



Going Further.

# ***City of Beaufort, South Carolina***

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***Auditor's Discussion & Analysis***

***Financial & Compliance Audit Summary***

***June 30, 2022***

Presented by:  
David Irwin, CPA  
(478) 464-8000

# City of Beaufort, South Carolina

## *Auditor's Discussion & Analysis (AD&A)*

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

**100+ year**  
HISTORY  
OF QUALITY SERVICE

**Serve 650+**  
GOVERNMENT CLIENTS

GOVERNMENTAL PARTNERS **16**



**140+** TEAM MEMBERS DEDICATED TO SERVING THE GOVERNMENTAL INDUSTRY



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



**225+**

SINGLE AUDITS PERFORMED LAST YEAR COVERING OVER \$4 BILLION OF FEDERAL GRANTS



**135,000+**

HOURS ANNUALLY PROVIDED TO GOVERNMENTAL CLIENTS

**150+**

CURRENT CLIENTS AWARDED THE GFOA CERTIFICATE OF EXCELLENCE

**5**

STATES

**13**

OFFICES



### Engagement Team Leaders Include:

- David Irwin – Engagement Partner – 19 years' experience
- Trey Scott – Quality Control Reviewer Partner – 15 years' experience
- Kellan Shuford – Manager – 8 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.

#### **Opinion**

We have issued an unmodified audit report (i.e., "clean opinion"). 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, 2022.

#### **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.

# City of Beaufort, South Carolina

## **Auditor's Discussion & Analysis (AD&A)**

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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.

#### Government-Wide (Full-Accrual) Financial Statements

As noted above, the financial report of the City includes two (2) entity-wide financial statements: a *Statement of Net Position*; and a *Statement of Activities*.

Highlights of the government-wide statements note total assets and deferred outflows of resources of approximately \$101,000,000 offset by liabilities and deferred inflows of resources of approximately \$53,000,000. This results in the City's reported net position (or equity) of approximately \$48,000,000. Also, a substantial element of the net position is composed of a net investment in capital assets in the approximate amount of \$46,000,000. Restricted net position amounts to approximately \$10,000,000 leaving unrestricted net position of (\$8,000,000).

The *Statement of Activities* attempts to report expenses in the first column with direct offsetting program revenues to the adjacent columns to arrive at a net cost of the functional areas of operation. General revenues (primarily taxes) come to the rescue of the net cost functional areas resulting in the City reporting a change in net position of approximately \$5,000,000 for the year ended June 30, 2022.

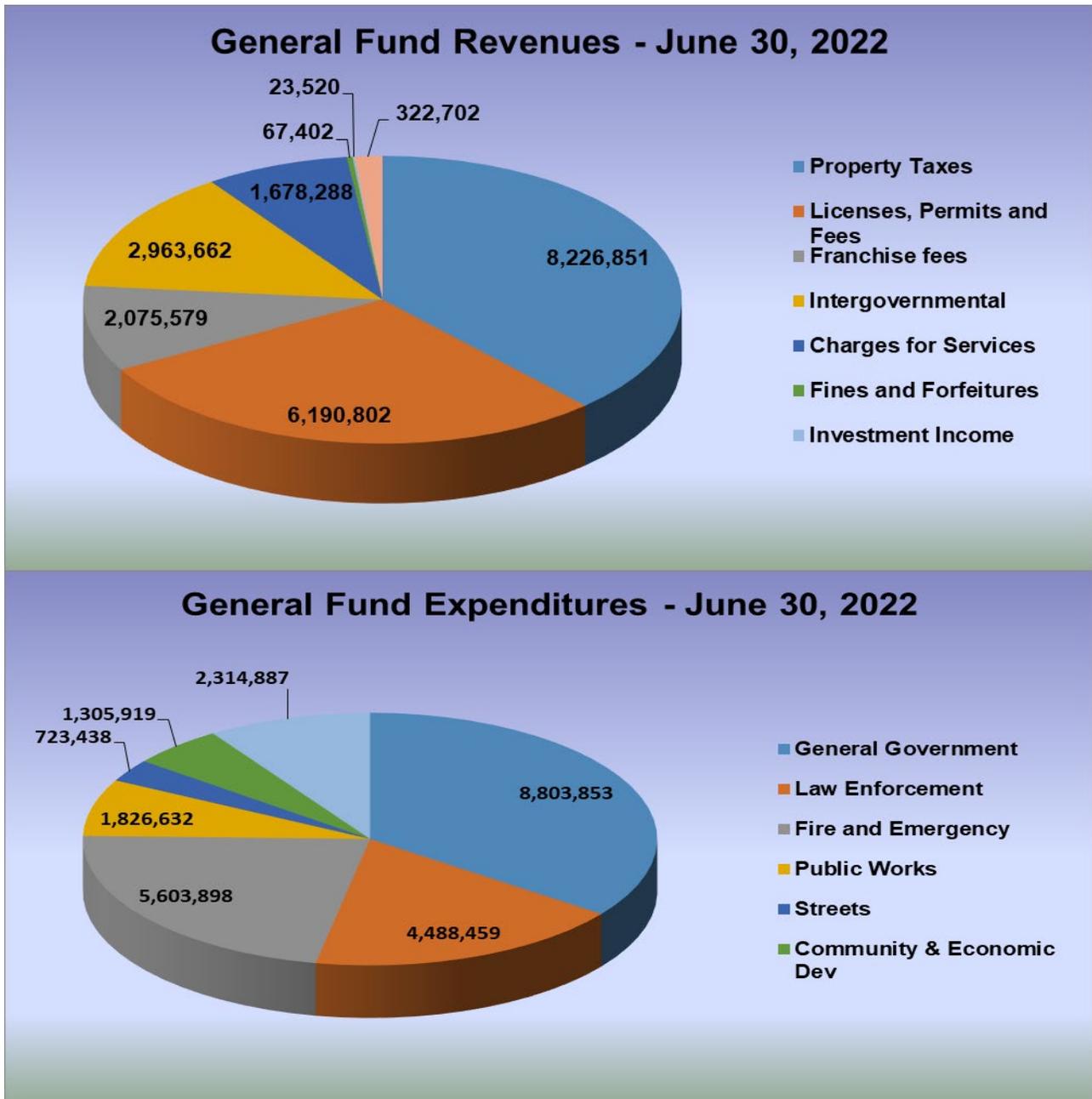
# City of Beaufort, South Carolina

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### General Fund

Of primary interest to the City is the **General Fund**, which accounts for the majority of revenues received and funds expended in the operations of the City, including administration, judicial activities, public safety, public works, parks and recreation, and community service. The following charts present the sources of revenues and the expenditures of the General Fund for the fiscal year ended June 30, 2022:



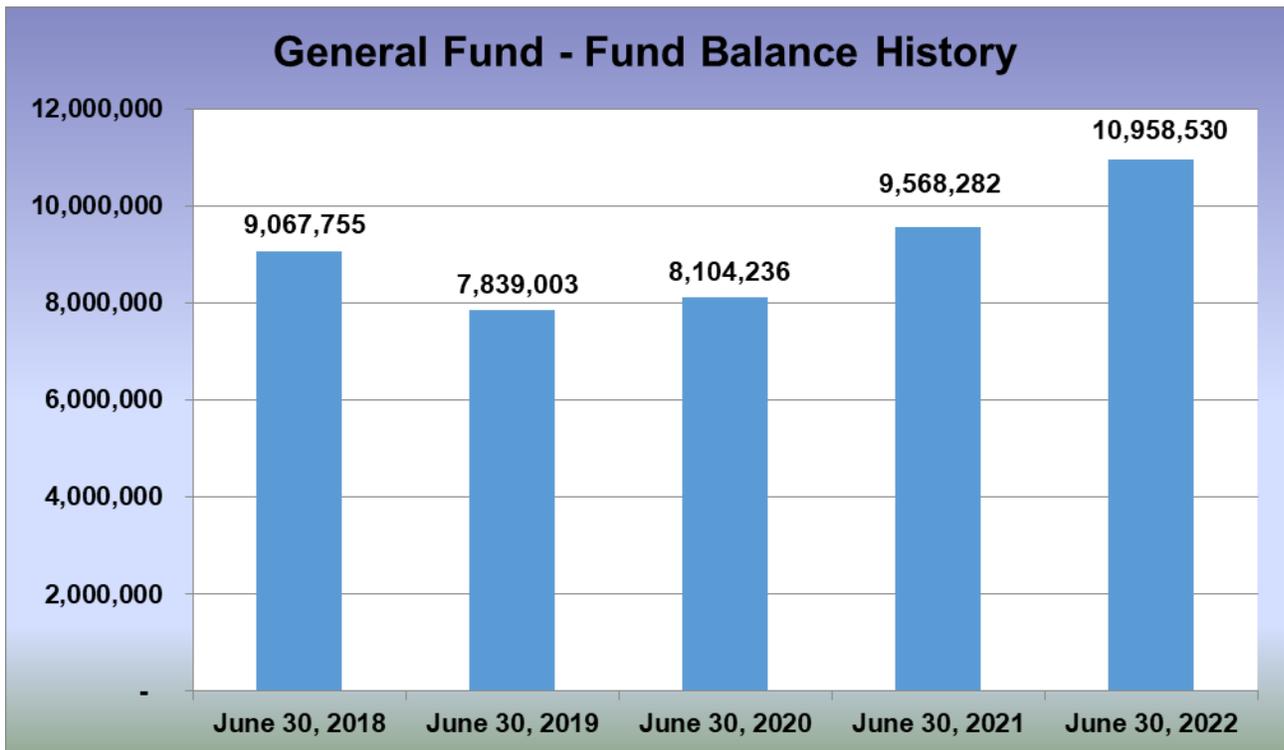
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Total fund balance of the General Fund at June 30, 2022, was a positive \$10,958,530. Fund balance does not necessarily equal cash on hand and available to spend. Fund balance is the difference between assets and liabilities, only a portion of which is cash available to be spent. While the General Fund has cash and cash equivalents on hand at June 30, 2022 of \$11,170,821, the General Fund also has \$1,694,542 in current liabilities due to outside parties and employees and deferred inflows of resources totaling \$75,523 in unavailable revenues. Additionally, the General Fund incurs expenditures of approximately \$2.1 million per month. A large part of the cash on hand at June 30, 2022 will be needed in subsequent months to fund these expenditures, until the City's property tax revenues are collected in November and December.

The following is a history of the total ending fund balance of the General Fund over the past five years:



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### **Other Governmental Funds**

The City also maintains seven (7) special revenue funds (TIF II Fund, Parks and Tourism Fund, American Rescue Plan Act Fund, Stormwater Fund, State Accommodations Tax Fund, Fire Impact Fees Fund, and the Drug Control and Prevention Fund); one capital projects fund, four custodial funds (Trustee Fire Fund, Beaufort 300 Fund, Beaufort History Museum Fund, and the Beaufort Pride of Place Fund), and one permanent fund (the Cemetery Fund). These funds account for revenues derived from specific sources, which are legally restricted to finance particular functions or activities.

### **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.

### **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, 2022, 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

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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 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.

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### **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.

### **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.

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### Audit Adjustments

There were no audit adjustments for the year ended June 30, 2022.

### 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.

### Other Matters for Communication to the Board and Management

During our audit of the financial statements as of and for the year ended June 30, 2022, 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. 91, *Conduit Debt Obligations*** was issued in May 2019 and is effective for the first reporting period beginning after December 15, 2020, meaning for those with year ends of December 31, 2021 and beyond. However, in light of the COVID-19 Pandemic, in May 2020 the GASB issued Statement No. 95 (*Postponement of the Effective Dates of Certain Authoritative Guidance*) which changed the effective date of Statement No. 91 to reporting periods beginning after December 15, 2021.

The primary objectives of this statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with: 1) commitments extended by issuers, 2) arrangements associated with conduit debt obligations, and 3) related note disclosures. This statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and

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financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

A conduit debt obligation is defined as a debt instrument meeting **all** of the following characteristics:

- There are at least three parties involved: 1) an issuer, 2) a third-party obligor, and 3) a debt holder (or a debt trustee);
- The issuer and the third-party obligor are not within the same financial reporting entity;
- The debt obligation is not a parity bond of the issuer, nor is it cross-collateralized with other debt of the issuer;
- The third-party obligor (or its agent), not the issuer, ultimately receives the proceeds from the debt issuance;
- The third-party obligor, not the issuer, is primarily obligated for the payment of all amounts associated with the debt obligation (debt service payments).

All conduit debt obligations involve the issuer making a limited commitment. Some issuers extend additional commitments or voluntary commitments to support debt service in the event the third-party is, or will be, unable to do so.

An issuer should not recognize a conduit debt obligation as a liability. However, an issuer should recognize a liability associated with an additional commitment or a voluntary commitment to support debt service if certain recognition criteria are met. As long as a conduit debt obligation is outstanding, an issuer that has made an additional commitment should evaluate, at least annually, whether those criteria are met. An issuer that has made only a limited commitment should evaluate whether those criteria are met when an event occurs that causes the issuer to reevaluate its willingness or ability to support the obligor's debt service through a voluntary commitment.

This statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. In those arrangements, capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by third-party obligors in the course of their activities. Payments from third-party obligors are intended to cover and coincide with debt service payments. During those arrangements, issuers retain the titles to the capital assets. Those titles may or may not pass to the obligors at the end of the arrangements.

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Issuers should not report those arrangements as leases, nor should they recognize a liability for the related conduit debt obligations or a receivable for the payments related to those arrangements. In addition, the following provisions apply:

- If the title passes to the third-party obligor at the end of the arrangement, an issuer should not recognize a capital asset.
- If the title does not pass to the third-party obligor and the third-party has exclusive use of the entire capital asset during the arrangement, the issuer should not recognize a capital asset until the arrangement ends.
- If the title does not pass to the third-party obligor and the third party has exclusive use of only portions of the capital asset during the arrangement, the issuer should recognize the entire capital asset and a deferred inflow of resources at the inception of the arrangement. The deferred inflow of resources should be reduced, and an inflow recognized, in a systematic and rational manner over the term of the arrangement.

This statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period.

**b) Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*** was issued in March 2020 and is effective for fiscal years beginning after June 15, 2022 which means year ends of June 30, 2023 and following.

This statement was issued by the GASB to address a gap in generally accepted accounting principles: how do we account for these type arrangements that do not meet the definition of a service concession arrangement ("SCA") covered by GASB Statement No. 60?

Statement No. 94 requires that Public-Private Partnerships and Public-Public Partnerships ("PPPs") that meet the definition of a lease apply the guidance in Statement No. 87, *Leases* if: (a) existing assets of the transferor are the only underlying PPP assets, (b) improvements are not required to be made by the operator to those existing assets as part of the PPP arrangement, and (c) the PPP does not meet the definition of an SCA. All other PPPs that will not apply the guidance in Statement No. 87 will generally use the accounting guidance contained in Statement No. 60 which was superseded by this new standard.

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Statement No. 94 also establishes accounting and financial reporting requirements for availability payment arrangements (“APAs”). As defined in this statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying non-financial asset for a period of time in an exchange or exchange-like transaction. An APA that is related to designing, constructing, and financing a non-financial asset in which ownership of the asset transfers by the end of the contract should be accounted for by the government as a financed purchase of the underlying asset.

- c) **Statement No. 96, *Subscription-Based Information Technology Arrangements*** was issued in May 2020 and is effective for fiscal years beginning after June 15, 2022 which means year ends of June 30, 2023 and following.

This statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (“SBITAs”) for government end users (governments). This statement: 1) defines an SBITA; 2) establishes that an SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; 3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of an SBITA; and 4) requires note disclosures regarding an SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended.

An SBITA is defined as a contract that conveys control of the right to use another party's (an SBITA vendor's) information technology (“IT”) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction.

The subscription term includes the period during which a government has a non-cancellable right to use the underlying IT assets. The subscription term also includes periods covered by an option to extend (if it is reasonably certain that the government or SBITA vendor will exercise that option) or to terminate (if it is reasonably certain that the government or SBITA vendor will not exercise that option).

Under this statement, a government generally should recognize a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability. A government should recognize the subscription liability at the commencement of the subscription term, which is when the subscription asset is placed into service. The subscription liability should be initially measured at the present value of subscription payments expected to be made during the subscription term. Future subscription payments should be discounted using the interest rate the SBITA vendor charges the government, which may be implicit, or the government's incremental borrowing rate if the interest rate is not readily determinable. A

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government should recognize amortization of the discount on the subscription liability as an outflow of resources (for example, interest expense) in subsequent financial reporting periods.

The subscription asset should be initially measured as the sum of: 1) the initial subscription liability amount, 2) payments made to the SBITA vendor before commencement of the subscription term, and 3) capitalizable implementation costs, less any incentives received from the SBITA vendor at or before the commencement of the subscription term. A government should recognize amortization of the subscription asset as an outflow of resources over the subscription term.

Activities associated with an SBITA, other than making subscription payments, should be grouped into the following three stages, and their costs should be accounted for accordingly:

- Preliminary Project Stage, including activities such as evaluating alternatives, determining needed technology, and selecting an SBITA vendor. Outlays in this stage should be expensed as incurred.
- Initial Implementation Stage, including all ancillary charges necessary to place the subscription asset into service. Outlays in this stage generally should be capitalized as an addition to the subscription asset.
- Operation and Additional Implementation Stage, including activities such as subsequent implementation activities, maintenance, and other activities for a government's ongoing operations related to an SBITA. Outlays in this stage should be expensed as incurred unless they meet specific capitalization criteria.

In classifying certain outlays into the appropriate stage, the nature of the activity should be the determining factor. Training costs should be expensed as incurred, regardless of the stage in which they are incurred.

**d) Statement No. 99, *Omnibus 2022*** was issued in April 2022 and contains multiple different effective dates for the guidance based on the differing topics. The practice issues addressed by this statement are as follows:

- Classification and reporting of derivative instruments within the scope of Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, that do not meet the definition of either an investment derivative instrument or a hedging derivative instrument.

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- Clarification of provisions in Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to the determination of the public-private and public-public partnership (“PPP”) term, and recognition and measurement of installment payments and the transfer of the underlying PPP asset.
- Clarification of provisions in Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement (“SBITA”) term, classification of an SBITA as a short-term SBITA, and recognition and measurement of a subscription liability.
- Extension of the period during which the London Interbank Offered Rate (“LIBOR”) is considered an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt.
- Accounting for the distribution of benefits as part of the Supplemental Nutrition Assistance Program (“SNAP”).
- Disclosures related to non-monetary transactions.
- Pledges of future revenues when resources are not received by the pledging government.
- Clarification of provisions in Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended, related to the focus of the government-wide financial statements.
- Terminology updates related to certain provisions of Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.
- Terminology used in Statement 53 to refer to resource flows statements.

The requirements of Statement 99 are effective as follows:

- The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of non-monetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance.
- The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.
- The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

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- e) **Statement No. 100, *Accounting Changes and Error Corrections*** was issued in June 2022 and is effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

The primary objective of this statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

This statement defines *accounting changes* as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. As part of those descriptions, for: 1) certain changes in accounting principles, and 2) certain changes in accounting estimates that result from a change in measurement methodology, a new principle or methodology should be justified on the basis that it is preferable to the principle or methodology used before the change. That preferability should be based on the qualitative characteristics of financial reporting—understandability, reliability, relevance, timeliness, consistency, and comparability. This statement also addresses corrections of errors in previously issued financial statements.

This statement prescribes the accounting and financial reporting for: 1) each type of accounting change, and 2) error corrections. This statement requires that: (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. The requirements of this statement for changes in accounting principles apply to the implementation of a new pronouncement in absence of specific transition provisions in the new pronouncement. This statement also requires that the aggregate amount of adjustments to and restatements of beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements.

This statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated.

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Furthermore, this statement addresses how information that is affected by a change in accounting principle or error correction should be presented in required supplementary information ("RSI") and supplementary information ("SI"). For periods that are earlier than those included in the basic financial statements, information presented in RSI or SI should be restated for error corrections, if practicable, but not for changes in accounting principles.

- f) **Statement No. 101, *Compensated Absences*** was issued in June 2022 and is effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter.

This statement requires that liabilities for compensated absences be recognized for: 1) leave that has not been used, and 2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if: (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Leave is attributable to services already rendered when an employee has performed the services required to earn the leave. Leave that accumulates is carried forward from the reporting period in which it is earned to a future reporting period during which it may be used for time off or otherwise paid or settled. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. However, leave that is more likely than not to be settled through conversion to defined benefit post-employment benefits should not be included in a liability for compensated absences.

This statement requires that a liability for certain types of compensated absences—including parental leave, military leave, and jury duty leave—not be recognized until the leave commences. This statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used.

This statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities.

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**g) 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:

- **Re-Examination of the Financial Reporting Model.** GASB has added this project to its technical agenda to make improvements to the existing financial reporting model (established via GASB 34). Improvements are meant to enhance the effectiveness of the model in providing information for decision-making and assessing a government's accountability. GASB anticipates issuance of a final standard in late 2023 or early 2024.
- **Revenue and Expense Recognition** is another long-term project where the GASB is working to develop a comprehensive application model for recognition of revenues and expenses from non-exchange, exchange, and exchange-like transactions. The final standard is expected in mid-2027.
- **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. An exposure draft on this topic is expected by mid-2025.

### **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.

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*"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
- 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



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- 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
- 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



*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

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- 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

**Communication.** In an effort to better communicate our free continuing education plans and newsletters, please email Paige Vercoe at [pvercoe@micpa.com](mailto:pvercoe@micpa.com) (send corresponding copy to [dirwin@micpa.com](mailto: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.

### Governmental Advisory Services

Beyond traditional audit and accounting services and IT services, we provide advisory services that are wide-ranging in nature. Our experienced government advisory team helps governments, governmental agencies and special purpose governmental organizations balance fiscal responsibility with the latest business strategies to achieve targeted and overarching objectives. Our advisory services can be summarized via the following bubbles.



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*David Roberts*

*Partner, Governmental Advisory Services*

David Roberts has more than 22 years of experience as a consultant and trusted advisor providing operational/organizational assessments and similar transformational projects for federal, state, and local governments across the country. David's experience includes leading numerous enterprise-wide/departmental/functional assessments and transformations over his career measuring the efficiency and effectiveness of organizational structures and culture, performance management, technology systems and strategies, staffing models, service delivery models, and customer satisfaction.



David helps his clients turn visions and goals into reality. He has helped multiple clients win national government industry awards for innovation, transformation, and cost savings.

David leads our Government Advisory practice, where he focuses on helping governments and individual agencies fulfill and exceed their financial, operational, and regulatory obligations to the public.

David has completed hundreds of projects over his career. Below are representative sample management consulting projects demonstrating David's depth and breadth completed within the past 12 months:

### **Operational and Performance Assessment – Walton County, Georgia**

David led a multi-department Operational and Performance Assessment for Walton County. The scope included assessing organizational structure, operational efficiency, staffing levels and resource utilization, comparison to leading practices, and observations and recommendations to assist the County in achieving the desired future state. The final report included numerous observations with associated recommendations and a detailed Roadmap/Implementation Plan.

### **Outsourcing Feasibility Study – City of Rocky Mount, North Carolina**

David led a feasibility study for the City of Rocky Mount to assess its current service delivery model for providing parks maintenance and landscaping services. City operations used a hybrid model of both internal resources and third-party contractors to provide parks maintenance and landscaping. The project evaluated the pros and cons (both financial and non-financial) of: 1) maintaining the hybrid model, 2) performing all services in-house, and 3) performing all services externally.

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### **Finance Functional Assessment – Richland County Library, South Carolina**

David led a functional assessment of the Library's finance department. The project consisted of understanding the current state – current service provision, performance, workflow, business processes, internal controls, organizational structure, reporting, and communications. The current state was compared to leading practices and gaps were identified. An implementation roadmap was created that aligned recommendations to leaderships' vision to help the organization achieve its desired future state.

### **Technology Utilization Assessment – Mt. Pleasant Waterworks, South Carolina**

David led an objective evaluation of the organization's system usage and governance related to the existing financial system (Microsoft Dynamics) and the existing workorder management system (Maximo). The organization wanted to maximize the efficiency and effectiveness of both systems while maintaining internal controls and system of record. The project consisted of numerous interviews, data review, system mapping, and a collaborative workshop among stakeholders to define a future state.

### **Grant Compliance Audit – Decide DeKalb, Georgia**

David led a Grant Compliance Assessment of various development projects for Decide DeKalb. The project reviewed the established grant and contractual criteria to be maintained by developers and compared with tenant information related to low income occupants. The project identified areas of compliance, noncompliance, and recommendations for remediation.

### **Forensic Audit – Confidential City**

David led a forensic investigation into questionable cash management activity for a City Parks and Recreation department. The project reviewed bank account activity, cancelled checks, cash withdrawals, and purchased item documentation as well as conducted interviews with account cardholders to determine the collection, handling, and use of several hundred thousand dollars collected in fees, sponsorships, and contributions made to the City. Numerous observations and corresponding recommendations were developed to enhance internal controls, written policies, and procedures to correct conflicts of interest, mishandling of funds, and misappropriation of funds.

# City of Beaufort, South Carolina

## *Auditor's Discussion & Analysis (AD&A)*

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### 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.

