

# *Town of Seabrook Island, South Carolina*



**Auditor's Discussion & Analysis (AD&A)**  
**Financial & Compliance Audit Summary**  
**December 31, 2019**

Presented by:

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(800) 277-0050

**MAULDIN  
& JENKINS**  
CPAs & ADVISORS

# Town of Seabrook Island, South Carolina

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

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### PURPOSE OF THE AUDITOR'S DISCUSSION & ANALYSIS

- ◆ Engagement Team and Firm Information.
- ◆ Overview of:
  - Audit Opinion;
  - Financial Statements, Footnotes and Supplementary Information;
  - Compliance Report;
  - Audit Scopes & Procedures.
- ◆ Required Communications under Government Auditing Standards.
- ◆ Accounting Related Matters.
- ◆ Free Continuing Education and Newsletters.
- ◆ Closing Thoughts.
- ◆ Answer Questions.



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### MAULDIN & JENKINS – GOVERNMENTAL PRACTICE

#### General Information:

- Founded in 1918. Approx. 300 personnel. Large regional Southeastern firm.
- Offices in Columbia, Macon, Atlanta, Albany, Savannah, Bradenton, Chattanooga and Birmingham.



#### Governmental Sector:

- Serve more governmental entities in the Southeast than any other firm with over 100,000 hours annually.
- Largest industry niche served by Firm (28% of Firm).
- Over 100 people with current governmental experience.
- **In past three (3) years, we have served approx. [500 governments](#):**
  - ✓ 57 counties;
  - ✓ **126 cities**;
  - ✓ 62 school systems and 40 charter schools;
  - ✓ 48 state entities;
  - ✓ 50 stand-alone business-type special purpose entities (water/sewer, transit, gas, electric, and airports, etc.);
  - ✓ 130 stand-alone governmental special purpose entities (housing, development, industrial, other educational, health & welfare, retirement, libraries, etc.);
  - ✓ 100+ water & sewer systems, 25 airport operations, 10 gas systems, 15 electrical utilities, & 10 transit services; and
  - ✓ 131 governments awarded the GFOA's and/or ASBO's Financial Reporting Certificates.
- Experience performing forensic audit services and information technology consultations.
- Experience performing municipal bond debt issuance attestation services serving approx. 50 clients with over \$11 billion in aggregate publicly issued debt instruments.
- Considered to be in the Top 20 total number of Single Audits conducted in U.S.A.

#### Engagement team leaders on the audit engagement include:

- David Irwin, Engagement Partner – 16 years' experience
- Trey Scott, Quality Control Reviewer Partner – 12 years' experience
- Kellan Shuford, Engagement Manager – 5 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 South Carolina 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 & loans, thrifts, credit unions, mortgage companies, and finance companies)
- Non-Profit Organizations
- Retail Businesses
- Long-term Healthcare
- Construction & 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 & Single Audits
- Agreed-Upon Procedures
- Forensic Audits
- Bond Issuance Services
- Performance Audits
- State Sales Tax Matters
- International Tax Matters
- Business & Strategic Planning
- Profitability Consulting
- Budgeting
- Buy-Sell Agreements & Business Valuation Issues
- Income Tax Planning & Preparation
- Multi-State Income Tax Issues
- Information Systems Consulting
- Cost Accounting Analysis
- Healthcare Cost Reimbursement
- Outsourced Billing Services
- Fixed Asset Inventories
- Succession & Exit Strategy Consulting
- Estate Planning
- Management Information Systems
- Employee Benefit Plan Administration
- Merger / Acquisition & 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 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. 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 December 31, 2019.

#### **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 Management's Discussion and Analysis as prepared by Town management.

The Town'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 Town's funds. The *Statement of Net Position* presents information on all assets and deferred outflows and liabilities and deferred inflows of the Town, with the resulting difference reported as net position. The *Statement of Activities* presents information showing how the Town'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 Town are classified as governmental funds.

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

As noted above, the financial report of the Town 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 \$6,900,000 offset by liabilities and deferred inflows of resources of approximately \$651,000. This results in the Town reported net position (or equity) of approximately \$6,300,000. Also, a substantial element of the net position is composed of a net investment in capital assets in the approximate amount of \$1,600,000. Restricted net position amounts to approximately \$200,000 leaving unrestricted net position of \$4,400,000.

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 Town reporting a change in net position of approximately \$450,000 for the year ended December 31, 2019.

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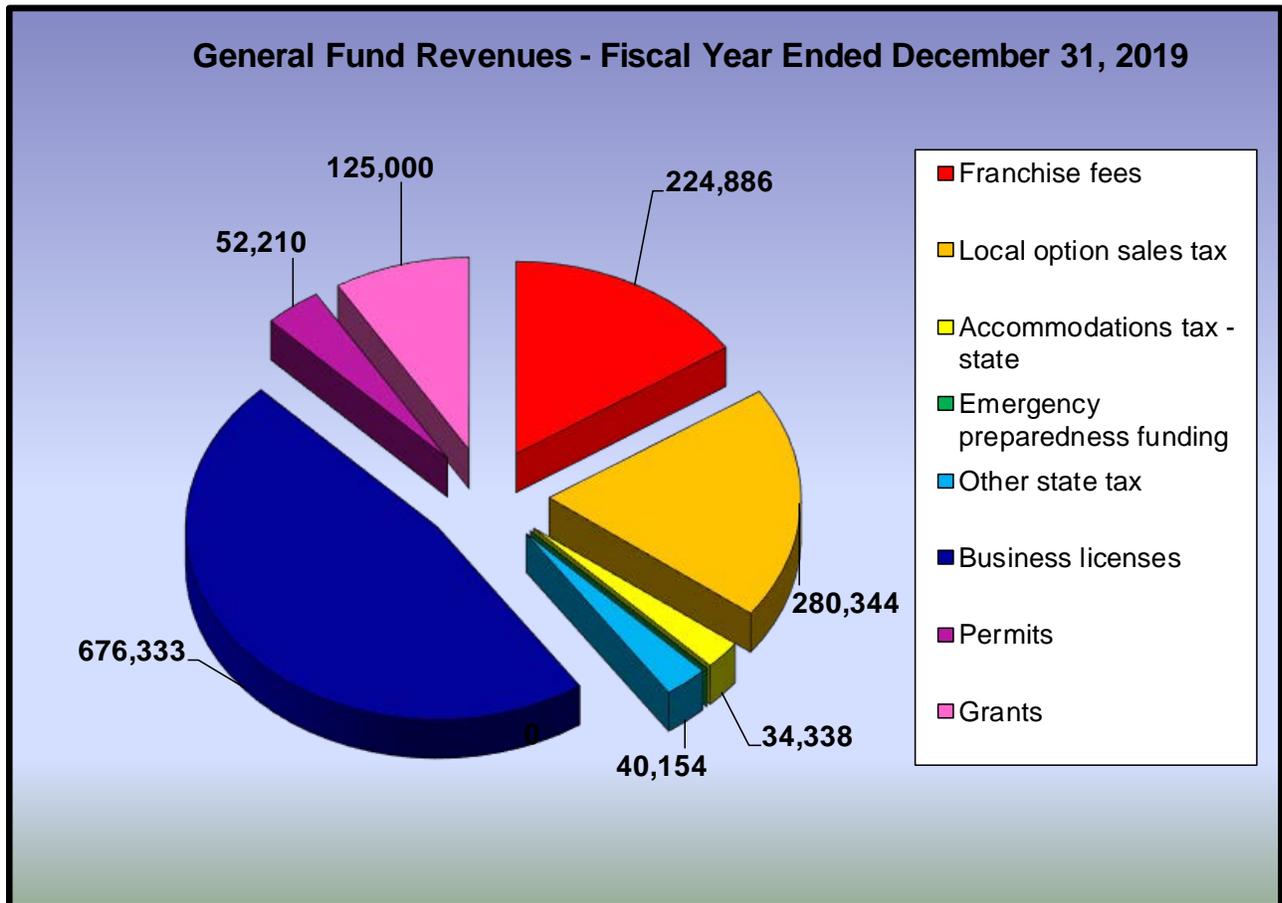
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### General Fund

Of primary interest to the Town is the **General Fund**, which accounts for the majority of revenues received and funds expended in the operations of the Town, including general government activities, public safety, judicial, and tourism and recreation.

**General Fund Revenues:** The following chart depicts the primary revenue sources of the General Fund for the 2019 fiscal year. Business licenses represent a key component of revenue.

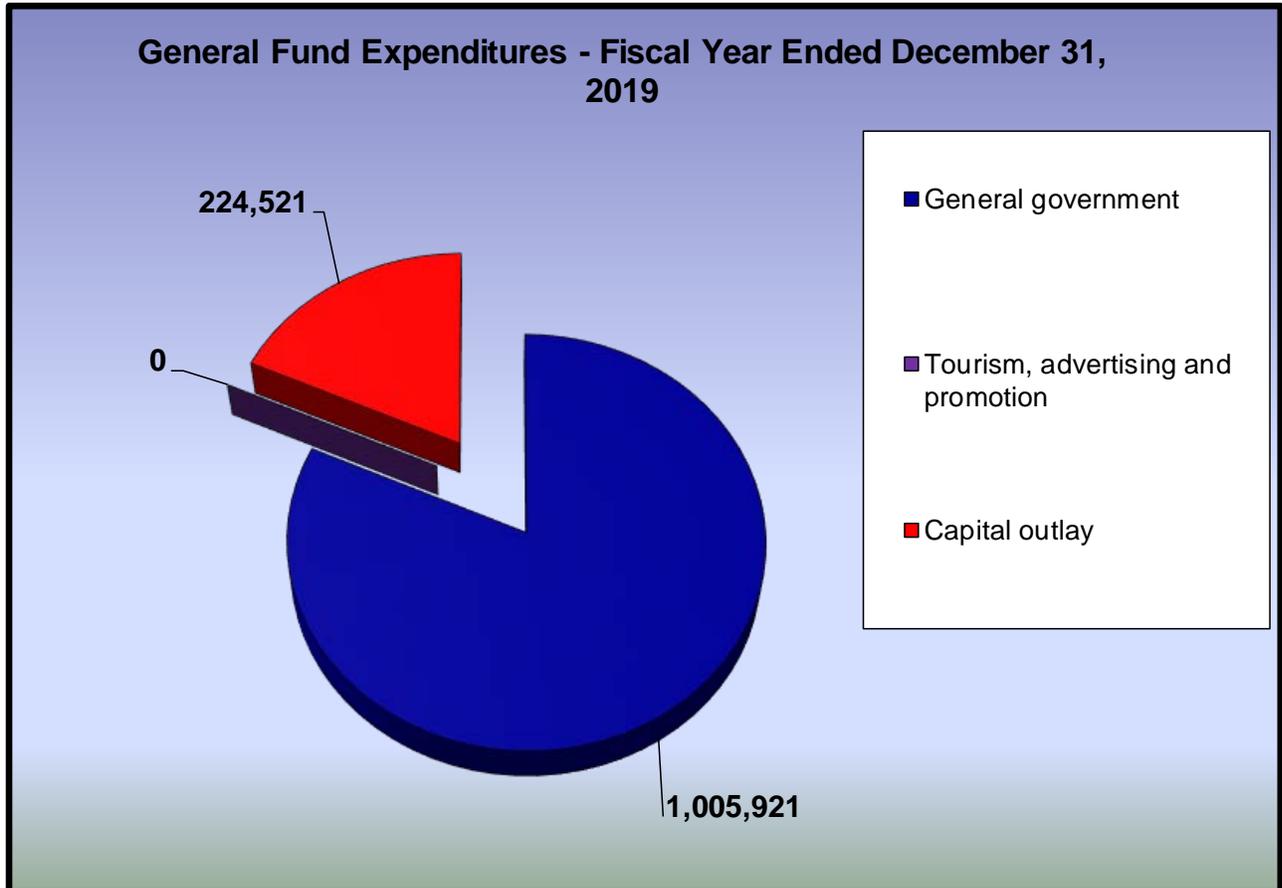


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**General Fund Expenditures:** The following chart presents the General Fund's expenditures by major function for the fiscal year ended December 31, 2019.

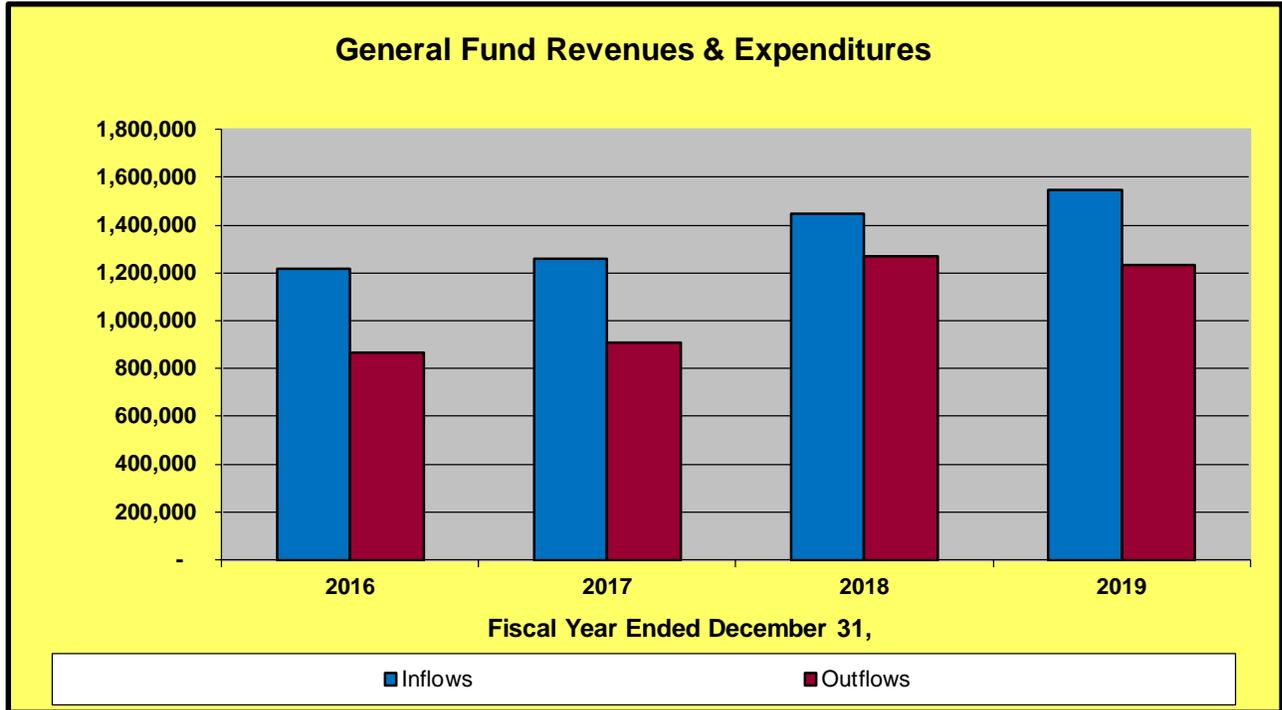


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**Net Change in Fund Balance and the Revenues and Expenditures of the General Fund.** The following chart demonstrates General Fund revenues and transfers (i.e. inflows) in versus expenditures and transfers out (outflows) for four (4) years.



### Special Revenue Fund

The Town also maintains a special revenue fund. This fund account is for revenues derived from specific sources which are legally restricted to finance particular functions or activities.

### Footnotes

**Note 1 – Accounting Policies:** This footnote discusses the overall organization of the Town and the nature of its operations. This note also discloses pertinent information regarding the governing body of the Town.

This footnote continues by sharing with a reader of the financial statements the significant accounting policies and principles utilized in the preparation of the financial statements.

**Note 2 – Stewardship, Compliance and Accountability:** This footnote discloses the Town's procedures in establishing its annual budget and discloses excesses of actual expenditures over appropriations for the year, if any.

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**Note 3 – Cash and Investments:** The Governmental Accounting Standards Board (GASB) issued Statement No. 40, Deposit and Investment Risk Disclosure, an amendment of GASB Statement No. 3, which significantly changed the disclosure in the financial statements of the Town related to deposits and investments. The disclosure addresses common deposit and investment risks related to credit risk, concentration of credit risk, and interest rate risk.

This footnote reflects the fact that the Town maintained substantial amounts in the State of South Carolina's Local Government Investment Pool (LGIP) as well as significant investments held by financial institutions.

**Note 4 – Receivables:** This footnote discloses the Town's detailed information on various receivable (and allowances for doubtful receivables) balances.

**Note 5 – Capital Assets:** This footnote discloses the Town's capital asset activity and its related accumulated depreciation for the year.

**Note 6 – Risk Management:** This footnote discloses the various risk exposures of the Town.

**Note 7 – Contingencies:** This footnote discloses the outstanding commitments and contingencies of the Town. Certain matters disclosed in this footnote include: litigation; grant contingencies; construction commitments, and unemployment compensation.

**Note 8 – Employee Benefits:** This footnote discloses the details of the Town's Pension Plan as well as post-employment benefits other than pensions.

**Note 9 – Concentration of Credit Risk:** This footnote discloses the details of the credit risk related to the Town's revenues.

**Note 10 – Prior Period Adjustment:** This footnote discloses the details of the correction of errors necessary to beginning net position.

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### COMPLIANCE REPORT

The financial report package contains the following compliance report:

**Yellow Book Report:** This compliance report is a report on our tests of the Town'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 Town'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 Town's internal controls and compliance with applicable rules and regulations.

### 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 Town of Seabrook Island, South Carolina (the "Town") for the year ended December 31, 2019 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 Town's internal control or compliance with laws and regulations.

#### **Accounting Policies**

Management has the ultimate responsibility for the appropriateness of the accounting policies used by the Town. There are several new accounting standards which will be required to be implemented in the coming years. These are discussed later in this document.

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In considering the qualitative aspects of the Town'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 Town'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 Town'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; 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.

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### **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.

### **Audit Adjustments**

There were no adjustments noted during our audit of the Town's basic financial statements as of and for the year ended December 31, 2019.

### **Uncorrected Misstatements**

There were no uncorrected misstatements noted during our audit of the Town's basic financial statements as of and for the year ended December 31, 2019.

### **Independence**

We are independent of the Town, 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 Town.

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### ACCOUNTING RECOMMENDATIONS AND RELATED MATTERS

#### Recommendations for Improvement and Other Matters

During our audit of the financial statements as of and for the year ended December 31, 2019, we noted areas within the accounting and internal control systems that we believe can be improved. Our recommendations are presented in the following paragraphs. We believe consideration of these recommendations will help provide proper control over financial activities, and add effectiveness and efficiency to overall operations.

#### Items Cited in the City's Financial Statements as a Material Weakness

##### 1) Correction of Errors

Governmental Accounting Standards require the reporting of deferred amounts related to pensions. Specifically, GASB Statement No. 68 states that deferred outflows of resources and deferred inflows of resources be measured and recognized for defined benefit pension plans. As of December 31, 2018, deferred inflows and outflows were not recorded in the government-wide financial statements. These amounts are considered material to the financial statements as a whole. A prior period adjustment was required to record deferred pension outflows and inflows of resources in the amounts of \$82,542 and \$9,160, respectively. The effects of recording these deferred amounts resulted in an increase in net position in the amount of \$73,382. The Town did record the net pension liability related to the pension plan, but did not consider recording the deferred pension amounts. We recommend the Town implement procedures to assure that all applicable auditing standards are applied. The Town will ensure that all applicable accounting standards are applied in future periods.

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

During our audit of the financial statements as of and for the year ended December 31, 2019, we noted other matters which we wish to communicate to you in an effort to keep the Town abreast of accounting matters that could present challenges in financial reporting in future periods.

##### 1) New Governmental Accounting Standards Board (GASB) Pronouncements



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. 84, *Fiduciary Activities*** was issued in January 2017 and was effective for the first reporting period beginning after December 15, 2018 (meaning calendar year 2019).

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However, on May 9, 2020, the GASB approved the issuance of Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postponed the effective date of this pronouncement for one additional year.

This statement establishes criteria for identifying fiduciary activities with a focus on: 1) whether a government is controlling the assets of the fiduciary activity; and 2) the beneficiaries with whom a fiduciary relationship exists.

Further, this statement describes four (4) fiduciary funds that should be reported, if applicable: 1) pension and other employee benefit trust funds; 2) investment trust funds; 3) private-purpose trust funds; and 4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

- b) **Statement No. 87, *Leases*** was issued in June 2017 and was effective for the first reporting period beginning after December 15, 2019 (meaning calendar year 2020). **However, on May 9, 2020, the GASB approved the issuance of Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postponed the effective date of this pronouncement for an additional 18 months.**

This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the principle that a lease is the financing of the right to use an underlying asset.

Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

***Definition of a Lease:*** A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the lease's guidance, unless specifically excluded in this statement.

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**Lease Term:** The lease term is defined as the period during which a lessee has a non-cancelable right to use an underlying asset, plus the following periods, if applicable:

- Periods covered by a lessee's option to extend the lease if it is reasonably certain, based on all relevant factors, that the lessee will exercise that option;
- Periods covered by a lessee's option to terminate the lease if it is reasonably certain, based on all relevant factors, that the lessee will not exercise that option;
- Periods covered by a lessor's option to extend the lease if it is reasonably certain, based on all relevant factors, that the lessor will exercise that option;
- Periods covered by a lessor's option to terminate the lease if it is reasonably certain, based on all relevant factors, that the lessor will not exercise that option.

A fiscal funding or cancellation clause should affect the lease term only when it is reasonably certain that the clause will be exercised. Lessees and lessors should reassess the lease term only if one or more of the following occur:

- The lessee or lessor elects to exercise an option even though it was previously determined that it was reasonably certain that the lessee or lessor would not exercise that option;
- The lessee or lessor elects not to exercise an option even though it was previously determined that it was reasonably certain that the lessee or lessor would exercise that option;
- An event specified in the lease contract that requires an extension or termination of the lease takes place.

**Short-Term Leases:** A short-term lease is defined as a lease that, at the commencement of the lease term, has a maximum possible term under the lease contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised. Lessees and lessors should recognize short-term lease payments as outflows of resources or inflows of resources, respectively, based on the payment provisions of the lease contract.

**Lessee Accounting:** A lessee should recognize a lease liability and a lease asset at the commencement of the lease term, unless the lease is a short-term lease or it transfers ownership of the underlying asset. The lease liability should be measured at the present value of payments expected to be made during the lease term (less any lease incentives). The lease asset should be measured at the amount of the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs.

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A lessee should reduce the lease liability as payments are made and recognize an outflow of resources (for example, expense) for interest on the liability. The lessee should amortize the lease asset in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset. The notes to financial statements should include a description of leasing arrangements, the amount of lease assets recognized, and a schedule of future lease payments to be made.

***Lessor Accounting:*** A lessor should recognize a lease receivable and a deferred inflow of resources at the commencement of the lease term, with certain exceptions for leases of assets held as investments, certain regulated leases, short-term leases, and leases that transfer ownership of the underlying asset. A lessor should not derecognize the asset underlying the lease. The lease receivable should be measured at the present value of lease payments expected to be received during the lease term. The deferred inflow of resources should be measured at the value of the lease receivable plus any payments received at or before the commencement of the lease term that relate to future periods.

A lessor should recognize interest revenue on the lease receivable and an inflow of resources (for example, revenue) from the deferred inflows of resources in a systematic and rational manner over the term of the lease. The notes to financial statements should include a description of leasing arrangements and the total amount of inflows of resources recognized from leases.

***Contracts with Multiple Components and Contract Combinations:*** Generally, a government should account for the lease and non-lease components of a lease as separate contracts. If a lease involves multiple underlying assets, lessees and lessors in certain cases should account for each underlying asset as a separate lease contract. To allocate the contract price to different components, lessees and lessors should use contract prices for individual components as long as they do not appear to be unreasonable based on professional judgment, or use professional judgment to determine their best estimate if there are no stated prices or if stated prices appear to be unreasonable. If determining a best estimate is not practicable, multiple components in a lease contract should be accounted for as a single lease unit. Contracts that are entered into at or near the same time with the same counterparty and that meet certain criteria should be considered part of the same lease contract and should be evaluated in accordance with the guidance for contracts with multiple components.

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***Lease Modifications and Terminations:*** An *amendment* to a lease contract should be considered a lease modification, unless the lessee's right to use the underlying asset decreases, in which case it would be a partial or full lease termination. A lease termination should be accounted for by reducing the carrying values of the lease liability and lease asset by a lessee, or the lease receivable and deferred inflows of resources by the lessor, with any difference being recognized as a gain or loss. A lease modification that does not qualify as a separate lease should be accounted for by re-measuring the lease liability and adjusting the related lease asset by a lessee and re-measuring the lease receivable and adjusting the related deferred inflows of resources by a lessor.

***Subleases and Leaseback Transactions:*** Subleases should be treated as transactions separate from the original lease. The original lessee that becomes the lessor in a sublease should account for the original lease and the sublease as separate transactions, as a lessee and lessor, respectively.

A transaction qualifies for sale-leaseback accounting only if it includes a sale. Otherwise, it is a borrowing. The sale and lease portions of a transaction should be accounted for as separate sale and lease transactions, except that any difference between the carrying value of the capital asset that was sold and the net proceeds from the sale should be reported as a deferred inflow of resources or a deferred outflow of resources and recognized over the term of the lease.

A lease-leaseback transaction should be accounted for as a net transaction. The gross amounts of each portion of the transaction should be disclosed.

- c) ***Statement 88, Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*** was issued in March 2018 and is effective for reporting periods beginning after June 15, 2018 (meaning calendar year 2019). **However, on May 9, 2020, the GASB approved the issuance of Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance, which postponed the effective date of this pronouncement for one additional year.**

This standard defines debt for disclosure purposes and adds disclosures related to debt (it does not reduce any previously required disclosures).

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Under Statement 88, debt for disclosure purposes is defined as a liability that arises from a contractual obligation to pay cash (or other assets) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This would include, but is not limited to:

- Direct Borrowings: Entering into a loan agreement with a lender.
- Direct Placements: Issuing a debt security directly to an investor.

This excludes leases (except for contracts reported as a financed purchase) and accounts payable.

In addition to other disclosures related to debt, the notes to the financial statements should include:

- The amount of any unused lines of credit.
- Assets pledged as collateral for debt.
- Terms specified in the debt agreement related to significant:
  - Events of default with finance-related consequences
  - Termination events with finance-related consequences
  - Subjective acceleration clauses

**d) Statement 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*** was issued in June 2018 and was effective for reporting periods beginning after December 15, 2019 (meaning calendar year 2020). **However, on May 9, 2020, the GASB approved the issuance of Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postponed the effective date of this pronouncement for one additional year.**

This standard eliminates the requirement/ability to capitalize construction period interest costs as part of the cost of a capital asset in enterprise funds. This standard should be applied prospectively with no restatement. This standard can be early implemented as part of fiscal year 2020.

**e) Statement 90, *Majority Equity Interests – An Amendment of GASB's No. 14 and 61*** was issued in August 2018, and was effective for reporting periods beginning after December 15, 2018 (meaning calendar year 2019). **However, on May 9, 2020, the GASB approved the issuance of Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postponed the effective date of this pronouncement for one additional year.**

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Under this standard, an equity interest is: a) a financial interest in a legally separate organization by the ownership shares of the organization's stock; or b) by otherwise having an explicit, measurable right to the net resources of the organization that is usually based on an investment of financial or capital resources by a government. An equity interest is explicit and measurable if: a) the government has a present or future claim to the net resources of the entity, and b) the method for measuring the government's share of the entity's net resources is determinable.

If the interest is deemed to be an investment under GASB No. 72, paragraph 64, then the interest should be reported as an investment and measured using the equity method. If the interest is held by a special-purpose government engaged in fiduciary activities, a fiduciary fund, or an endowment or permanent fund, then the amount should be measured at fair value. If interest is 100% of entity, then it is a component unit. We do not expect this new standard to have a significant effect on the Commission.

- f) **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, on May 9, 2020, the GASB approved the issuance of Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postponed the effective date of this pronouncement for one additional year.**

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 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;

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- 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.

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.

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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.

**g) Statement No. 92, *Omnibus 2020*** was issued in January 2020 and is effective as follows:

- Upon the effective date of Statement 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance.
- For fiscal years beginning after June 15, 2020 relative to the requirements related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74.
- For reporting periods beginning after June 15, 2020 relative to the requirements related to application of Statement 84 to post-employment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities.
- For government acquisitions occurring in reporting periods beginning after June 15, 2020. The requirements related to the measurement of liabilities (and assets, if any) associated with AROs in a government acquisition.

**However, on May 9, 2020, the GASB approved the issuance of Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postponed the effective date of this pronouncement for one additional year.**

The objectives of this statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This statement addresses a variety of topics and includes specific provisions about the following:

- The effective date of Statement No. 87, Leases, and Implementation Guide No. 2019-3, Leases, for interim financial reports.
- Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit ("OPEB") plan.

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- The applicability of Statements No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, as amended, and No. 74, Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans, as amended, to reporting assets accumulated for post-employment benefits.
- The applicability of certain requirements of Statement No. 84, Fiduciary Activities, to post-employment benefit arrangements.
- Measurement of liabilities (and assets, if any) related to asset retirement obligations (“AROs”) in a government acquisition.
- Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers.
- Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature.
- Terminology used to refer to derivative instruments.

**h) Statement No. 93, *Replacement of Interbank Offered Rates*** was issued in March 2020 and is effective for reporting periods ending after December 31, 2021, meaning December 31, 2022 for the Government. **However, on May 9, 2020, the GASB approved the issuance of Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postponed the effective date of this pronouncement for one additional year.**

As a result of global reference rate reform, the London Interbank Offered Rate (“LIBOR”) is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate.

The objective of this statement is to address those and other accounting and financial reporting implications that result from the replacement of an IBOR. This statement achieves that objective by:

- Providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument’s variable payment.

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- Clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate.
  - Clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable.
  - Removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap.
  - Identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap.
  - Clarifying the definition of reference rate, as it is used in Statement 53, as amended.
- i) 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 issuing an initial due process document on this project by the end of 2018 with a final standard expected in early 2022.
  - **Conceptual Framework** is a constant matter being looked at by GASB. Current measurement focus statements (for governmental funds) to change to near-term financial resources measurement. May dictate a period (such as 60 days) for revenue and expenditure recognition. May expense things such as supplies and prepaid assets at acquisition. Will look into which balances (at all statement levels) are measured at acquisition and which need to be re-measured at year-end. Final standard is expected in 2021.
  - **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 2023.

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### Summations of Thoughts Noted Above

We believe the implementation of these suggestions will enhance both the control environment and the financial reporting process, making both more effective. We also believe these recommendations can be easily implemented, and all problems resolved quite timely should management elect to employ the corrective measures.

### FREE QUARTERLY CONTINUING EDUCATION AND NEWSLETTERS FOR GOVERNMENTAL CLIENTS

**Free Continuing Education.** We provide free continuing education (quarterly is the goal and objective) for all of our governmental clients. Each quarter we pick a couple of significant topics tailored to be of interest to governmental entities. In an effort to accommodate our entire governmental client base, we 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 providing the instruction utilizing our in-house professionals. We hope Town staff and officials have been able to participate in this opportunity, and that it has been beneficial to you.

*“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
- American Recovery & Reinvestment Act (ARRA) Updates
- Best Budgeting Practices, Policies and Processes
- Budget Preparation
- CAFR 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
- Evaluating Financial and Non-Financial Health of a Local Government
- GASB No. 51, Intangible Assets

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- GASB No. 54, Governmental Fund Balance (subject addressed twice)
- GASB No. 60, Service Concession Arrangements (webcast)
- GASB No. 61, the Financial Reporting Entity (webcast)
- GASB No.'s 63 & 65, Deferred Inflows and Outflows (webcast)
- GASB No.'s 67 & 68, New Pension Standards (presented several occasions)
- GASB No. 72, Fair Value Measurement and Application
- GASB No. 74 & 75, New OPEB Standards
- GASB No. 77, Tax Abatement Disclosures
- GASB No. 87, Leases
- GASB Updates (ongoing and several sessions)
- Grant Accounting Processes and Controls
- 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
- Segregation of Duties
- Single Audits for Auditees
- SPLOST Accounting, Reporting & Compliance
- Uniform Grant Reporting Requirements and the New Single Audit



**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:

- American Recovery & Reinvestment Act (ARRA) Information and Issues
- Are Your Government's Funds Secure?
- Capitalization of Interest
- Changes in FDIC Deposit Insurance Coverage
- Changes on the Horizon for OMB Circular A-133
- 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. 54, Governmental Fund Balance
- GASB No. 54, Governmental Fund Balance Note Disclosure Requirements
- GASB No. 60, Service Concession Arrangements
- GASB No. 67, New Pension Standard
- GASB No.'s 63 & 65, Deferred Inflows & Outflows
- GASB No. 68 Allocations
- 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. 87, Leases
- GASB No. 89, Accounting for Interest Cost Incurred Before the End of Construction
- IRS Delays Implementation of 3% Withholding on Payments for Goods and Services
- OMB A-133 Compliance Supplements
- OMB Revisions to A-133
- OPEB, What You Need to Know
- Public Funds and Secure Deposit Program
- Re-Examination of the GASB 34 Reporting Model
- Rotating or Not Rotating Auditors
- Property Tax Assessments
- 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
- 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

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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](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.

### CLOSING

This information is intended solely for the use of the Town's management, and others within the Town'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 Town of Seabrook Island, South Carolina and look forward to serving the Town in the future. Thank you.

