



Going Further.

City of Beaufort, South Carolina

Auditor's Discussion & Analysis
Financial & Compliance Audit Summary
June 30, 2025

Presented by:
David Irwin, CPA
(800) 277-0050

City of Beaufort, South Carolina

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PURPOSE OF ANNUAL AUDITOR'S DISCUSSION & ANALYSIS

- ◆ Engagement Team and Firm Information:
 - The Governmental Practice
 - Additional Information Regarding Other Industries and Services

- ◆ Overview of:
 - Independent Auditor's Report
 - Overview of the Financial Statements
 - Compliance Report (Internal Controls and Laws and Regulations)

- ◆ Required Communications under Government Auditing Standards

- ◆ Accounting Recommendations and Related Matters:
 - Other Matters for Communication

- ◆ Free Continuing Education and Newsletters

- ◆ Closing Thoughts

- ◆ Answering Your Questions

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MAULDIN & JENKINS BY THE NUMBERS



CONSISTENTLY RANKED AS A TOP ACCOUNTING FIRM IN THE U.S.

100+ year
HISTORY
OF QUALITY SERVICE

Serve 725+
GOVERNMENT CLIENTS

GOVERNMENTAL PARTNERS **25**



750+ EXPERIENCED PROFESSIONALS FIRMWIDE

PARTNERS & DIRECTORS **120+**



To be a trusted advisor, earning trust and building respect through our consistent commitment to sustainable excellence, leadership, and integrity.



440+

SINGLE AUDITS PERFORMED LAST YEAR COVERING OVER \$7 BILLION OF FEDERAL GRANTS



156,000+

HOURS ANNUALLY PROVIDED TO GOVERNMENTAL CLIENTS

180+

CURRENT CLIENTS AWARDED THE GFOA CERTIFICATE OF EXCELLENCE

8

STATES

19

OFFICES



NATIONALLY FOCUSED

Engagement Team Leaders Include:

- David Irwin – Engagement Partner – 22 years' experience
- Sarah Higginbotham – Quality Control Reviewer – 11 years' experience
- Kellan Shuford – Director – 11 years' experience

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MAULDIN & JENKINS – ADDITIONAL INFORMATION

Other Industries & Services by Mauldin & Jenkins:

Each of Mauldin & Jenkins' offices provides a wide variety of services to a broad range of clientele. We have partners and managers who are responsible for specialized practice areas of auditing and accounting, taxes and management advisory services. Their purpose, as leaders in the particular practice area, is to establish policies with respect to technical matters in these specific areas and ensure that the quality of the Firm's practice is maintained.

Industries Served: Over the years, our partners have developed expertise in certain industries representative of a cross section of the Georgia economy, including:

- Governmental Entities (state entities, cities, counties, school systems, business type operations, libraries, and other special purpose entities)
- SEC Registrants
- Wholesale Distribution
- Agri-Businesses
- Manufacturing
- Professional Services
- Employee Benefit Plans
- Financial Institutions (community banks, savings and loans, thrifts, credit unions, mortgage companies, and finance companies)
- Non-Profit Organizations
- Retail Businesses
- Long-term Healthcare
- Construction and Development
- Individuals, Estates and Trusts
- Real Estate Management

Services Provided: This diversity of practice enables our personnel to experience a wide variety of business, accounting and tax situations. We provide the traditional and not-so-traditional services such as:

- Financial Audit/Review/Compilation
- Compliance Audits and Single Audits
- Agreed-Upon Procedures
- Forensic Audits
- Bond Issuance Services
- Performance Audits
- State Sales Tax Matters
- International Tax Matters
- Business and Strategic Planning
- Profitability Consulting
- Budgeting
- Buy-Sell Agreements and Business Valuation Issues
- Income Tax Planning and Preparation
- Multi-State Income Tax Issues
- Information Systems Consulting
- Cost Accounting Analysis
- Healthcare Cost Reimbursement
- Outsourced Billing Services
- Fixed Asset Inventories
- Succession and Exit Strategy Consulting
- Estate Planning
- Management Information Systems
- Employee Benefit Plan Administration
- Merger/Acquisition and Expansion Financing

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INDEPENDENT AUDITOR'S REPORT

The independent auditor's report has specific significance to readers of the financial report.

Management's Responsibility for the Financial Statements

The financial statements are the responsibility of management.

Auditor's Responsibility

Our responsibility, as external auditors, is to express an opinion 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. We planned and performed our audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Opinions

We have issued an unmodified audit report (i.e., "clean opinions"). The respective financial statements are considered to present fairly the financial position and results of operations as of and for the year ended June 30, 2025.

Other Matters

Certain required supplementary information and other information is included in the financial report, and as directed by relevant auditing standards, we have not expressed an opinion or provided any assurance on the respective information.

Other Reporting

Government Auditing Standards require auditors to issue a report on our consideration of internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. We have issued such a report and reference to this report is included in the independent auditor's report.

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OVERVIEW OF FINANCIAL STATEMENTS

The financial statements as presented to you today include the basic financial statements as well as the Management's Discussion and Analysis as prepared by City management.

The City's basic financial statements include three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements.

The **government-wide financial statements** provide a broad overview of all of the City's funds. The *Statement of Net Position* presents information on all assets and deferred outflows and liabilities and deferred inflows of the City, with the resulting difference reported as net position. The *Statement of Activities* presents information showing how the City's net position changed during the most recent fiscal year. Revenues are categorized as program revenues or general revenues. Expenses are categorized by function.

The **fund financial statements** more closely resemble the financial statements as presented prior to the adoption of GASB Statement No. 34. All of the funds of the City are classified as governmental funds.

COMPLIANCE REPORTS

Yellow Book Report: This compliance report is a report on our tests of the City's internal controls and compliance with laws, regulations, etc. The tests of internal controls were those we determined to be required as a basis for designing our financial statement auditing procedures. Such tests also considered the City's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. In accordance with the respective standards, the report is **not** intended to provide an opinion, but to provide a form of negative assurance as to the City's internal controls and compliance with applicable rules and regulations.

Single Audit Report: The second compliance report is a report on our tests of the City's internal controls and compliance with laws, regulations, etc., relative to certain Federal grant programs and the respective expenditures. Our tests were performed on the City's major programs (as defined by the relevant Federal guidelines), and were not applied to each and every Federal grant expended by the City. In accordance with the respective standards, we did provide an unmodified (or positive) opinion on the City's compliance based on our audit. However, we were not required to provide an opinion on the relevant internal controls, but to provide a form of negative assurance on such controls.

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REQUIRED COMMUNICATIONS

The Auditor's Responsibility Under *Government Auditing Standards* and Auditing Standards Generally Accepted in the United States of America

Our audit of the financial statements of the City of Beaufort, South Carolina (the "City") for the year ended June 30, 2025, was conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error, fraudulent financial reporting or misappropriation of assets. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation. Accordingly, the audit was designed to obtain reasonable, rather than absolute, assurance about the financial statements. We believe our audit accomplishes that objective.

In accordance with *Government Auditing Standards*, we have also performed tests of controls and compliance with laws and regulations that contribute to the evidence supporting our opinion on the financial statements. However, they do not provide a basis for opining on the City's internal control or compliance with laws and regulations.

Accounting Policies

Management has the ultimate responsibility for the selection and use of appropriate accounting policies used by the City. In addition, there are several new accounting standards which will be required to be implemented in the coming years. These are discussed later in this document.

In considering the qualitative aspects of the City's accounting policies, we did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus. The City's policies relative to the timing of recording of transactions are consistent with GAAP and typical government organizations.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of the preparation of financial statements and are based upon Management's current judgment. The process used by Management encompasses their knowledge and experience about past and current events and certain assumptions about future events. Management has informed us they used all the relevant facts available to them at the

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time to make the best judgments about accounting estimates and we considered this information in the scope of our audit. We considered this information and the qualitative aspects of Management's calculations in evaluating the City's significant accounting policies. Estimates significant to the financial statements include such items as: the estimated lives of depreciable assets; actuarial assumptions and concepts relative to the benefit plans; deferred revenues; valuation of financial and non-financial instruments; the estimated incurred-but-not-reported liabilities; conservation commitments; extraordinary items; and the estimated allowance for uncollectible accounts.

Financial Statement Disclosures

The footnote disclosures to the financial statements are also an integral part of the financial statements. The process used by Management to accumulate the information included in the disclosures was the same process used in accumulating the financial statements, and the accounting policies described above are included in those disclosures. The overall neutrality, consistency, and clarity of the disclosures was considered as part of our audit and in forming our opinion on the financial statements.

Significant Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with Management relating to the performance of the audit.

Disagreements with Management

We encountered no disagreements with Management over the application of significant accounting principles, the basis for Management's judgments on significant matters, the scope of the audit or significant disclosures to be included in the financial statements.

Representation from Management

We requested written representations from Management relating to the accuracy of information included in the financial statements and the completeness and accuracy of various information requested by us, during the audit. Management provided those written representations without a problem.

Management's Consultations with Other Accountants

We are not aware of any consultations Management had with other accountants about accounting or auditing matters.

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Significant Issues Discussed with Management

There were no significant issues discussed with Management related to business conditions, plans, or strategies that may have affected the risk of material misstatement of the financial statements. We are not aware of any consultations Management had with us or other accountants about accounting or auditing matters. No major issues were discussed with Management prior to our retention to perform the aforementioned audit.

Audit Adjustments

During our audit of the City's basic financial statements as of and for the year ended June 30, 2025, there were several adjustments, however all adjustments were proposed by the City.

Independence

We are independent of the City, and all related organizations, in accordance with auditing standards promulgated by the American Institute of Public Accountants and *Government Auditing Standards*, issued by the Comptroller General of the United States.

Other Information in Documents Containing Audited Financial Statements

We are not aware of any other documents that contain the audited basic financial statements. If such documents were to be published, we would have a responsibility to determine that such financial information was not materially inconsistent with the audited statements of the City.

ACCOUNTING RECOMMENDATIONS AND RELATED MATTERS

During our audit of the financial statements as of and for the year ended June 30, 2025, we noted a certain matter management should consider as part of its decision making process.

Recommendations for Improvements (Management Point)

Late Submission of Weekly Payroll Reports – During our testing of the Wage Rate (special test) requirements related to Federal awards, we noted that the City did not submit the required weekly payroll reports in a timely manner. Several reports were submitted in bulk months after the reporting period. Timely submission of these reports is essential to ensure compliance with Federal requirements and to allow for proper oversight.

We recommend the City implement procedures to ensure weekly payroll reports are reviewed and submitted on a consistent, timely basis rather than accumulating and submitting them in bulk.

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Other Matters for Communication to Council and Management

During our audit of the financial statements as of and for the year ended June 30, 2025, we noted other matters which we wish to communicate to you in an effort to keep the City abreast of accounting matters that could present challenges in financial reporting in future periods.

1) New Governmental Accounting Standards Board ("GASB") Standards



As has been the case for the past 10 years, GASB has issued several other new pronouncements which will be effective in future years. The following is a brief summary of the new standards:

- a) **Statement No. 102, *Certain Risk Disclosures*** was issued in December 2023 and is effective for fiscal years beginning after June 15, 2024, and all reporting periods thereafter.

This statement defines a concentration as a lack of diversity related to an aspect of a significant inflow of resources or outflow of resources. A constraint is a limitation imposed on a government by an external party or by formal action of the government's highest level of decision-making authority. Concentrations and constraints may limit a government's ability to acquire resources or control spending.

This statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued.

If a government determines that those criteria for disclosure have been met for a concentration or constraint, it should disclose information in the notes to financial statements in sufficient detail to enable users of financial statements to understand the nature of the circumstances disclosed and the government's vulnerability to the risk of a substantial impact. The disclosure should include descriptions of the following:

- The concentration or constraint.
- Each event associated with the concentration or constraint that could cause a substantial impact if the event had occurred or had begun to occur prior to the issuance of the financial statements.

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- Actions taken by the government prior to the issuance of the financial statements to mitigate the risk.

b) Statement No. 103, *Financial Reporting Model Improvements* was issued in April 2024 and is effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter.

The objective of this statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This statement also addresses certain application issues.

Management's Discussion and Analysis

This statement continues the requirement that the basic financial statements be preceded by the Management's Discussion and Analysis ("MD&A"), which is presented as required supplementary information ("RSI"). The MD&A provides an objective and easily readable analysis of the government's financial activities based on currently known facts, decisions, or conditions and presents comparisons between the current year and the prior year. This statement requires that the information presented in the MD&A be limited to the related topics discussed in five sections: 1) Overview of the Financial Statements, 2) Financial Summary, 3) Detailed Analyses, 4) Significant Capital Asset and Long-Term Financing Activity, and 5) Currently Known Facts, Decisions, or Conditions. Furthermore, this statement stresses that the detailed analyses should explain why balances and results of operations changed rather than simply presenting the amounts or percentages by which they changed. This statement emphasizes that the analysis provided in the MD&A should avoid unnecessary duplication by not repeating explanations that may be relevant to multiple sections and that "boilerplate" discussions should be avoided by presenting only the most relevant information, focused on the primary government. In addition, this statement continues the requirement that information included in the MD&A distinguish between that of the primary government and its discretely presented component units.

Unusual or Infrequent Items

This statement describes unusual or infrequent items as transactions and other events that are either unusual in nature or infrequent in occurrence. Furthermore, governments are required to display the inflows and outflows related to each unusual or infrequent item separately as the last presented flow(s) of resources prior to the net change in resource flows in the government-wide, governmental fund, and proprietary fund statements of resource flows.

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Presentation of the Proprietary Fund Statement of Revenues, Expenses and Changes in Fund Net Position

This statement requires that the proprietary fund statement of revenues, expenses and changes in fund net position continue to distinguish between operating and nonoperating revenues and expenses. Operating revenues and expenses are defined as revenues and expenses other than nonoperating revenues and expenses. Nonoperating revenues and expenses are defined as: 1) subsidies received and provided, 2) contributions to permanent and term endowments, 3) revenues and expenses related to financing, 4) resources from the disposal of capital assets and inventory, and 5) investment income and expenses.

In addition to the subtotals currently required in a proprietary fund statement of revenues, expenses and changes in fund net position, this statement requires that a subtotal for *operating income (loss) and noncapital subsidies* be presented before reporting other nonoperating revenues and expenses. Subsidies are defined as: 1) resources received from another party or fund; (a) for which the proprietary fund does not provide goods and services to the other party or fund, and (b) that directly or indirectly keep the proprietary fund's current or future fees and charges lower than they would be otherwise; 2) resources provided to another party or fund; (a) for which the other party or fund does not provide goods and services to the proprietary fund, and (b) that are recoverable through the proprietary fund's current or future pricing policies; and 3) all other transfers.

Major Component Unit Information

This statement requires governments to present each major component unit separately in the reporting entity's Statement of Net Position and Statement of Activities if it does not reduce the readability of the statements. If the readability of those statements would be reduced, combining statements of major component units should be presented after the fund financial statements.

Budgetary Comparison Information

This statement requires governments to present budgetary comparison information using a single method of communication—RSI. Governments also are required to present: 1) variances between original and final budget amounts, and 2) variances between final budget and actual amounts. An explanation of significant variances is required to be presented in notes to RSI.

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c) **Other Pending or Current GASB Projects.** As noted by the numerous pronouncements issued by GASB over the past decade, the GASB continues to research various projects of interest to governmental units. Subjects of note include:

- **Classification of Nonfinancial Assets** is a project where the goal is to provide users of government financial statements with essential information about certain types of capital assets in a disaggregated format by requiring capital assets held for sale, intangible assets, and lease and subscription assets to be disclosed separately by major class.
- **Going Concern Uncertainties and Severe Financial Stress** is a major project where the goal is to address issues related to disclosures regarding going concern uncertainties and severe financial stress. The project will consider: 1) improvements to existing guidance for going concern considerations to address diversity in practice and clarify the circumstances under which disclosure is appropriate, 2) developing a definition of severe financial stress and criteria for identifying when governments should disclose their exposure to severe financial stress, and 3) what information about a government's exposure to severe financial stress is necessary to disclose. This technical topic is being examined by the GASB due to a wide diversity in practice regarding required presentation on the face of the financial statements, disclosures, etc.
- **Infrastructure Assets** is a project that will address issues related to accounting and financial reporting for infrastructure assets. The project will evaluate standard-setting options related to reporting infrastructure assets to make information: 1) more comparable across governments and more consistent over time, 2) more useful for making decisions and assessing government accountability, 3) more relevant to assessments of a government's economic condition, and 4) better reflect the capacity of those assets to provide service and how that capacity may change over time.
- **Subsequent Events—Reexamination of Statement No. 56** is a project that will improve the accounting and financial reporting for subsequent events. The project will reexamine existing requirements related to subsequent events in Statement No. 56, Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards, to address issues related to: 1) confusion about and challenges associated with applying the existing standards, 2) inconsistency in practice in the information provided about subsequent events, and 3) the usefulness of the information provided about subsequent events.

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- **Revenue and Expense Recognition** is a major project where the overall objective is to develop a comprehensive, principles-based model that would establish categorization, recognition, and measurement guidance applicable to a wide range of revenue and expense transactions. Achieving that objective will include: 1) development of guidance applicable to topics for which existing guidance is limited, 2) improvement of existing guidance that has been identified as challenging to apply, 3) consideration of a performance obligation approach to the GASB's authoritative literature, and 4) assessment of existing and proposed guidance based on the conceptual framework. The expected outcome of the project is enhanced quality of information that users rely upon in making decisions and assessing accountability. The GASB is currently reviewing comments and other input received from the stakeholder community during the preliminary views stage that was completed in 2021.

FREE QUARTERLY CONTINUING EDUCATION AND NEWSLETTERS FOR GOVERNMENTAL CLIENTS

Free Continuing Education. We provide free quarterly continuing education for all of our governmental clients. Each quarter, we pick a couple of significant topics tailored to be of interest to governmental entities and offer the sessions several times per quarter at a variety of client provided locations resulting in greater networking among our governmental clients. We normally see approximately 100 people per quarter. We obtain the input and services of experienced outside speakers, along with our in-house professionals.

"I've been a CPA for 32 years. Today's CPE class by Mauldin & Jenkins has been the best of my career". Terry Nall, CPA, City of Dunwoody (GA) Council Member

"They are always on top of new accounting pronouncements and provide training well before implementation deadlines. This is a very valuable resource for our organization". Laurie Puckett, CPA, CPFO, Gwinnett County (GA), Accounting Director

Examples of subjects addressed in past quarters include:

- Accounting for Debt Issuances
- Achieving Excellence in Financial Reporting
- Best Budgeting Practices, Policies and Processes
- Best Practices in Banking
- Budget Preparation
- ACFR Preparation (several times including a two (2) day hands-on course)
- Capital Asset Accounting Processes and Controls

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- Closing Out and Audit Preparation
- Collateralization of Deposits and Investments
- Component Units
- Cybersecurity Risk Management
- Evaluating Financial and Non-Financial Health of a Local Government
- Financial Report Card – Where Does Your Government Stand?
- Financial Reporting Model Improvements
- GASB No. 74 & 75, New OPEB Standards
- GASB No. 77, Tax Abatement Disclosures
- GASB No. 84, Fiduciary Activities
- GASB No. 87, Leases
- GASB Projects & Updates (ongoing and several sessions)
- Grants (Accounting and Auditing)
- Human Capital Management
- Information Technology (IT) Risk Management
- Internal Controls Over Accounts Payable, Payroll and Cash Disbursements
- Internal Controls Over Receivables & the Revenue Cycle
- Internal Revenue Service (IRS) Compliance Issues, Primarily Payroll Matters
- Legal Considerations for Debt Issuances & Disclosure Requirements
- Policies and Procedures Manuals
- Presenting Financial Information to Non-Financial People
- Procurement Card Red Flags
- Risk, Efficiency, & Effectiveness in Governments
- Segregation of Duties
- Single Audits for Auditees
- SPLOST Accounting, Reporting & Compliance
- Uniform Grant Guidance



Governmental Newsletters. We periodically produce newsletters tailored to meet the needs of governments. The newsletters have addressed a variety of subjects and are intended to be timely in their subject matter. The newsletters are authored by Mauldin & Jenkins partners and managers and are not purchased from an outside agency. The newsletters are intended to keep you informed of current developments in the government finance environment.

In the past several years, the following topics have been addressed in our monthly newsletters:

- Are Your Government's Funds Secure?
- COVID-19 Updates (several)
- Cybersecurity Awareness
- Deposit Collateralization

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- Employee vs Independent Contractor
- Escheat Laws on Unclaimed Property
- Federal Funding and Accountability Transparency Act
- Forensic Audit or Financial Audit?
- Form PT 440
- GASB Invitation to Comment – the New Financial Reporting Model
- GASB No. 72, Fair Value, It is Not Totally About Disclosure
- GASB No.'s 74 & 75, Other Post-Employment Benefits (OPEB)
- GASB No. 77, Abatements – Go Viral with GASB 77
- GASB No. 84 Fiduciary Activities (Series)
- GASB No. 87, Leases
- GASB No. 89, Accounting for Interest Cost Incurred Before the End of Construction
- GASB No. 91, Conduit Debt Obligations
- GASB No. 93, Replacement of Interbank Offered Rates
- General Data Protection Regulation (GDPR)
- Grants Management
- OMB Compliance Supplements
- OPEB, What You Need to Know
- Public Funds and Secure Deposit Program
- Rotating or Not Rotating Auditors
- Property Tax Assessments
- Remote Auditing Best Practices
- Refunding Debt
- Sales & Use Taxes on Retail Sales of Jet Fuel
- Sales Tax Collections and Remittances by the State
- SAS Clarity Standards and Group Audits
- Single Audit, including Uniform Guidance (several)
- Social Security Administration (SSA) Incentive Payments
- Special Purpose Local Option Sales Taxes (SPLOST) Expenditures
- Subrecipient Risk Assessment Tool
- Supplemental Social Security for Inmates
- The New Tax Cuts and Jobs Act – Impact on Bond Refunding
- The Return of the Component Unit – GASB 61
- Uniform Guidance & New Procurement Requirements
- What's Happening with Property Tax Assessments



You are the best auditors I have ever worked with over my career. It is a big difference having a group that is dedicated to governmental accounting.

Wesley Ropp,
Charleston Water System,
Chief Financial Officer

City of Beaufort, South Carolina

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Communication. In an effort to better communicate our free continuing education plans and newsletters, please email Paige Vercoe at pvercoe@micpa.com (send corresponding copy to dirwin@micpa.com), and provide individual names, mailing addresses, email addresses and phone numbers of anyone you wish to participate and be included in our database.

CLOSING

If you have any questions regarding any comments set forth in this memorandum, we will be pleased to discuss it with you at your convenience.

This information is intended solely for the use of the City's Management, and others within the City's organization and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the opportunity to serve the City of Beaufort, South Carolina and look forward to serving the City of Beaufort in the future. Thank you.