525</u>	<u>517,634</u>
Total Assets	<u>3,878,637</u>	<u>4,388,683</u>
Deferred Outflows Related to Pensions and OPEB	<u>688,418</u>	<u>565,549</u>
Current Liabilities	1,659,879	2,377,786
Long-Term Liabilities	<u>6,638,018</u>	<u>6,446,484</u>
Total Liabilities	<u>8,297,897</u>	<u>8,824,270</u>
Deferred Inflows Related to Pensions and OPEB	<u>1,391,083</u>	<u>2,171,835</u>
Net Position:		
Invested in capital assets	514,525	517,634
Unrestricted	(<u>5,636,449</u>)	(<u>6,559,507</u>)
Total Net Deficit	\$ (<u>5,121,924</u>)	\$ (<u>6,041,873</u>)

Cash and cash equivalents increased as a result of increased revenue in the transportation and aging programs. Other assets decreased approximately \$1.3 million primarily due to decreases in receivables as the result of fewer services being offered, primarily through the Council's Workforce Innovation Opportunity ACT ("WIOA") fund due to the impact of COVID-19. Additionally, the Council's current liabilities decreased approximately \$718,000, primarily due to a decrease of payables related to the WIOA fund as a result of COVID-19.

A comparative condensed version of the Statement of Activities follows:

For the Years Ended June 30, 2020 and June 30, 2019

<u>Revenue</u>	<u>FY2020</u>	<u>FY2019</u>
Program Revenue	\$ 12,892,679	\$ 12,062,837
General Revenue		
Membership Dues	578,218	554,057
State Aid	70,407	70,407
Interest Income	239	326
Other Revenue	<u>88,612</u>	<u>60,125</u>
Total Revenue	<u>13,630,155</u>	<u>12,747,752</u>

CENTRAL MIDLANDS COUNCIL OF GOVERNMENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Years Ended June 30, 2020 and June 30, 2019 (continued)

<u>Expenses</u>	<u>FY2020</u>	<u>FY2019</u>
Direct Personnel Costs	1,859,117	1,523,079
Operations and Maintenance	794,532	799,775
Development and Training	27,281	30,075
Travel and Transportation	61,685	64,859
Consulting Services	1,786,990	504,584
Payments to contractors	7,443,304	8,172,300
Other Program Expenses	699,998	418,425
Unallocated Depreciation	<u>37,299</u>	<u>32,655</u>
Total	<u>12,710,206</u>	<u>11,545,752</u>
Change in Net Position	919,949	1,202,000
Beginning in Net Position	(6,041,873)	(7,243,873)
Ending Net Position	\$ (5,121,924)	\$ (6,041,873)

During FY2020, consulting services were approximately \$1.3 million higher than FY2019 as a result of additional programs specific to the Council's Transportation fund activities. Additionally, during FY2020, the Council's payments to contractors decreased approximately \$729,000 as a result of decreased activity in the WOIA fund. Other program expenses were approximately \$282,000 higher in FY2020 than in FY2019 as a result of increased Transportation fund spending and additional Aging funding specific to COVID-19.

Financial Analysis of the Council Funds

Governmental Funds - The focus of the Council's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Council's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

<u>Governmental Funds</u>	<u>FY2020</u>	<u>FY2019</u>
Total Assets	\$ <u>3,916,202</u>	\$ <u>4,388,683</u>
Current Liabilities	<u>2,563,454</u>	<u>2,377,786</u>
Fund Balances:		
Nonspendable for prepaid items	35,122	25,499
Nonspendable for deposits	9,644	9,644
Assigned for special purposes	235,030	235,030
Unassigned	<u>1,072,952</u>	<u>897,084</u>
Total Fund Balances	\$ <u>1,352,748</u>	\$ <u>1,167,257</u>

Budgetary Highlights

The Council adopts a balanced budget with budgeted expenditures equaling budgeted revenues. During the fiscal year, the Council revised the budget to adjust the estimates used to prepare the original budget. This is routinely done each year to reflect changes in funding sources, which necessitate changes in expenditures. The budgets are not legally adopted, however, the Council still elects to include budget to actual schedules in the supplementary information section of this report.

CENTRAL MIDLANDS COUNCIL OF GOVERNMENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Assets

At June 30, 2020, the COG had \$514,525 in capital assets.

	<u>FY2020</u>	<u>FY2019</u>
Land	\$ 130,848	\$ 130,848
Building	299,761	283,774
Furniture and Equipment	<u>83,916</u>	<u>103,012</u>
Net Capital Assets	\$ <u>514,525</u>	\$ <u>517,634</u>

For more detailed information on capital asset activity, see Note 3 - Capital Assets.

Long-Term Debt and Financing Arrangements

The Council has an annual leave policy that permits employees to carry forward forty-five days of annual leave on January 1 of each year. At June 30, 2020, the accrued annual leave balance equates to \$184,009. In the audited financial statements, the accrued annual leave balance is classified as current.

The Council also has an unsecured line of credit with a local financial institution with a credit limit of \$300,000. The balance of the line of credit was \$0 at June 30, 2020, and the Council did not access the line of credit during FY2020.

Economic Factors and Next Year's Budget

During the FY2020, economic factors and potential new resources are as follows:

- Management will implement appropriate policies and procedures to ensure financials are being accurately reported during the new fiscal year and make any necessary or required adjustments monthly for proper reporting.
- Management will use Census 2020 population numbers to adjust membership dues once the official population numbers are released. That adjustment may happen sometime during next fiscal year.
- The Council is the Administrative and Fiscal Agent for the Midlands Workforce Development Board in support of the Workforce Innovation Opportunity ACT (WIOA) program for the Central Midlands Region.
- The Council will continue to work with the Office of Economic Adjustment, Department of Defense Community Planning to implement the Joint Land Use Plans.
- The Council operates two centers in the Central Midlands Region (Fairfield, Lexington and Richland counties) and continues to work for unemployed/under employed citizens to receive WIOA program benefits.
- The Council will continue to provide planning and technical assistance to the counties and municipalities within the Central Midlands region.
- The Council is currently working on the Long Range Transportation Plan (LRTP) and various other studies to address transportation issues throughout the region.
- As a 501(c)3, the Central Midlands Development Corporation (CMDC) will continue to take a more active role in seeking grant and foundation funding opportunities. The CMDC will continue to function as the fiscal agent for the Midlands Food Alliance and continue to seek grant funding to support their regional food system planning efforts.

CENTRAL MIDLANDS COUNCIL OF GOVERNMENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS

- As always, the staff and Board of Directors will continue to seek alternative funding sources so that the Council can remain a viable resource for the member governments and communities that it serves.

Requests for Financial Information

This financial information is designed to provide a general overview of the Council's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Benjamin Mauldin, Executive Director,
Petula Hendley, Director of Financial Management and Support Services, or
Chanell Jackson, Finance Director
Central Midlands Council of Governments
236 Stoneridge Drive
Columbia, SC 29210

CENTRAL MIDLANDS COUNCIL OF GOVERNMENTS
STATEMENT OF NET POSITION
AS OF JUNE 30, 2020

	Governmental Activities	Component Unit
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,009,467	\$ 35,665
Due from Federal government	2,102,603	-
Due from State government	67,630	-
Accounts receivable	139,647	-
Prepaid expenses	35,122	-
Security deposit	9,644	-
Total current assets	3,364,113	35,665
Noncurrent assets:		
Capital assets:		
Nondepreciable capital assets	130,848	-
Depreciable assets, net of accumulated depreciation	383,677	-
Total noncurrent assets	514,525	-
Total assets	3,878,638	35,665
Deferred outflows of resources:		
Deferred outflows related to pensions	366,210	-
Deferred outflows related to other postemployment benefits	322,208	-
Total deferred outflows of resources	688,418	-
LIABILITIES		
Current liabilities:		
Accounts payable	1,562,762	-
Accrued payroll liabilities	10,791	-
Accrued annual leave	86,326	-
Total current liabilities	1,659,879	-
Noncurrent liabilities:		
Accrued annual leave	97,683	-
Net pension liability	3,391,082	-
Net other postemployment benefits liability	2,711,441	-
Unearned revenue	437,812	1,107
Total noncurrent liabilities	6,638,018	1,107
Total liabilities	8,297,897	1,107
Deferred inflows of resources:		
Deferred inflows related to pensions	1,013,942	-
Deferred inflows related to other postemployment benefits	377,141	-
Total deferred inflows of resources	1,391,083	-
Net Position:		
Invested in capital assets	514,525	-
Unrestricted	(5,636,449)	34,558
Total net position	\$ (5,121,924)	\$ 34,558

The accompanying notes to the financial statements are an integral part of this statement.

CENTRAL MIDLANDS COUNCIL OF GOVERNMENTS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2020

<u>Functions/Programs</u>	Expenses	Program Revenues	Net Revenue (Expense) and Changes in Net Position	
		Operating Grants and Contributions	Governmental Activities	Component Unit
Governmental activities:				
General administration	\$ -	\$ 348,241	\$ 348,241	\$ -
Program administration	13,002,648	12,886,168	(116,480)	-
Local planning assistance	50,860	1,572	(49,288)	-
Total governmental activities	<u>\$ 13,053,508</u>	<u>\$ 13,235,981</u>	<u>182,473</u>	<u>-</u>
Component unit	<u>\$ 6,159</u>	<u>\$ 3,355</u>		<u>(2,804)</u>
General revenues:				
Membership dues			578,218	-
State aid			70,407	-
Interest income			239	-
Other revenue			88,612	-
Total general revenue			<u>737,476</u>	<u>-</u>
Change in net position			919,949	(2,804)
Net position, beginning of year			<u>(6,041,873)</u>	<u>37,362</u>
Net position, end of year			<u>\$ (5,121,924)</u>	<u>\$ 34,558</u>

The accompanying notes to the financial statements are an integral part of this statement.

**CENTRAL MIDLANDS COUNCIL OF GOVERNMENTS
BALANCE SHEET
GOVERNMENTAL FUNDS
AS OF JUNE 30, 2020**

	Special Revenue Funds					Total
	General	Aging	Transportation	Workforce Innovation and Opportunity Act	Non-major Governmental Funds	
ASSETS						
Cash and cash equivalents	\$ 1,009,467	\$ -	\$ -	\$ -	\$ -	\$ 1,009,467
Due from Federal government	-	739,396	542,001	761,699	59,507	2,102,603
Due from State government	-	67,630	-	-	-	67,630
Due from other funds	239,835	-	-	-	312,254	552,089
Accounts receivable	117,234	-	-	123	22,290	139,647
Prepaid expenses	24,211	2,835	-	8,076	-	35,122
Security deposit	9,644	-	-	-	-	9,644
Total assets	<u>\$ 1,400,391</u>	<u>\$ 809,861</u>	<u>\$ 542,001</u>	<u>\$ 769,898</u>	<u>\$ 394,051</u>	<u>\$ 3,916,202</u>
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts payable	\$ 47,643	\$ 646,091	\$ 338,363	\$ 536,357	\$ 5,099	\$ 1,573,553
Unearned revenue	-	-	-	48,860	388,952	437,812
Due to other funds	-	163,770	203,638	184,681	-	552,089
Total liabilities	<u>47,643</u>	<u>809,861</u>	<u>542,001</u>	<u>769,898</u>	<u>394,051</u>	<u>2,563,454</u>
Fund Balances						
Nonspendable for prepaid items	24,211	2,835	-	8,076	-	35,122
Nonspendable for security deposit	9,644	-	-	-	-	9,644
Assigned for special purposes	235,030	-	-	-	-	235,030
Unassigned	1,083,863	(2,835)	-	(8,076)	-	1,072,952
Total fund balances	<u>1,352,748</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,352,748</u>
Total liabilities and fund balances	<u>\$ 1,400,391</u>	<u>\$ 809,861</u>	<u>\$ 542,001</u>	<u>\$ 769,898</u>	<u>\$ 394,051</u>	<u>\$ 3,916,202</u>

The accompanying notes to the financial statements are an integral part of this statement.

**CENTRAL MIDLANDS COUNCIL OF GOVERNMENTS
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCES TO THE
STATEMENT OF NET POSITION
AS OF JUNE 30, 2020**

Amounts reported for governmental activities in the Statement of Net Position are different because:

Fund balance of governmental funds	\$ 1,352,748
Capital assets, net of depreciation, are not current financial resources and are not included in the governmental funds	514,525
Net pension and OPEB liability is not due and payable in the current period and, therefore, is not reported in the funds:	
Net pension liability	(3,391,082)
Net other postemployment benefits liability	(2,711,441)
Deferred outflows and inflows of resources related to pensions and OPEB are applicable to future periods and, therefore, are not reported in the funds	
Deferred outflows of resources related to pensions	366,210
Deferred outflows of resources related to other postemployment benefits	322,208
Deferred inflows of resources related to pensions	(1,013,942)
Deferred inflows of resources related to other postemployment benefits	(377,141)
Long-term liabilities, including accrued annual leave, are not due and payable in the current period and, therefore, are not reported in the governmental funds	<u>(184,009)</u>
Net Position of Governmental Activities	<u><u>\$ (5,121,924)</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

CENTRAL MIDLANDS COUNCIL OF GOVERNMENTS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2020

	Special Revenue Funds					Total
	General	Aging	Transportation	Workforce Innovation and Opportunity Act	Non-major Governmental Funds	
Revenues:						
Membership dues	\$ 578,218	\$ -	\$ -	\$ -	\$ -	\$ 578,218
State aid	70,407	-	-	-	-	70,407
Federal revenue	-	3,756,527	2,305,316	5,298,722	176,803	11,537,368
State revenue	-	1,111,168	-	-	-	1,111,168
Local revenue	4,939	-	57,431	73,743	328	136,441
Interest income	239	-	-	-	-	239
Other revenue	-	-	-	-	88,612	88,612
Total revenues	<u>653,803</u>	<u>4,867,695</u>	<u>2,362,747</u>	<u>5,372,465</u>	<u>265,743</u>	<u>13,522,453</u>
Expenditures:						
Direct personnel costs	1,170,314	501,060	261,014	422,755	133,850	2,488,993
Indirect cost allocations	(1,317,086)	545,889	251,438	391,031	128,728	-
Support services						
Operations and maintenance	362,834	38,744	19,874	393,136	14,136	828,724
Development and training	2,092	17,038	229	6,722	1,200	27,281
Travel and transportation	29,592	20,461	55	11,209	368	61,685
Consulting services	1,530	1,600	1,739,917	65	43,878	1,786,990
Payments to contractors	-	3,263,456	-	4,179,848	-	7,443,304
Other program expenses	-	481,458	217,283	1,306	(62)	699,985
Total expenditures	<u>249,276</u>	<u>4,869,706</u>	<u>2,489,810</u>	<u>5,406,072</u>	<u>322,098</u>	<u>13,336,962</u>
Excess revenues over (under) expenditures	<u>404,527</u>	<u>(2,011)</u>	<u>(127,063)</u>	<u>(33,607)</u>	<u>(56,355)</u>	<u>185,491</u>
Other financing sources (uses):						
Transfers in	-	2,011	127,063	33,607	56,355	219,036
Transfers out	(219,036)	-	-	-	-	(219,036)
Total other financing sources (uses)	<u>(219,036)</u>	<u>2,011</u>	<u>127,063</u>	<u>33,607</u>	<u>56,355</u>	<u>-</u>
Net change in fund balance	185,491	-	-	-	-	185,491
Fund balance, beginning of year	<u>1,167,257</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,167,257</u>
Fund balance, end of year	<u>\$ 1,352,748</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,352,748</u>

The accompanying notes to the financial statements are an integral part of this statement.

CENTRAL MIDLANDS COUNCIL OF GOVERNMENTS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020

Net change in fund balances - total governmental funds \$ 185,491

Amounts reported for governmental activities in the Statement of Activities differ from the amounts in the Statement of Revenues, Expenditures and Changes in Fund Balances because:

Governmental funds report capital outlays as expenditures; however, in the Statement of Activities, the costs of those assets are allocated over the estimated useful lives as depreciation expense, or are allocated to the appropriate functional expense when the cost is below the capitalization threshold. These activities are reconciled below:

Additions	34,190
Depreciation expense	(37,299)

Governmental funds report pension contributions as expenditures; however, in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.

Council pension contributions	\$ 265,522	
Pension expense	<u>510,723</u>	\$ 776,245

Governmental funds report OPEB contributions as expenditures; however, in the Statement of Activities, the cost of OPEB benefits earned net of employee contributions is reported as OPEB expense.

Council OPEB contributions	\$ 107,691	
OPEB expense	<u>(124,255)</u>	\$ (16,564)

Accrued annual leave is measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, the amounts used exceeded the amount accrued for annual leave.

(22,114)

Change in Net Position of Governmental Activities

\$ 919,949

The accompanying notes to the financial statements are an integral part of this statement.

Central Midlands Council of Governments
Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

The accounting and reporting policies of the Central Midlands Council of Governments (the “Council”) conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant accounting policies:

Reporting Entity - The Central Midlands Regional Planning Council was organized under the provisions of Article 2, Act 487 of the 1967 South Carolina General Assembly, as amended in 1971. On December 12, 1996, the name of the council was renamed, by the approval of the member governments and the governor, to Central Midlands Council of Governments. The Council does not have stockholders or equity holders and is not subject to income taxes. In general, the Council has the power to carry on such planning activities and to develop such studies and programs related to aging, transportation, workforce innovations and other areas as it deems to be in the interest of the Central Midlands area, which includes Richland, Lexington, Fairfield and Newberry counties.

The financial reporting entity, as defined by Governmental Accounting Standards Board (GASB) consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading or incomplete. Based on the following criteria, the Council has determined it is not a component unit of any other organization. Therefore, the Council reports as a primary entity.

The primary entity is financially accountable if it appoints a voting majority of the organization's governing body including situations in which the voting majority consists of the primary entity's officials serving as required by law and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary entity. The primary entity also may be financially accountable if an organization is fiscally dependent on it even if it does not appoint a voting majority of the board. An organization is fiscally dependent on the primary entity that holds one or more of the following powers: determine its budget without another government's having the authority to approve and modify that budget, levy taxes or set rates or charges without approval by another government, and issue bonded debt without approval by another government.

Discretely Presented Component Unit - The Central Midlands Development Corporation (CMDC) is a legally separate entity with a separate board of directors. The CMDC is fiscally dependent on the Council. Central Midlands Development Corporation is considered to be a component unit of the Council and has been included as a discretely presented component unit. The component unit's year-end is June 30.

Central Midlands Council of Governments
Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

Basis of Accounting

The accounts of the Council are organized on the basis of governmental funds. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Government-wide Statements - The statement of net position and the statement of activities display information about the Council. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the effect of internal activities upon revenues and expenses. Governmental activities generally are financed through intergovernmental revenues, and other non-exchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the Council's governmental activities. Direct expenses are those that are specifically associated with a program or function, and, therefore, are clearly identifiable to a particular function. Program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not program revenues are presented as general revenues. The effect of inter-fund activity has been eliminated from the government-wide financial statements.

Fund Financial Statements - The fund financial statements provide information about the Council's funds. Separate statements for each fund category – governmental and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds and aggregated non-major funds, each displayed in a separate column.

The Council reports the following major governmental funds:

General Fund - The General Fund is the government's primary operating fund. It accounts for all financial resources of the Council, except those required to be accounted for in another fund.

The Aging Special Revenue Fund - The Aging Special Revenue fund is used to account for receipts and expenditures of money passed through the South Carolina Department on Aging. These funds are used to promote coordination of aging services in the region.

The Transportation Special Revenue Fund - The Transportation Special Revenue Fund is used to account for receipts and expenditures of money passed through from the United States and South Carolina Departments of Transportation. These funds are used to provide region-wide transportation planning technical assistance to local governments and the Central Midlands Regional Transportation Authority.

Central Midlands Council of Governments
Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

The Workforce Innovation and Opportunity Act (WIOA) Special Revenue Fund - The Workforce Innovation and Opportunity Act (WIOA) Special Revenue Fund is used to account for the receipts and expenditures of money passed from the United States Department of Labor to the South Carolina Department of Employment and Workforce to provide workforce investment activities that increase employment, retention, earnings, and skills of participants.

Additionally, the Council reports the following fund type:

The Nonmajor Special Revenue Funds - The Nonmajor Special Revenue Funds are operating funds used to account for the proceeds of specific revenue sources that are legally restricted for specific purposes.

Basis of Accounting:

Government-wide Financial Statements - The government-wide and fiduciary fund financial statements are reported using the economic resource measurement focus and the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Council gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants and donations. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental funds are reported using the current financial resources measurement focus and modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year end) are recognized when due. The primary sources susceptible to accrual are investment income and grant revenue.

Expenditures are recorded when the related fund liability is incurred, except for claims and judgments and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Payments of general long-term debt and acquisitions under capital leases are reported as other financing uses. Funds received but not yet earned are reflected as unearned revenues.

Component Unit – The Central Midlands Development Corporation financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred regardless of the timing of related cash flows.

Use of resources - When both restricted and unrestricted resources are available for use, it is the Council's policy to use restricted resources first, and then unrestricted resources as they are needed.

Central Midlands Council of Governments
Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

Basis of Accounting (continued):

Budget - As required by accounting principles generally accepted in the United States of America, the Council adopted a legal budget for the June 30, 2019, general resources and the related expenditures required to earn those resources. The budget is adopted and amended, as considered necessary, by approval from the Board of Directors and/or Executive Committee.

The Council adopts an annual legal budget, which covers the General fund and certain Special Revenue Funds. The budgets for the General Fund and certain Special Revenue Funds are prepared on the modified accrual basis. The statements comparing budgets and actual amounts for these governmental funds include adjustments to those budgetary bases for the differences noted above and for certain other items which are reported in the Council's budget differently than they are reported for accounting principles generally accepted in the United States. Budgetary level of control is exercised at the department level. Any revisions that alter total expenditures of the General Fund and certain Special Revenue Funds must be approved by the Board of Directors. During fiscal year 2019, the Council did approve budgetary expenditure amendments.

The Budgetary Comparison Schedules included in the required supplementary information presents a comparison of budgetary data to actual results of operations for the General Fund and major Special Revenue Funds (Aging, Transportation, and Workforce Investment and Opportunity Act), for which an annual operating budget is legally adopted. These funds utilize the same basis of accounting for both budgetary purposes and actual results.

The Executive Director and all program directors and managers receive interim financial reports. Progress reports on the Council's budgetary and fiscal status are submitted to the Board of Directors quarterly. Significant variations are explained. Problem areas and the probable solutions are identified. All actual revenues and expenditures over final budget amounts for the general fund and each special revenue funds are funded by overages of other accounts within the fund. Overages in total in the special revenue funds will be covered by the transfers from the general fund.

When the Executive Director determines that it is necessary to amend the budget, the amended budget is taken to the Executive Committee for approval. Revisions may be considered to reflect:

- (1) changes made by the addition of new grant awards not anticipated in preparing the initial budget;
- (2) additional costs incurred as a result of increased work activities; or
- (3) unanticipated costs which have occurred beyond normal operating control.

The Aging, Transportation, and Workforce Investment and Opportunity Act Special Revenue Funds have separate legally adopted budgets.

Central Midlands Council of Governments
Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

Basis of Accounting (continued):

Indirect Cost Allocation - Cost allocations made by the council are in accordance with the guidelines of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, Subpart E – *Cost Principles*. These guidelines provide that allowable indirect costs are identified and accumulated in an indirect cost pool and distributed to applicable federal, state and local grant activities and programs based upon an appropriate actual indirect cost allocation methodology. Certain employee benefits are accumulated in a fringe benefit cost pool and allocated to grant projects as a percentage of labor costs, referred to as release time. In accordance with Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, Subpart E – *Cost Principles*, the cost allocations are subject to subsequent federal audit or review.

Cash and Cash Equivalents - The Council maintains cash and pooled investments that are available for use by all funds. Cash includes cash on hand, demand deposits, and short-term investments with an original maturity of three months or less to be cash equivalents.

Accounts Receivable - Accounts receivable consists of amounts due from the Federal government, state and local governments or private sources, in connection with reimbursement of allowable expenditures made pursuant to the Council's grants and contracts.

Prepaid Items - Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements using the consumption method. An asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year which services are consumed.

Capital Assets - The Council accounts for capital asset purchases by recording acquisitions at cost or estimated historical cost. Donated assets are recorded at their estimated acquisition value at the date of donation. The Council capitalizes moveable personal property with a unit value in excess of \$1,500 and a useful life in excess of one year. Routine repairs and maintenance are charged to expenses in the year in which the expense was incurred. Capital assets are depreciated over their estimated useful lives using the straight-line method of depreciation. Useful lives of the Council's capital assets are as follows:

Buildings and improvements	15-40 years
Equipment	3-10 years

Deferred Outflows/Inflows of Resources - In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. The Council has two items that qualify for reporting in this category for inflows related to pensions and other postemployment benefits (OPEB). The inflows related to pensions are described in Notes 9 and 10.

Deferred outflows of resources represent consumption of net position that is applicable to a future period. Changes in net pension and net OPEB liabilities not included in expenses are reported as deferred outflows of resources or deferred inflows of resources. Employer contributions subsequent to the measurement date of the net pension and net OPEB liabilities are reported as deferred outflows of resources.

Central Midlands Council of Governments
Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

Unearned Revenues - Unearned revenues in the governmental funds include amounts received from grant and contract sponsors that have not yet been earned due to being in advance of meeting eligibility requirements.

Accrued Annual Leave - All vested annual leave pay is recorded as an expenditure in the current year to the extent it is paid during the year. Council employees can accumulate annual leave up to forty-five days for subsequent use or for payment upon termination, death or retirement. Any days beyond that limit accrued and not taken by the end of the calendar year are forfeited.

Deferred Compensation Agreement - The Council offers its employees a voluntary deferred compensation plan structured and operated according to provisions of Internal Revenue Code Section 457. The plan is administered by an agency of the State of South Carolina and the Council makes no contributions on behalf of the participants. The Council's liability is limited to remitting amounts deferred and withheld from the employee's wages to the Plan administrator.

Operating Transfers - Operating transfers are distributions of local cash resources to grant projects requiring local cash match in accordance with the terms and conditions of grant contracts and or to absorb any deficit in any grant project. Local funds are derived from Council dues paid by member governments, state aid funds, sale of data and information, internet advertising and internet webhosting.

Interfund Receivables and Payables - During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the governmental funds balance sheet.

Pensions - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the South Carolina Retirement System (SCRS) and additions to/deductions from SCRS's fiduciary net position have been determined on the same basis as they are reported by SCRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Post-employment Benefits Other Than Pensions ("OPEB") - For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the South Carolina Retiree Health Insurance Trust Fund (SCRHITF) and additions to/deductions from the SCRHITF's fiduciary net position have been determined on the accrual basis of accounting as they are reported by the SCRHITF in accordance with generally accepted accounting principles (GAAP). For this purpose, revenues are recognized when earned and expenses and benefits are recognized when incurred. Claims liabilities are reported when it is probable that a loss has occurred and the amount can be reasonably estimated. Investments are reported at fair value.

Central Midlands Council of Governments
Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

Non-exchange Transactions - The Council generally has two types of non-exchange transactions, government-mandated non-exchange transactions (which occur when a government at one level provides resources to a government at another level and requires the recipient to use the resources for a specific purpose) and voluntary non-exchange transactions (which result from legislative or contractual agreements other than exchanges, entered into willingly by the parties to the agreement). The Council recognizes non-exchange transactions when they are both measurable and probable for collection. For government-mandated non-exchange transactions and voluntary non-exchange transactions, the Council recognized assets when all applicable eligibility requirements are met, or resources are received, whichever is first, and revenue when all applicable eligibility requirements are met.

Net Position - The Council's net position in the government-wide financial statements are classified as follows:

Net investment in capital assets: This represents the Council's total investment in capital assets, net of accumulated depreciation.

Restricted net position: This category represents resources in which the Council is legally or contractually obligated by external parties such as lenders, grantors, contributors or by laws or regulations to spend in accordance with the restrictions imposed.

Unrestricted net position: Unrestricted net position consist of all other assets not included in the above categories.

The Council's policy for applying expenses that can use both restricted and unrestricted resources is designated to the program administrative level. General practice is to first apply the expense to the restricted resource then to unrestricted resources.

Fund Balances - In the governmental fund financial statements, the Council's fund balances are classified as follows:

Nonspendable fund balance - Includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example, inventories and prepaid amounts.

Restricted fund balance - Represents amounts that are (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) are imposed by law through constitutional provisions or enabling legislation.

Committed fund balance - Represents amounts that can only be used by for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority.

Central Midlands Council of Governments
Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

Fund Balances (Continued):

Assigned fund balance - Amounts are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed.

Unassigned fund balance - Represents the fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The Council reports positive unassigned fund balance only in the General Fund. For all other funds, deficits in Fund balance at year-end are reported as unassigned.

When expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, the Council's general practice is to first reduce committed resources, followed by assigned resources, and then unassigned resources.

Income Taxes - The Council is excluded from Federal income taxes under Section 115(1) of the Internal Revenue Code.

Use of Estimates - The preparation of financial statements in conformity 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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2. Cash and Investments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Observable inputs are developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are developed based on the best information available about the assumptions market participants would use in pricing the asset. The classification of securities within the fair value hierarchy is based upon the activity level in the market for the security type and the inputs used to determine their fair value, as follows:

Level 1 - unadjusted price quotations in active markets/exchanges for identical assets or liabilities that each Fund has the ability to access.

Level 2 - other observable inputs (including, but not limited to, quoted prices for similar assets or liabilities in markets that are active, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the assets and liabilities (such as interest rates, yield curves, volatilities, loss severities, credit risks and default rates) or other market-corroborated inputs).

Central Midlands Council of Governments
Notes to Financial Statements

Note 2. Cash and Cash Investments (continued)

Level 3 - unobservable inputs based on the best information available in the circumstances, to the extent observable inputs are not available (including each Fund's own assumptions used in determining the fair value of investments).

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3. The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the fair value hierarchy classification is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

The Council maintains a cash and cash equivalent investment pool that is available for use by all funds. Each fund portion of this pool is shown on the balance sheet as pooled cash and cash equivalents. Transfers from the Local Government Investment Pool (LGIP) are made at the request of the Council.

Individual funds may maintain cash and cash equivalents separate from the pool for convenience and control. Petty cash and working funds are maintained for nonrecurring incidental purchases. Such holdings are shown on the governmental balance sheet as non-pooled cash and cash equivalents.

Investments with maturities greater than three (3) months are shown on the balance sheet by fund type as investments.

Total cash and investments at June 30, 2020, consists of the following:

Demand deposits	\$	995,668
Cash on hand		40
LGIP		13,759
Total cash and investments		\$ 1,009,467

Deposits with financial institutions include bank demand deposits.

Credit Risk - South Carolina statutes authorize investments in certificates of deposit, savings accounts, repurchase agreements, the State Treasurer's Local Government Investment Pool, obligations of the U.S. Government and government agencies unconditionally guaranteed by the U.S. Government. The Council has no investment policy that would further restrict its choices.

At June 30, 2020, the Council's investments were rated as follows:

Investment Type	Classification	Total
SC Local Government Investment Pool	Level 2	\$ 13,759

Central Midlands Council of Governments
Notes to Financial Statements

Note 2. Cash and Cash Investments (continued)

Credit Risk (continued) - The local government investment pool is a 2a7-like pool which is not registered with the Securities and Exchange Commission (SEC) as an investment company, but has a policy that it will operate in a manner consistent with the SEC’s Rule 2a7 of the Investment Company Act of 1940. The Pool is included as an investment trust fund in the State of South Carolina Comprehensive Annual Financial Report. At June 30, 2019, the underlying security ratings of the Council's investment in the LGIP is classified in risk category “A” and may be obtained from the LGIP's complete financial statements by writing to the following address:

Office of the State Treasurer
Local Government Investment
Pool Post Office Box 11778
Columbia, South Carolina 29211

Interest Rate Risk - In accordance with its investment policy, the Council manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than twelve months.

It is the policy of the State Treasurer’s Office that no derivatives of the U.S. Government Securities or Federal Agency Securities or A1/P1 Commercial Paper be purchased by or for the LGIP. It is the policy of the State Treasurer’s Office that the weighted average maturity (WAM) of the LGIP portfolio not exceed 60 days.

Custodial Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, the Council’s cash equivalents and deposits may not be returned to the Council. At year-end, the Council’s net carrying amount of deposits was \$1,009,467 and the bank balance was \$1,025,764. Cash on deposit in excess of FDIC insured limits totaled \$775,764 at June 30, 2020.

As of June 30, 2020, the Council held the following investments:

Investment Type	Balance Sheet Classification	Carrying Value	% of Investment Portfolio
SC Local Government Investment Pool	Cash and Equivalents	\$ 13,759	100%

Foreign Currency Risk - Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Council does not maintain deposits that are denominated in a currency other than the United States dollar; therefore, the Council is not exposed to this risk.

Concentration of Credit Risk - The Council’s investment policy does not allow for an investment in any one issuer that is in excess of 5 percent (5%) investments, when needed.

Central Midlands Council of Governments
Notes to Financial Statements

Note 3. Capital Assets

The following is a summary of changes in capital assets for the year ended June 30, 2020:

	Beginning Balance <u>July 1, 2019</u>	<u>Increases</u>	<u>Decreases</u>	Ending Balance <u>June 30, 2020</u>
<i>Governmental Activities:</i>				
Capital assets, not being depreciated:				
Land	\$ 130,848	\$ -	\$ -	\$ 130,848
Capital assets, being depreciated:				
Building	691,834	34,190	-	726,024
Equipment and furniture	378,840	-	-	378,840
Total capital assets being depreciated	1,070,674	34,190	-	1,104,864
Less accumulated depreciation for:				
Building	(408,060)	(18,203)	-	(426,263)
Equipment and furniture	(275,828)	(19,096)	-	(294,924)
Total accumulated depreciation	(683,888)	(37,299)	-	(721,187)
Total capital assets, net	<u>\$ 517,634</u>	<u>\$ (3,109)</u>	<u>\$ -</u>	<u>\$ 514,525</u>

Depreciation expense of \$37,299 was unallocated in the primary government.

Note 4. Long-Term Liabilities

A summary of changes in long-term liabilities is as follows:

	<u>June 30, 2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2020</u>	<u>Due within one year</u>
Accrued annual leave	\$ 161,895	\$ 108,440	\$ (86,326)	\$ 184,009	\$ 86,326
Net pension liability	3,385,630	5,452	-	3,391,082	-
Net OPEB liability	2,572,953	138,488	-	2,711,441	-
Total	<u>\$ 6,120,478</u>	<u>\$ 252,380</u>	<u>\$ (86,326)</u>	<u>\$ 6,286,532</u>	<u>\$ 86,326</u>

For the governmental activities, compensated absences, net pension liability, and net OPEB liability are generally liquidated by the General Fund.

Note 5. Short-Term Note Payable – Line-of-Credit

The Council has an unsecured line-of-credit for \$300,000 with a maturity date of January 25, 2021. The line-of-credit is a variable rate nondisclosable revolving line of credit. The purpose of obtaining the line-of-credit is to meet any current obligations. The interest rate on the line-of-credit is the lender's prime rate plus 1.25%, with an interest floor of 5.0% and with an interest rate ceiling of 18.0%. The Council did not use the credit line during fiscal year 2020. There is \$0 outstanding on the line-of-credit at June 30, 2020, and no interest was paid during the year ended June 30, 2020.

Central Midlands Council of Governments
Notes to Financial Statements

Note 6. Leases

The Council leases facilities and equipment under several operating leases maturing between December, 2020 and July, 2025. Future minimum lease payments are as follows for the years ending June 30,:

2021	\$ 199,782
2022	192,163
2023	143,185
2024	115,224
2025	26,388
Total	<u>\$ 676,742</u>

During the year ended June 30, 2020, the Council paid \$184,946 under operating leases.

Note 7. Related Party Transactions

Member Local Government Dues - All member governments are required to pay dues to the Council. Dues are determined annually and are recognized as revenues when assessed because they are measurable and are collectible within the current period. Dues for the year were \$578,218.

Note 8. Contingencies

The Council is party to various lawsuits arising out of the normal conduct of its operations. In the opinion of the Council's management, the ultimate effect of these legal matters will not have a material adverse effect of the Council's financial position.

The Council participates in certain federal and state grant programs. These programs are subject to financial and compliance audits by the grantor or its representative. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. Management believes disallowances, if any, will not be material.

Note 9. Employee Retirement Plan

The South Carolina Public Employee Benefit Authority ("PEBA"), created July 1, 2012, is the state agency responsible for the administration and management of the various Retirement Systems and retirement programs of the state of South Carolina, including the State Optional Retirement Program and the S.C. Deferred Compensation Program, as well as the state's employee insurance programs. As such, PEBA is responsible for administering the South Carolina Retirement Systems' five defined benefit pension plans. PEBA has an 11-member Board of Directors, appointed by the Governor and General Assembly leadership, which serves as custodian, co-trustee and co-fiduciary of the Systems and the assets of the retirement trust funds. The Retirement System Investment Commission ("Commission" as the governing body, "RSIC" as the agency), created by the General Assembly in 2005, has exclusive authority to invest and manage the retirement trust funds' assets. The Commission, an eight-member board, serves as co-trustee and co-fiduciary for the assets of the retirement trust funds. By law, the State Fiscal Accountability Authority ("SFAA"), which consists of five elected officials, also reviews certain PEBA Board decisions regarding the actuary of the Systems.

Note 9. Employee Retirement Plan (continued)

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Systems and additions to/deductions from the Systems fiduciary net position have been determined on the accrual basis of accounting as they are reported by the Systems in accordance with GAAP. For this purpose, revenues are recognized when earned and expenses are recognized when incurred. Benefit and refund expenses are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value.

PEBA issues a CAFR containing financial statements and required supplementary information for the Systems' Pension Trust Funds. The CAFR is publicly available through the Retirement Benefits' link on PEBA's website at www.peba.sc.gov, or a copy may be obtained by submitting a request to PEBA, 202 Arbor Lake Drive, Columbia, SC 29223. PEBA is considered a division of the primary government of the state of South Carolina and therefore, retirement trust fund financial information is also included in the comprehensive annual financial report of the state.

Plan Descriptions

- The South Carolina Retirement System ("SCRS"), a cost-sharing multiple-employer defined benefit pension plan, was established effective July 1, 1945, pursuant to the provisions of Section 9-1-20 of the South Carolina Code of Laws for the purpose of providing retirement allowances and other benefits for teachers and employees of the state and its political subdivisions. SCRS covers employees of state agencies, public school districts, higher education institutions, other participating local subdivisions of government and individuals newly elected to the South Carolina General Assembly at or after the 2012 general election.
- The State Optional Retirement Program (State ORP) is a defined contribution plan that is offered as an alternative to SCRS to certain newly hired employees of state agencies, institutions of higher education, public school districts and individuals first elected to the S.C. General Assembly at or after the general election in November 2012. State ORP participants direct the investment of their funds into an account administered by one of four third party service providers. PEBA assumes no liability for State ORP benefits. Rather, the benefits are the liability of the four third party service providers. For this reason, State ORP assets are not part of the retirement systems' trust funds for financial statement purposes.
- The Fund does not have employees that participate in the Police Officers Retirement System ("PORS").

Note 9. Employee Retirement Plan (continued)

Membership

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

- SCRS - Generally, all employees of covered employers are required to participate in and contribute to the system as a condition of employment. This plan covers general employees, teachers, and individuals newly elected to the South Carolina General Assembly beginning with the November 2012 general election. An employee member of the system with an effective date of membership prior to July 1, 2012, is a Class Two member. An employee member of the system with an effective date of membership on or after July 1, 2012, is a Class Three member.
- State ORP - As an alternative to membership in SCRS, newly hired state, public school, and higher education employees and individuals newly elected to the S.C. General Assembly at or after the November 2012 general election have the option to participate in the State ORP. Contributions to the State ORP are at the same rates as SCRS. A direct remittance is required from the employer to the member's account with the ORP vendor for the employee contribution and a portion of the employer contribution (5 percent). A direct remittance is also required to SCRS for the remaining portion of the employer contribution and an incidental death benefit contribution, if applicable, which is retained by SCRS.

Benefits

Benefit terms are prescribed in Title 9 of the South Carolina Code of Laws. PEBA does not have the authority to establish or amend benefit terms without a legislative change in the code of laws. Key elements of the benefit calculation include the benefit multiplier, years of service, and average final compensation/current annual salary. A brief summary of the benefit terms for each system is presented below.

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

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

Note 9. Employee Retirement Plan (continued)

Contributions

Actuarial valuations are performed annually by an external consulting actuary to ensure applicable contribution rates satisfy the funding parameters specified in Title 9 of the South Carolina Code of Laws. Under these provisions, SCRS and PORS contribution requirements must be sufficient to maintain an amortization period for the financing of the unfunded actuarial accrued liability (“UAAL”) over a period that does not exceed the number of years scheduled in state statute. Legislation in 2017 increased, but also established a ceiling for SCRS and PORS employee contribution rates. Effective July 1, 2017, employee rates were increased to a capped rate of 9.00 percent for SCRS and 9.75 percent for PORS. The legislation also increased employer contribution rates beginning July 1, 2017 for both SCRS and PORS by two percentage points and further scheduled employer contribution rates to increase by a minimum of one percentage point each year through July 1, 2022. If the scheduled contributions are not sufficient to meet the funding periods set in state statute, the board shall increase the employer contribution rates as necessary to meet the funding periods set for the applicable year. The maximum funding period of SCRS and PORS is scheduled to be reduced over a ten-year schedule from 30 years beginning fiscal year 2018 to 20 years by fiscal year 2028.

Additionally, the Board is prohibited from decreasing the SCRS and PORS contribution rates until the funded ratio is at least 85 percent. If the most recent annual actuarial valuation of the Systems for funding purposes shows a ratio of the actuarial value of system assets to the actuarial accrued liability of the system (the funded ratio) that is equal to or greater than 85 percent, then the board, effective on the following July 1, may decrease the then current contribution rates upon making a finding that the decrease will not result in a funded ratio of less than 85 percent. If contribution rates are decreased pursuant to this provision, and the most recent annual actuarial valuation of the system shows a funded ratio of less than 85 percent, then effective on the following July first, and annually thereafter as necessary, the board shall increase the then current contribution rates until a subsequent annual actuarial valuation of the system shows a funded ratio that is equal to or greater than 85 percent.

Central Midlands Council of Governments
Notes to Financial Statements

Note 9. Employee Retirement Plan (continued)

Required <u>employee</u> contribution rates ¹ are as follows:	<u>Fiscal Year 2020</u>	Fiscal Year 2019
SCRS		
Employee Class Two	9.00%	9.00%
Employee Class Three	9.00%	9.00%
State ORP	9.00%	9.00%
Required <u>employer</u> contribution rates ¹ are as follows:		
SCRS		
Employer Class Two	15.41%	14.41%
Employer Class Three	15.41%	14.41%
Employer Incidental Death Benefit	0.15%	0.15%
State ORP		
Employer Contribution ²	15.41%	14.41%
Employer Incidental Death Benefit	0.15%	0.15%
¹ Calculated on earnable compensation as defined in Title 9 of the South Carolina Code of Laws. ² Of this employer contribution, 5% of earnable compensation must be remitted by the employer directly to the ORP vendor to be allocated to the member's account with the remainder of the employer contribution remitted to SCRS.		

Actuarial Assumptions and Methods

Actuarial valuations of the plan involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. South Carolina state statute requires that an actuarial experience study be completed at least once in each five-year period. An experience report on the Systems was most recently issued for the period ending June 30, 2015.

The June 30, 2019, total pension liability (“TPL”), net pension liability (“NPL”), and sensitivity information shown in this report were determined by a consulting actuary, Gabriel, Roeder, Smith and Company (“GRS”) and are based on an actuarial valuation performed as of July 1, 2018. The total pension liability was rolled-forward from the valuation date to the plans’ fiscal year end, June 30, 2019, using generally accepted actuarial principles.

Central Midlands Council of Governments
Notes to Financial Statements

Note 9. Employee Retirement Plan (continued)

The following provides a summary of the actuarial assumptions and methods used to calculate the TPL as of June 30, 2019:

	SCRS
Actuarial cost method	Entry age normal
Actuarial assumptions:	
Investment rate of return ¹	7.25%
Projected salary increases	3.0% to 12.5% (varies by service) ¹
Benefit adjustments	lesser of 1% or \$500 annually

¹ Includes inflation at 2.25%

The post-retiree mortality assumption is dependent upon the member's job category and gender. The base mortality assumptions, the 2016 Public Retirees of South Carolina Mortality table ("2016 PRSC") was developed using the Systems' mortality experience. These base rates are adjusted for future improvement in mortality using published Scale AA projected from the year 2016.

Assumptions used in the determination of the June 30, 2019 TPL are as follows:

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

Discount Rate

The discount rate used to measure the TPL was 7.25 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers in SCRS will be made based on the actuarially determined rates based on provisions in the South Carolina Code of Laws. Based on those assumptions, the System's fiduciary net position was projected to be available to make all the projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL.

Sensitivity Analysis

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

Central Midlands Council of Governments
Notes to Financial Statements

Note 9. Employee Retirement Plan (continued)

Sensitivity of the Proportional Share of Net Pension Liability to Changes in the Discount Rate			
System	1.00% Decrease (6.25%)	Current Discount Rate (7.25%)	1.00% Increase (8.25%)
SCRS	\$ 4,272,053	\$ 3,391,082	\$ 2,655,860

Deferred Outflows (Inflows) of Resources

For the year ended June 30, 2020, the Council recognized pension expense of \$(510,723) which is included in direct personnel costs in the accompanying statement of revenues, expenditures and changes in fund balance. At June 30, 2020, the Council reported deferred outflows (inflows) of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 265,522	\$ -
Differences in actual and expected retirement plan experience	2,331	(24,361)
Net differences between projected and actual earnings on plan investments	30,022	-
Change in actuarial assumptions	68,335	-
Change in proportionate share of net pension liability and differences between actual contributions and the Council's proportionate share of contributions	-	(989,581)
	<u>\$ 366,210</u>	<u>\$ (1,013,942)</u>

The Council reported \$265,522 as deferred outflows of resources related to contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred outflows (inflows) of resources will be recognized in pension expense in future years. The following schedule reflects the amortization of the Council's proportional share of the net balance of remaining deferred outflows (inflows) of resources at June 30, 2020. Average remaining services lives of all employees provided with pensions through the pension plans at June 30, 2019 was 4.026 years for SCRS.

Measurement Period Ending June 30,	Fiscal Year Ending June 30,	SCRS
2020	2021	\$ (513,338)
2021	2022	(374,600)
2022	2023	(36,481)
2023	2024	11,165
		<u>\$ (913,254)</u>

Note 9. Employee Retirement Plan (continued)

The Council's contributions to SCRS and ORP for the fiscal years ended June 30, 2020 and 2019 were \$265,522 and \$228,332, respectively.

Note 10. Post-Employment Benefits Other than Pensions

PEBA is a state agency responsible for the administration and management of South Carolina's employee insurance programs and other post-employment benefits trusts. By law, the SFAA, which consists of five elected officials, also reviews certain PEBA Board decisions in administering the State Health Plan and other post-employment benefits (OPEB).

Plan Descriptions

The Other Post-Employment Benefits Trust Fund ("OPEB Trust"), refers to the South Carolina Retiree Health Insurance Trust Fund ("SCRHITF") established by the State of South Carolina as Act 195, which became effective in May 2008. The SCRHITF was created to fund and account for the employer costs of the State's retiree health and dental plans.

In accordance with Act 195, the OPEB Trusts are administered by the PEBA - Insurance Benefits Division ("IBD"), a part of PEBA. The State Treasurer is the custodian of the funds held in trust. The Board of Directors of PEBA has been designated as the Trustee.

The OPEB Trust is a cost-sharing multiple-employer defined benefit plan. Article 5 of the State Code of Laws defines the two plans and authorizes the Trustee to at any time adjust the plan, including its benefits and contributions, as necessary to insure the fiscal stability of the plan. In accordance with the South Carolina Code of Laws and the annual Appropriations Act, the State provides post-employment health and dental and long-term disability benefits to retired State and school district employees and their covered dependents.

Benefits

The SCRHITF is a healthcare plan that covers retired employees of the State of South Carolina, including all agencies, and public school districts. The SCRHITF provides health and dental insurance benefits to eligible retirees. Generally, retirees are eligible for the health and dental benefits if they have established at least ten years of retirement service credit. For new hires beginning employment May 2, 2008 and after, retirees are eligible for benefits if they have established 25 years of service for 100% employer funding and 15-24 years of service for 50% employer funding.

Contributions and Funding Policies

Section 1-11-710 of the South Carolina Code of Laws of 1976, as amended, requires these postemployment benefits to be funded through non-employer and employer contributions for active employees and retirees to the IBD. Non-employer contributions consist of an annual appropriation by the General Assembly and the statutorily required transfer from IBD reserves.

Note 10. Post-Employment Benefits Other than Pensions (continued)

The SCRHITF is funded through participating employers that are mandated by State statute to contribute at a rate assessed each year by the Department of Administration Executive Budget Office on active employee covered payroll. The covered payroll surcharge for the years ended June 30, 2020, 2019, and 2018 was 6.25%, 6.05% and 5.50%, respectively. The Council paid \$107,691 and \$94,592 applicable to the surcharge included with the employer contribution for retirement benefits for the fiscal years ended June 30, 2020 and 2019, respectively. The South Carolina Retirement System collects the monthly covered payroll surcharge for all participating employers and remits it directly to the SCRHITF. Other sources of funding for the SCRHITF also include the implicit subsidy, or age-related subsidy inherent in the healthcare premiums structure. The implicit subsidy represents a portion of the health care expenditures paid on behalf of the employer's active employees. For purposes of GASB Statement No. 75, this expenditure on behalf of the active employee is reclassified as a retiree health care expenditure so that the employer's contributions towards the plan reflect the underlying age-adjusted, retiree benefit costs. Non-employer contributions include the mandatory transfer of accumulated IBD reserves and the annual appropriation budgeted by the General Assembly. It is also funded through investment income.

For the SCRHITF, the allocation percentage is based on the covered payroll surcharge contribution for each employer. In accordance with part (b) of paragraph 69 of GASB Statement No. 75, participating employers should recognize revenue in an amount equal to the employer's proportionate share of the change in the collective net OPEB liability arising from contributions to the OPEB plan during the measurement period from non-employer contributing entities for purposes other than the separate financing of specific liabilities to the OPEB plan. Therefore, employers should classify this revenue in the same manner as it classifies grants from other entities.

For purposes of measuring the net OPEB liability, deferred outflows and inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the OPEB Trusts, and additions to and deductions from the OPEB Trusts fiduciary net position have been determined on the same basis as they were reported by the OPEB Trusts. For this purpose, revenues are recognized when earned and expenses are recognized when incurred. Therefore, benefit and administrative expenses are recognized when due and payable. Investments are reported at fair value.

The IBD issues audited financial statements and required supplementary information for the OPEB Trust Funds. This information is publicly available through the Insurance Benefits' link on PEBA's website at peba.sc.gov or a copy may be obtained by submitting a request to PEBA – Insurance Benefits, 202 Arbor Lake Drive, Columbia, SC 29223. PEBA is considered a division of the primary government of the state of South Carolina and therefore, OPEB Trust fund financial information is also included in the comprehensive annual financial report of the state.

Note 10. Post-Employment Benefits Other than Pensions (continued)

Actuarial Assumptions and Methods

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plans (as understood by the employer and plan participants) and include the types of benefits provided at the time of the valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following provides a summary of the actuarial assumptions and methods used in the June 30, 2019 valuations for SCRHITF:

Actuarial Cost Method:	Entry Age Normal
Inflation:	2.25%
Investment Rate of Return:	2.75%, net of OPEB Plan investment expense; including inflation
Single Discount Rate:	3.13% as of June 30, 2019
Demographic Assumptions:	Based on the experience study performed for the South Carolina Retirement Systems for the 5-year period ending June 30, 2015
Mortality:	For healthy retirees, the 2016 Public Retirees of South Carolina Mortality Table for Males and the 2016 Public Retirees of South Carolina Mortality Table for Females are used with fully generational mortality projections based on Scale AA from the year 2016. Multipliers are applied to the base tables based on gender and employment type.
Health Care Trend Rate:	Initial trend starting at 6.40% and gradually decreasing to an ultimate trend rate of 4.15% over a period of 14 years
Retiree Participation:	79% for retirees who are eligible for funded premiums 59% participation for retirees who are eligible for Partial Funded Premiums 20% participation for retirees who are eligible for Non-Funded Premiums
Notes:	There were no benefit changes during the year. The discount rate changed from 3.62% as of June 30, 2018 to 3.13% as of June 30, 2019. Minor updates were made to the healthcare trend rate assumption.

Note 10. Post-Employment Benefits Other than Pensions (continued)

Roll Forward Disclosures

The actuarial valuations were performed as of June 30, 2018. Update procedures were used to roll forward the total OPEB liabilities to June 30, 2019.

Net OPEB Liability

The Net OPEB Liability (NOL) is calculated separately for each OPEB Trust Fund and represents that particular Trust's Total OPEB Liability (TOL) determined in accordance with GASB No. 74 less that Trust's fiduciary net position. The allocation of each employer's proportionate share of the collective Net OPEB Liability and collective OPEB Expense was determined using the employer's payroll-related contributions over the measurement period. This method is expected to be reflective of the employer's long-term contribution effort as well as be transparent to individual employers and their external auditors.

The following table represents the components of the net OPEB liability as of June 30, 2019:

OPEB Trust Fund	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability	Plan Fiduciary Net Position as a Percentage of Total OPEB Liability
SCRHITF	\$16,516,264,617	\$1,394,740,049	\$ 15,121,524,568	8.44%

The TOL is calculated by the Trusts' actuary, and each Trust's fiduciary net position is reported in the Trust's financial statements. The NOL is disclosed in accordance with the requirements of GASB No. 74 in the Trusts' notes to the financial statements and required supplementary information. Liability calculations performed by the Trusts' actuary for the purpose of satisfying the requirements of GASB Nos. 74 and 75 and are not applicable for other purposes, such as determining the Trusts' funding requirements.

At June 30, 2020, the Council reported a liability of \$2,711,441 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2018 and rolled forward to June 30, 2019. The Council's proportion of the net OPEB liability was based on a projection of the Council's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2020, the Council's proportion was 0.017931%.

Single Discount Rate

The Single Discount Rate of 3.13% was used to measure the total OPEB liability for the SCRHITF. The accounting policy for this plan is to set the Single Discount Rate equal to the prevailing municipal bond rate. Due to the plan's investment and funding policies, the difference between a blended discount rate and the municipal bond rate would be less than several basis points (several hundredths of one percent).

Central Midlands Council of Governments
Notes to Financial Statements

Note 10. Post-Employment Benefits Other than Pensions (continued)

Long-term Expected Rate of Return

The long-term expected rate of return represents assumptions developed using an arithmetic building block approach primarily based on consensus expectations and market based inputs. The expected returns, along with the expected inflation rate, form the basis for the target asset allocation adopted at the beginning of the 2018 fiscal year. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and adding expected inflation. This information is summarized in the following table:

Asset Class	Target Asset Allocation	Expected Arithmetic Real Rate of Return	Long Term Expected Portfolio Real Rate of Return
U.S. Domestic Fixed Income	80.00%	0.60%	0.48%
Cash equivalents	20.00	0.10	0.02
Total Expected Real Return	<u>100.00%</u>		0.50
Expected Inflation			<u>2.25</u>
Total Return			<u>2.75%</u>
Investment Return Assumption			<u>2.75%</u>

Sensitivity Analysis

The following table presents the Council's proportional share of the SCRHITF's net OPEB liability calculated using a Single Discount Rate of 3.13%, as well as what the Council's proportional share of the plan's net OPEB liability would be if it were calculated using a Single Discount Rate that is one percent lower or one percent higher:

	1.00% Decrease (2.13%)	Current Discount Rate (3.13%)	1.00% Increase (4.13%)
SCRHITF Net OPEB Liability	\$ 3,214,380	\$ 2,711,441	\$ 2,307,811

Regarding the sensitivity of the SCRHITF's net OPEB liability to changes in the healthcare cost trend rates, the following table presents the Council's proportional share of the plan's net OPEB liability, calculated using the assumed trend rates as well as what the Council's proportional share of the plan's net OPEB liability would be if were calculated using a trend rate that is one percent lower or one percent higher:

	1.00% Decrease	Current Healthcare Cost Trend Rate	1.00% Increase
SCRHITF Net OPEB Liability	\$ 2,212,825	\$ 2,711,441	\$ 3,360,785

Central Midlands Council of Governments
Notes to Financial Statements

Note 10. Post-Employment Benefits Other than Pensions (continued)

Deferred Outflows (Inflows) of Resources

For the year ended June 30, 2020, the Council recognized OPEB expense of \$124,255 which is included in direct personnel costs in the accompanying statement of revenues, expenditures and changes in fund balance. At June 30, 2020, the Council reported deferred outflows (inflows) of resources related to OPEB from the following sources:

SCRHITF		
	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	\$ 107,691	\$ -
Differences in actual and expected investment experience	31,928	(88,136)
Net differences between projected and actual earnings on OPEB plan investments	3,171	-
Change in actuarial assumptions	179,418	(121,098)
Change in proportionate share	-	(167,907)
	\$ 322,208	\$ (377,141)

Contributions subsequent to the measurement date of \$107,691 were reported as deferred outflows of resources related to OPEB and will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows. Average remaining services lives of all employees provided with OPEB through the June 30, 2019 was 7.1330 years for SCRHITF:

Measurement Period Ending June 30,	Fiscal Year Ending June 30,	SCRHITF
2020	2021	\$ (38,728)
2021	2022	(38,728)
2022	2023	(39,771)
2023	2024	(41,424)
2024	2025	(12,741)
Thereafter		8,768
		\$ (162,624)

Central Midlands Council of Governments
Notes to Financial Statements

Note 11. Interfund Activity

Interfund Balances - The Council's General fund and Special Revenue Funds have advanced money between the funds to finance operations and supplement other fund sources. The repayment is made as soon as receivables are collected. The advance is between governmental funds and is, therefore, not reflected in the Statement of Net Position.

Due to/due from	Receivables	Payable
General fund	\$ 239,835	\$ -
Aging fund	-	163,770
Transportation fund	-	203,638
Workforce investment and Opportunity Act fund	-	184,681
Other non-major governmental funds	312,254	-
Total	\$ 552,089	\$ 552,089

Interfund Transfers - The following summarizes interfund transfers for the fiscal year ending June 30, 2020:

	Transfer In	Transfer Out
General fund	\$ -	\$ 219,036
Aging fund	2,011	-
Transportation fund	127,063	-
Workforce investment and Opportunity Act fund	33,607	-
Non-major governmental funds	56,355	-
Total	\$ 219,036	\$ 219,036

The transfers between the General and Special Revenue Funds were made to meet grant matching requirements and or to absorb deficits, if any, in any grant programs.

Note 12. Fund Balance Reservations and Designations

The Council uses the following governmental fund balance accounts:

Nonspendable for prepaid items – An account used to segregate a portion of fund balance to indicate prepaid items are “not in spendable form” even though it is a component of current assets.

Nonspendable for security deposit – An account used to segregate a portion of fund balance to indicate security deposit is “not in spendable form” even though it is a component of current assets.

Central Midlands Council of Governments
Notes to Financial Statements

Note 12. Fund Balance Reservations and Designations (continued)

Assigned for special purposes general fund – Amounts assigned were approved by the Board of Directors and are for the following purposes:

Building maintenance	\$ 101,185
Other purposes	133,845
Total	\$ 235,030

Unassigned:

This represents and includes all spendable amounts of the general fund not contained in the other classifications.

Note 13. Risk Management

The Council is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Council pays an annual premium to a private insurer for its insurance coverage.

There were no significant reductions in insurance coverage from the previous year and no settlements have exceeded insurance coverage for the past three years ended June 30, 2020, 2019, and 2018.

Note 14. Unearned Revenue

Unearned revenues (those where asset recognition criteria have been met, but for which revenue recognition criteria have not been met due to being in advance of meeting eligibility requirements) consist of the following:

	Aging Fund	Transportation Fund	WIOA Fund	Non-Major Governmental Funds
Unexpended carryover amounts	\$ -	\$ -	\$ 48,860	\$ 388,952

Note 15. Excess of Expenditures over Appropriations

During fiscal year 2020, a number of budgetary departments exceeded appropriated amounts as shown in the budgetary comparison statement for the General Fund, Aging Fund, Transportation Fund, and Workforce Innovation and Opportunity Act Fund. The Council was able to generate additional income to offset the current fiscal year’s excess expenditures. The following departments had expenditures in the General Fund, Aging Fund, Transportation Fund, and Workforce Innovation and Opportunity Act Fund and that exceeded budgeted amounts as indicated in the Council’s Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual on pages 46-49.

Central Midlands Council of Governments
Notes to Financial Statements

Note 15. Excess of Expenditures over Appropriations (continued)

	Budget	Actual	Actual (Over) Budget
General:			
Direct personnel costs	\$ 1,169,378	\$ 1,170,314	\$ (936)
Operations and maintenance	223,973	362,834	(138,921)
Aging Special Revenue Fund:			
Operations and maintenance	37,500	38,744	(1,244)
Other program expenses	15,000	481,458	(466,458)
Transportation Special Revenue Fund:			
Consulting services	650,000	1,739,917	(1,089,917)
Other program expenses	12,280	217,284	(205,004)
Workforce Innovation and Opportunity Special Revenue Fund:			
Operations and maintenance	313,926	393,136	(79,210)
Payments to contractors	3,339,812	4,179,848	(840,036)

Note 16. Subsequent Events

The Council has evaluated events and transactions occurring subsequent to the balance sheet date of June 30, 2020 for items that should potentially be recognized or disclosed in the financial statements. The evaluation was conducted through February 9, 2021, the date these financial statements were available for issuance.

In March 2020, the outbreak of COVID-19 caused by a novel strain of the coronavirus was recognized as a pandemic by the World Health Organization. As a result of the pandemic, the Council has received additional grant funding and has realigned some of its programs to conform with these additional grant funds. Sufficient information is not available to adequately evaluate the short-term or long-term impact to the Council subsequent to year-end; however, these conditions may adversely impact the Council's operations and future financial condition.

**Central Midlands Council of Governments
Schedule of the Council's
Proportionate Share of the Net Pension Liability
South Carolina Retirement System
As of June 30,
Last Six Fiscal Years**

	2020	2019	2018	2017	2016	2015
Council's proportion of the net pension liability	0.0148510 %	0.015110 %	0.021368 %	0.026419 %	0.033480 %	0.035090 %
Council's proportionate share of the net pension liability	\$ 3,391,082	\$ 3,385,630	\$ 4,810,280	\$ 5,643,059	\$ 6,349,643	\$ 6,041,355
Council's covered payroll	\$ 1,568,217	\$ 1,565,797	\$ 1,603,611	\$ 2,155,935	\$ 2,558,308	\$ 3,139,110
Council's proportionate share of the net pension liability as percentage of covered payroll	216.24 %	216.22 %	299.97 %	261.75 %	248.20 %	192.45 %
Plan fiduciary net position as a percentage of the total pension liability	54.40 %	54.10 %	53.30 %	52.90 %	83.00 %	59.90 %

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

The Council implemented GASB Statement 68 and GASB Statement 71 with the fiscal year beginning July 1, 2014

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the government will present information for those years for which information is available.

See accompanying Independent Auditor's Report

**Central Midlands Council of Governments
Schedule of the Council's
Pension Contributions
South Carolina Retirement System
As of June 30,
Last Six Fiscal Years**

	2020	2019	2018	2017	2016	2015
Contractually required contribution	\$ 265,522	\$ 228,332	\$ 212,322	\$ 282,951	\$ 342,163	\$ 337,690
Contributions in relation to the contractually required contribution	265,522	228,332	212,322	282,951	342,163	337,690
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
 Council's covered payroll	 \$ 1,706,440	 \$ 1,568,217	 \$ 1,565,797	 \$ 1,603,211	 \$ 2,558,308	 \$ 3,139,110
Contributions as a percentage of the covered payroll	15.56%	14.56%	13.56%	17.65%	13.37%	10.76%

The Council implemented GASB Statement 68 and GASB Statement 71 with the fiscal year beginning July 1, 2014

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the government will present information for those years for which information is available.

See accompanying Independent Auditor's Report

Central Midlands Council of Governments
Schedule of the Council's
Proportionate Share of the Collective Net OPEB Liability
South Carolina Retiree Health Insurance Trust Fund
As of June 30,
Last Four Fiscal Years

	2020	2019	2018	2017
Council's proportion of the collective net OPEB liability	0.017931 %	0.018157 %	0.019016 %	0.019016 %
Council's proportionate share of the collective net OPEB liability	\$ 2,711,441	\$ 2,572,953	\$ 2,575,686	\$ 2,751,355
Council's covered payroll	\$ 1,568,217	\$ 1,565,797	\$ 1,603,611	\$ 2,155,935
Council's proportionate share of the collective net OPEB liability as percentage of covered payroll	172.90 %	164.32 %	160.62 %	127.62 %
Plan fiduciary net position as a percentage of the total OPEB liability	8.44 %	7.91 %	7.60 %	6.62 %

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

The Council implemented GASB Statement 75 with the fiscal year beginning July 1, 2017.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the government will present information for those years for which information is available.

See accompanying Independent Auditor's Report

Central Midlands Council of Governments
Schedule of the Council's
Other Postemployment Benefits Contributions
South Carolina Retiree Health Insurance Trust Fund
As of June 30,
Last Four Fiscal Years

	2020	2019	2018	2017
Contractually required contribution	\$ 107,691	\$ 94,592	\$ 86,118	\$ 85,472
Contributions in relation to the contractually required contribution	107,691	94,592	86,118	85,472
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Council's covered payroll	\$ 1,706,440	\$ 1,568,217	\$ 1,565,797	\$ 1,603,611
Contributions as a percentage of the covered payroll	6.31%	6.03%	5.50%	5.33%

The Council implemented GASB Statement 75 with the fiscal year beginning July 1, 2017.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the government will present information for those years for which information is available.

See accompanying Independent Auditor's Report

CENTRAL MIDLANDS COUNCIL OF GOVERNMENTS
 REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
 YEAR ENDED JUNE 30, 2020

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance Positive (Negative)
REVENUES				
Membership dues	\$ 577,498	\$ 577,498	\$ 578,218	\$ 720
State aid	70,407	70,407	70,407	-
Local revenue	-	-	4,939	4,939
Interest income	-	-	239	239
Total revenues	<u>647,905</u>	<u>647,905</u>	<u>653,803</u>	<u>5,898</u>
EXPENDITURES				
Direct personnel costs	1,169,378	1,169,378	1,170,314	(936)
Indirect cost allocations	(1,544,646)	(1,544,646)	(1,317,086)	(227,560)
Support services:				
Operations and maintenance	223,913	223,913	362,834	(138,921)
Development and training	3,755	3,755	2,092	1,663
Travel and transportation	32,880	32,880	29,592	3,288
Consulting services	20,000	20,000	1,530	18,470
Other program expenses	55,000	55,000	-	55,000
Total expenditures	<u>(39,720)</u>	<u>(39,720)</u>	<u>249,276</u>	<u>(288,996)</u>
Excess revenues over (under) expenditures	<u>687,625</u>	<u>687,625</u>	<u>404,527</u>	<u>(283,098)</u>
Other financing sources (uses)				
Transfers out	(370,376)	(370,376)	(219,036)	151,340
Total other financing sources (uses)	<u>(370,376)</u>	<u>(370,376)</u>	<u>(219,036)</u>	<u>151,340</u>
Net change in fund balance	317,249	317,249	185,491	<u>\$ (131,758)</u>
Fund balance, beginning of year	<u>1,167,257</u>	<u>1,167,257</u>	<u>1,167,257</u>	
Fund balance, end of year	<u>\$ 1,484,506</u>	<u>\$ 1,484,506</u>	<u>\$ 1,352,748</u>	

CENTRAL MIDLANDS COUNCIL OF GOVERNMENTS
 REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE - AGING SPECIAL REVENUE FUND
 YEAR ENDED JUNE 30, 2020

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES				
Federal revenue	\$ 4,216,943	\$ 4,216,943	\$ 3,756,527	\$ (460,416)
State revenue	505,151	505,151	1,111,168	606,017
Total revenues	<u>4,722,094</u>	<u>4,722,094</u>	<u>4,867,695</u>	<u>145,601</u>
EXPENDITURES				
Direct personnel costs	983,101	983,101	501,060	482,041
Indirect cost allocations	273,441	273,441	545,889	(272,448)
Support services:				
Operations and maintenance	37,500	37,500	38,744	(1,244)
Development and training	19,000	19,000	17,038	1,962
Travel and transportation	27,190	27,190	20,461	6,729
Consulting services	1,800	1,800	1,600	200
Payments to contractors	3,365,062	3,365,062	3,263,456	101,606
Other program expenses	15,000	15,000	481,458	(466,458)
Total expenditures	<u>4,722,094</u>	<u>4,722,094</u>	<u>4,869,706</u>	<u>(147,612)</u>
Excess revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>(2,011)</u>	<u>(2,011)</u>
Other financing sources (uses)				
Transfers in			2,011	2,011
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>2,011</u>	<u>2,011</u>
Net change in fund balance	<u>-</u>	<u>-</u>	<u>-</u>	<u>\$ -</u>
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	

CENTRAL MIDLANDS COUNCIL OF GOVERNMENTS
 REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE - TRANSPORTATION SPECIAL REVENUE FUND
 YEAR ENDED JUNE 30, 2020

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES				
Federal revenue	\$ 1,146,415	\$ 1,146,415	\$ 2,305,317	\$ 1,158,902
Local revenue	286,603	286,603	57,431	(229,172)
Total revenues	<u>1,433,018</u>	<u>1,433,018</u>	<u>2,362,748</u>	<u>929,730</u>
EXPENDITURES				
Direct personnel costs	536,774	536,774	261,014	275,760
Indirect cost allocations	155,664	155,664	251,438	(95,774)
Support services:				
Operations and maintenance	54,700	54,700	19,874	34,826
Development and training	12,000	12,000	229	11,771
Travel and transportation	11,600	11,600	55	11,545
Consulting services	650,000	650,000	1,739,917	(1,089,917)
Other program expenses	12,280	12,280	217,284	(205,004)
Total expenditures	<u>1,433,018</u>	<u>1,433,018</u>	<u>2,489,811</u>	<u>(1,056,793)</u>
Excess revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>(127,063)</u>	<u>(127,063)</u>
Other financing sources (uses)				
Transfers in			127,063	127,063
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>127,063</u>	<u>127,063</u>
Net change in fund balance	<u>-</u>	<u>-</u>	<u>-</u>	<u>\$ -</u>
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	

CENTRAL MIDLANDS COUNCIL OF GOVERNMENTS
 REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE - WORKFORCE INNOVATION AND OPPORTUNITY ACT SPECIAL REVENUE FUND
 YEAR ENDED JUNE 30, 2020

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES				
Federal revenue	\$ 4,600,273	\$ 4,600,273	\$ 5,298,722	\$ 698,449
Local revenue	25,000	25,000	73,743	48,743
Total revenues	<u>4,625,273</u>	<u>4,625,273</u>	<u>5,372,465</u>	<u>747,192</u>
EXPENDITURES				
Direct personnel costs	745,010	745,010	422,755	322,255
Indirect cost allocations	90,000	90,000	391,031	(301,031)
Support services:				
Operations and maintenance	313,926	313,926	393,136	(79,210)
Development and training	17,000	17,000	6,722	10,278
Travel and transportation	29,525	29,525	11,209	18,316
Consulting services	40,000	40,000	65	39,935
Payments to contractors	3,339,812	3,339,812	4,179,848	(840,036)
Other program expenses	50,000	50,000	1,306	48,694
Total expenditures	<u>4,625,273</u>	<u>4,625,273</u>	<u>5,406,072</u>	<u>(780,799)</u>
Excess revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>(33,607)</u>	<u>(33,607)</u>
Other financing sources (uses)				
Transfers in			33,607	33,607
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>33,607</u>	<u>33,607</u>
Net change in fund balance	-	-	-	<u>\$ -</u>
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	

**Independent Auditor's Report on Internal Control over
Financial Reporting and on Compliance and Other Matters Based
on an Audit of Financial Statements Performed in Accordance with
*Government Auditing Standards***

To the Board of Directors
Central Midlands Council of Governments
Columbia, South Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Central Midlands Council of Governments (the "Council"), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements and issued our report thereon dated February 9, 2021.

Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2020-001 and 2020-002 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Council's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2020-003.

Council's Responses to Findings

The Council's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Council's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Council's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Council's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Columbia, South Carolina
February 9, 2021

Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance

To the Board of Directors
Central Midlands Council of Governments
Columbia, South Carolina

Report on Compliance for Each Major Federal Program

We have audited the Central Midlands Council of Governments' (the "Council") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Council's major federal programs for the year ended June 30, 2020. The Council's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Council's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Council's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our qualified and unmodified opinions on compliance for major federal programs. However, our audit does not provide a legal determination of the Council's compliance.

Basis of Qualified Opinion on CFDA 20.507, Federal Transit Cluster

As described in the accompanying schedule of findings and questioned costs, the Council did not comply with requirements regarding CFDA 20.507, Federal Transit Cluster as described in finding number 2020-003 for Cash Management. Compliance with such requirements is necessary, in our opinion, for the Council to comply with the requirements applicable to that program.

Qualified Opinion on CFDA 20.507, Federal Transit Cluster

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Council complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA 20.507, Federal Transit Cluster for the year ended June 30, 2020.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, Council complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 20, 2020.

Other Matters

The Council's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Council's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the Council is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Council's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Council's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2020-003 to be a material weakness.

The Council's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Council's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Scott and Company LLC

Columbia, South Carolina
February 9, 2021

CENTRAL MIDLANDS COUNCIL OF GOVERNMENTS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
PERIOD ENDING JUNE 30, 2020

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number		Pass through Grantor Number	Expenditures to Subrecipients	Federal Expenditures
U.S. Department of Commerce					
Direct Programs					
EDA Planning 1/1/2019-12/31/2021	11.302		ED19ATL3020024	\$ -	\$ 65,378
Total U.S. Department of Commerce				-	65,378
U.S. Department of Housing & Urban Development					
Passed through S.C. Department of Commerce					
Regional Planning	14.228		4-RP-18-00-4	-	50,000
CDBG Administration	14.228		N/A	-	46,463
Total U.S. Department of Housing & Urban Development				-	96,463
US Department of Labor					
Passed through S.C. Department of Employment & Workforce (SCDEW)					
WIOA Cluster					
WIOA - Adult	17.258	*	19A005 18A005	1,966,117	2,382,094
WIOA - Youth	17.259	*	19Y005 18Y005	1,497,126	1,767,010
WIOA - Dislocated Worker	17.278	*	19DW005 18DW005	633,146	1,051,866
Total WIOA Cluster Passed through SCDEW				4,096,389	5,200,970
SC Works Outreach Implementation Grant					
Incumbent Worker Training	17.258	*	19OUT05	-	4,998
Incumbent Worker Training	17.258	*	19SET05	-	3,622
Incumbent Worker Training	17.278	*	18IWT05	25,249	30,922
Rapid Response Additional Assistance	17.278	*	19RRA05	58,210	58,210
Total Passed through SCDEW				4,179,848	5,298,722
Total U.S. Department of Labor				4,179,848	5,298,722
U.S. Department of Transportation, Federal Transit Administration					
Direct Programs					
Federal Transit Cluster					
Section 5307	20.507	*	SC-37-X027-00	-	25,746
Section 5307	20.507	*	SC-90-X3339-00	-	85,656
Section 5307-2	20.507	*	SC-90-X0292-00	-	46,636
Section 5307	20.507	*	SC-90-x257-00	205,715	205,715
Section 5307	20.507	*	SC-90-x274-00	912,749	912,749
Total Federal Transit Formula Grants Cluster				1,118,464	1,276,502
Transit Service Cluster					
Section 5310-1A	20.513		SC-2017-022-00	-	81,390
Section 5310-1A	20.513		SC-2017-022-00	-	26,696
				-	108,086
Section 5310-1A	20-513		SC-2016-019-00	-	206,864
Section 5310-1A	20.513		SC-2017-019-00	-	151,860
Section 5310-1A	20.513		SC-2018-042-00	-	63,723
Section 5310-1A	20.513		SC-16-X016-00	-	45,305
				-	467,752
Total Transit Service Cluster				-	575,838

CENTRAL MIDLANDS COUNCIL OF GOVERNMENTS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (continued)
PERIOD ENDING JUNE 30, 2020

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Pass through Grantor Number	Expenditures to Subrecipients	Federal Expenditures
Passed through SC Department of Transportation				
Highway Planning & Construction Cluster				
FHWA Planning	20.205	CMCOG P039965	-	367,976
Rural Planning	20.205	COATS P039940	-	85,000
Total Highway Planning & Construction Cluster Passed through SCDOT			-	452,976
Total U.S. Department of Transportation			-	2,305,316
U.S. Environmental Protection Agency				
Passed through S.C. Department of Health & Environmental Control				
208 Water Quality Management Planning	66.454	EQ-0-277	-	13,718
Total U.S. Environmental Protection Agency			-	13,718
US Department of Health & Human Services				
Passed through Lt. Governor's Office on Aging				
Aging Cluster				
Title IIIB Planning & Administration	93.044	L060A00010	-	137,544
Title IIIE Planning & Administration	93.052	L060A00010	-	18,829
Title IIIB Supportive Services	93.044	L060A00010	-	819,763
Title IIIB Ombudsman	93.044	L060B00010	-	343,276
Title IIIC Nutrition Services	93.045	L060A00010	976,720	976,720
NSIP	93.053	L060A00010	201,347	201,346
Title VII Ombudsman	93.042	L060B00010	-	19,985
Title VII Elder Abuse	93.041	L060B00010	-	6,841
Total Aging Cluster			1,178,067	2,524,304
MIPPA - SHIP	93.071	2001SCMISH	-	15,356
Senior Medicare Patrol	93.048	90MPPG0007-03-00	-	64,791
Title IIIE Caregiver	93.052	L06A00010	316,008	405,140
Title IIID Preventative Health/Medication Management	93.043	90SAPG0043-00	26,653	26,653
SHIAP	93.324	90SAPG0043-00	-	51,526
COVID-19	93.045	50002000	662,240	668,757
Total Passed through Lt. Governor's Office on Aging			2,182,968	3,756,527
Total U.S. Department of Health & Human Services			2,182,968	3,756,527
U.S. Department of Homeland Security				
Direct Programs				
Hazard Mitigation Grant	97.039	FEMA-4394-DR-SC	-	1,244
Total U.S. Department of Commerce			-	1,244
Total Expenditures of Federal Awards			\$ 6,362,816	\$ 11,537,368

* Audited as major program

CENTRAL MIDLANDS COUNCIL OF GOVERNMENTS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2020

Note A – General

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) presents the activity of all federal award programs of the Central Midlands Council of Governments (the “Council”) for the year ended June 30, 2020. All federal awards received directly from federal agencies, as well as those passed through other government agencies, are included on the Schedule.

Note B – Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Council under programs of the federal government for the year ended June 30, 2020. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (“Uniform Guidance”). Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the financial statements. Because the Schedule presents only a selected portion of the operations of the Council, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Council.

Note C – Relationship to Basic Financial Statements

Federal award expenditures are reported in the Council’s basic financial statements as expenditures in the General Fund and Special Revenue Funds. Amounts reported in the accompanying Schedule agree with the amounts reported in the related federal financial reports except for timing differences related to expenditures made subsequent to the filing of the federal financial reports. Matching costs, i.e. the non-federal share of certain program costs, are not included in the accompanying schedule.

Note F - Contingencies

The Council receives funds under various federal grant programs, and such awards are to be expended in accordance with the provisions of the various grants. Compliance with the grants is subject to audit by various government agencies which may impose sanctions in the event of non-compliance. Management did not comply with all aspects of the various grant provisions (see schedule of findings and questioned costs 2020-003).

Note G – Major Programs

* Denotes major programs

Note F – Indirect Cost

The Council has a restricted indirect cost rate that is used for its federal programs and did not use the 10% de Minimis indirect cost rate as allowed under the Uniform Guidance and covered in 2 CFR Part 200.414.

**CENTRAL MIDLANDS COUNCIL OF GOVERNMENTS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2020**

Section I—Summary of Auditor’s Results

Financial Statements:

Type of report the auditor issued on whether the financial statements were prepared in accordance with GAAP: Unmodified.

Internal control over financial reporting:

- Material weaknesses identified? Yes
- Significant deficiencies identified? None reported
- Noncompliance material to financial statements noted? Yes

Federal Awards:

Internal control over major programs:

- Material weaknesses identified? Yes
- Significant deficiencies identified? None Reported
- Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes

Type of report the auditor issued on compliance with major federal programs: Qualified.

Identification of major programs

<u>CFDA Number</u>	<u>Name of Federal Program</u>
17.258	WIOA Cluster / WIOA Adult Program
17.259	WIOA Cluster / WIOA Youth Activities
17.278	WIOA Cluster / WIOA Dislocated Worker Formula Grants
20.507	Federal Transit Formula Grants Cluster

Dollar threshold used to be distinguished between Type A and Type B Programs: \$750,000

Auditee qualified as low-risk auditee? No

**CENTRAL MIDLANDS COUNCIL OF GOVERNMENTS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2020**

Section II - Financial Statement Findings:

Conditions Considered to be Material Weaknesses

2020-001 – Financial Closeout and Reporting

Criteria: Internal controls should be in place to ensure the Council can perform timely and accurate financial closeout procedures in order for the Council to produce its monthly and annual financial statements.

Condition: Internal controls were not sufficient to detect certain misstatements in the preparation of year-end adjustments and reconciliations.

Context/Cause: This year's closing process was delayed because some important procedures were not performed on time.

Effects: The results were delays in producing closing entries, trial balances, schedules, reconciliations, account analyses, and other financial reports needed by management and the auditors.

Recommendation: We believe that the year-end closing could proceed more quickly by developing a closing schedule that indicates who will perform each procedure and when completion of each procedure is due and accomplished. The timing of specific procedures could be coordinated with the timing of management's or the auditor's need for the information. The due dates should be monitored to determine that they are being met.

2020-002 – Balance Sheet Accounts Reconciliation

Criteria: Internal controls should be in place to ensure that the amounts reported as balance sheet accounts balances, such as accounts receivable, fixed assets, accounts payable and unearned revenue are appropriate and properly valued, in order to make financial reports generated by the accounting system as correct as possible. Internal controls should be in place to ensure that the general ledger accounts for accounts receivable, fixed assets, accounts payable and unearned revenue are reconciled to detailed reports on a monthly basis.

Condition: Internal controls were not sufficient to detect misstatements in the reporting some of the Council's balance sheet accounts.

**CENTRAL MIDLANDS COUNCIL OF GOVERNMENTS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2020**

Section II - Financial Statement Findings (continued):

2020-002 – Balance Sheet Accounts Reconciliation (continued)

Context/Cause: During the preliminary review of initial trial balance provided for the audit we noted that certain balance sheet accounts appeared to be higher or lower than expected. We asked the management to review these accounts and to make necessary adjustments to correct these balances. Ultimately, the accounts receivables were overstated by \$64,000, capital assets understated by \$34,000 before depreciation, accounts payable understated by \$26,000, accrued annual leave understated by \$44,000, and net position understated by \$7,000 due to entries posted to the incorrect year.

Effects: Management was required to make adjusting journal entries to properly report balances of accounts receivable, capital assets, accounts payable and unearned revenue as of and for the year ended June 30, 2020.

Recommendation: We recommend the Council carefully review its accounts reconciliation procedures to ensure all transactions are reported in the proper period in accordance with GAAP. These reconciliations will ensure meaningful and accurate financial statements. The financial statements can then be used to help in the management decision-making process. A benefit of monthly reconciliations is that errors do not accumulate but can be identified and attributed to a particular period, which makes it easier to perform future reconciliations.

Section III - Federal Award Findings and Questioned Costs:

2020-003 – Strengthen Controls over Cash Management

Federal Awarding Agency: Federal Transit Administration

Program Title and CFDA Number: Federal Transit – Formula Grants (Urbanized Area Formula Program (20.507)

Federal Award numbers and Year: SC-37-X027-00 (2014), SC-2018-029-00 (2018), SC-90-X0292-00 (2015), SC-90-X257-00 (2012), SC-90-X274-00 (2013)

Compliance Requirement: Cash management

Type of Finding: Material weakness, noncompliance

Questioned Costs: \$0

Repeat Finding: No

Criteria: Federal regulations under Uniform Guidance (2 CFR Part 200 Appendix XI Compliance Supplement, Cash Management) requires program costs to be paid with recipient funds before reimbursement is requested from the Federal government.

Condition: Of the 10 cash drawdowns that were selected for testing, the independent auditor noted seven instances in which the drawdown was performed prior to payment of the related invoice. Total payments for the seven invoices noted above were \$918,193.

Cause: Internal controls should be in place to ensure the Council appropriately follow the Federal drawdown procedures.

Effects: The Council is not in compliance with Federal requirements for the cash management attribute. Ineffective controls to monitor cash drawdowns resulted in noncompliance. Excess funds could be drawn down and not expended.

**CENTRAL MIDLANDS COUNCIL OF GOVERNMENTS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2020**

Recommendation: We believe the Council should establish an internal control system to ensure that drawdowns are being performed after expenditures have been made, in accordance with Cash Management Uniform Guidance requirements.

Summary Schedule of Prior Audit Findings:

During our current audit, we reviewed the status of corrective action taken on the findings reported on the Council's financial statements for the year ended June 30, 2019, dated May 26, 2020. The following findings were reported:

- 2019-001 Financial Closeout and Reporting
- 2019-002 Balance Sheet Accounts Reconciliation

We found that corrective action was not taken on the above findings for fiscal year 2020 and therefore, we have repeated finding 2019-001 as finding 2020-001, and finding 2019-002 as finding 2020-002.

CENTRAL MIDLANDS COUNCIL OF GOVERNMENTS

MANAGEMENT'S CORRECTIVE ACTION PLAN

JUNE 30, 2020

Finding 2020-1 Financial Closeout and Reporting

Name of Contact Person Responsible for the Corrective Action Plan:

Petula Hendley, Director of Financial Management and Support Services

Chanell Jackson, Finance Director

Corrective Action Plan: The Finance Department is in the process of developing policies and procedures that will address Finding 2020-001, Financial Closeout and Reporting. The new policies and procedures will include a closeout checklist for monthly and year-end related financial activities. Monthly and year-end tasks will be delegated to the Finance staff accordingly with assigned due dates of completion. All checklist items will be tracked and reviewed by the Finance Director and reported to the Director of Financial Management and Support Services for final approval.

Anticipated Completion Date: April 1, 2021

Finding 2020-002 Balance Sheet Accounts Reconciliation

Name of Contact Person Responsible for the Corrective Action Plan:

Petula Hendley, Director of Financial Management and Support Services

Chanell Jackson, Finance Director

Corrective Action Plan: The Finance Department is in the process of implementing new policies and procedures that will address Finding 2020-002, Balance Sheet Account Reconciliation. To ensure that all transactions are reported correctly, a monthly Balance Sheet Reconciliation Report will be completed by designated staff member of Finance on a monthly basis. The reconciliation will be reviewed for accuracy by the Finance Director and forwarded to the Director of Financial Management and Support Services for final approval.

Anticipated Completion Date: April 1, 2021

Finding 2020-003 Federal Award Findings and Questioned Costs

Name of Contact Person Responsible for the Corrective Action Plan:

Petula Hendley, Director of Financial Management and Support Services

Chanell Jackson, Finance Director

Corrective Action Plan: The Finance Department is in the process of implementing policies and procedures to address Finding 2020-003, Strengthen Controls over Cash Management. The revised policies and procedures will require that all requests for reimbursements be drawn-down by one designated member from the Finance Department. Additionally, all requests for reimbursements/draw-downs will be completed utilizing CMCOG's internal **Federal Request for Reimbursement Form** and submitted by the authorized Program Director to the Finance Department with support documentation for approval and processing. All relevant draw-down requests will be completed at least monthly but not less than quarterly. All payments to contractors, vendors etc. will be paid prior to the completion and submission of the required reimbursement request(s). All requests will be reviewed by the Finance Director and approved by the Director of Financial Management and Support Services and the Executive Director.

Anticipated Implementation Date: March 1, 2021