

# *Town of Thunderbolt, Georgia*

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

### **Financial & Compliance Audit Summary**

**December 31, 2018**



**Meeting with the Town Council**

**Presented by:**

**Trey Scott, CPA**

**MAULDIN  
& JENKINS**

Lawrenceville Long Boat Key Forest Park Albany  
 Stockbridge Thunderbolt Garner Roswell Flovill Port Wentworth  
 Alpharetta Pensacola  
 Vernonburg Kennesaw Fayette Plant City  
 Bristol Clover Hinesville  
 Hapeville Doraville Jefferson Peachtree City  
 St. Marys Chattahoochee Hills Augusta Naples  
 Clayton County Marco Island Villa Rica Monroe  
 Loris Milton Tucker College Park Grantville Hollywood  
 Cooper City Cedartown Brunswick Wildwood  
 Cartersville Suwanee Baldwin  
 Sharpsburg Orangeburg Lilburn Powder Springs  
 Bloomingdale  
 Union City Jamestown Charleston Lyons  
 Riverdale Pooler  
 Macon  
 Quitman Lake Placid Ft. Meyers Beach Johns Creek Newborn  
 North Port  
 Fairburn Rome  
 Cochran Ludowici Chapin Blakely Tybee Island  
 Beaufort Peachtree Corners Rockmart Bradenton  
 Jeffersonville Toccoa Decatur Valdosta Morrow Stonecrest  
 Austell Arcadia Clarkston Hallandale Beach  
 Conyers Dunwoody Athens Perry Garden City  
 Leesburg Summerville Tuscaloosa Haines City  
 Social Circle Selma South Fulton  
 Chamberlee Americus  
 Columbus Pinecrest  
 Richmond Hill Brookhaven Savannah  
 Crystal River Hardeeville Ballground Tifton Kingsland  
 Milledgeville Braselton Douglasville Covington Islamorada  
 Aiken Callaway Cordele Sandy Springs Gum Branch



# Town of Thunderbolt, Georgia

## *Auditor's Discussion & Analysis*

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

- ◆ Engagement Team and Firm Information.
  
- ◆ Overview of:
  - Audit Opinion;
  - Financial Statements, Footnotes and Supplementary Information;
  - Compliance Reports;
  - Audit Scopes & Procedures.
  
- ◆ Required Communications under Government Auditing Standards.
  
- ◆ Other Communications to the Town.
  
- ◆ Accounting Recommendations and Related Matters.
  
- ◆ Answer Questions.



# Town of Thunderbolt, Georgia

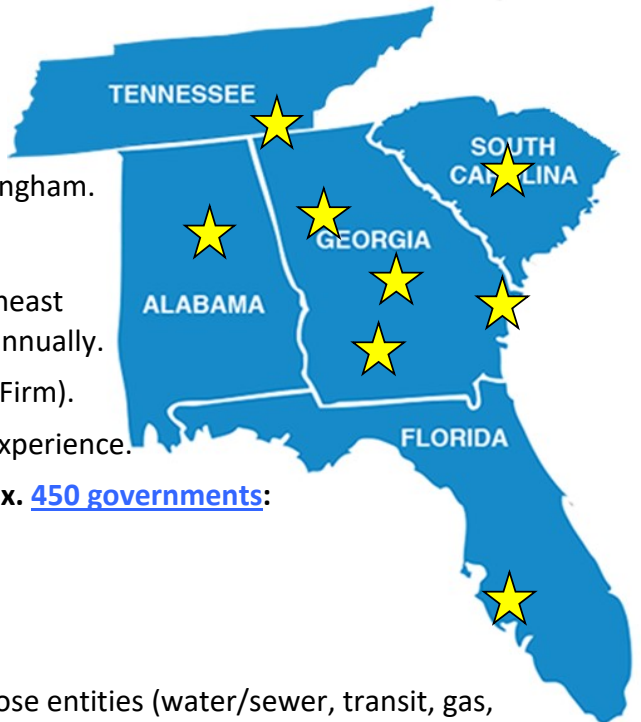
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### MAULDIN & JENKINS – GOVERNMENTAL PRACTICE

#### 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. 450 governments:**
  - ✓ 55 counties;
  - ✓ **115 cities**;
  - ✓ 55 school systems and 40 charter schools;
  - ✓ 40 state entities;
  - ✓ 45 stand-alone business-type special purpose entities (water/sewer, transit, gas, electric, and airports, etc.);
  - ✓ 105 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,
  - ✓ **115 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:

- Trey Scott , Engagement Director – 11 years' experience
- David Irwin, Quality Assurance Partner – 16 years' experience
- Kellan Shuford, Supervisor – 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 southeastern 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 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 December 31, 2018.

#### **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.

# Town of Thunderbolt, Georgia

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### REVIEW OF COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR)

#### **General Information About the CAFR**

A Comprehensive Annual Financial Report (CAFR) goes beyond the normal financial reporting required by accounting principles generally accepted in the United States. A CAFR includes at a minimum the following elements/sections:

- **Introductory Section:** general information on the Town's structure and the services it provides.
  - Letter of Transmittal
  - Organizational Chart
  - Directory of Officials
  - Certificate of Achievement for Excellence in Financial Reporting
- **Financial Section:** basic financial statements, footnotes and required supplementary information along with the auditor's report.
  - Independent Auditor's Report
  - Management Discussion & Analysis (MD&A)
  - Financial Statements and Footnotes
- **Statistical Section:** broad range of financial, demographic information useful in assessing the Town's economic condition, and this information covers multiple years.
  - Financial Trends Information
  - Revenue Capacity Information
  - Debt Capacity Information
  - Operating Information

A CAFR goes far beyond the basic requirements of annual financial reporting, and the Town should be commended for going beyond the minimum and providing such a report.

# Town of Thunderbolt, Georgia

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### OVERVIEW OF FINANCIAL STATEMENTS

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 can be divided into two (2) categories: governmental fund (includes the General Fund), and enterprise funds (includes the Water & Sewer Utilities Fund).

#### 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, public works, parks and recreation, housing and development, and health and welfare.

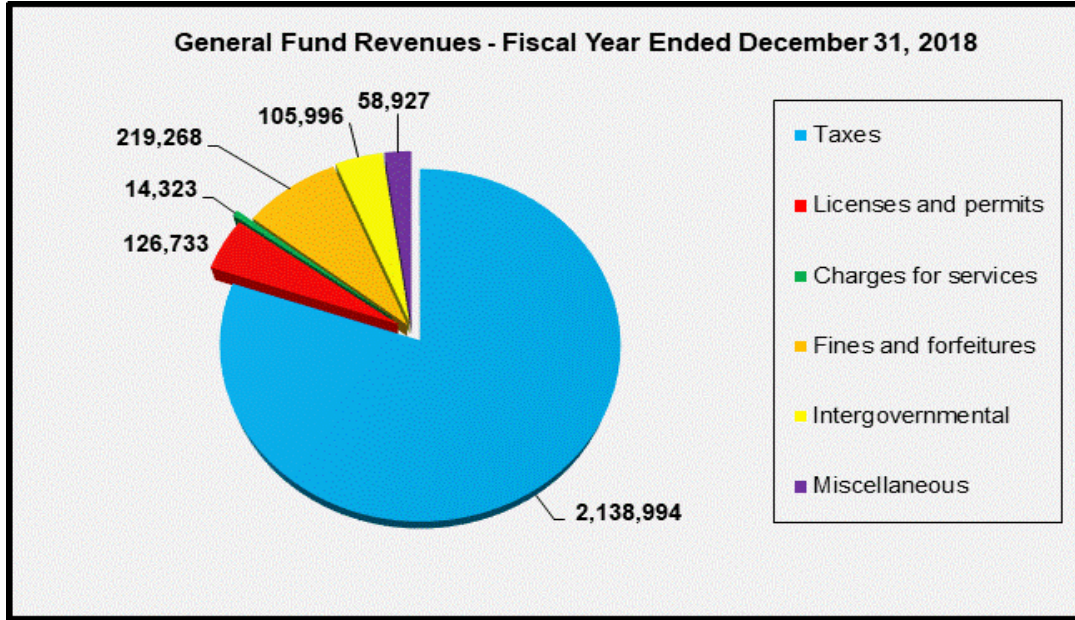


# Town of Thunderbolt, Georgia

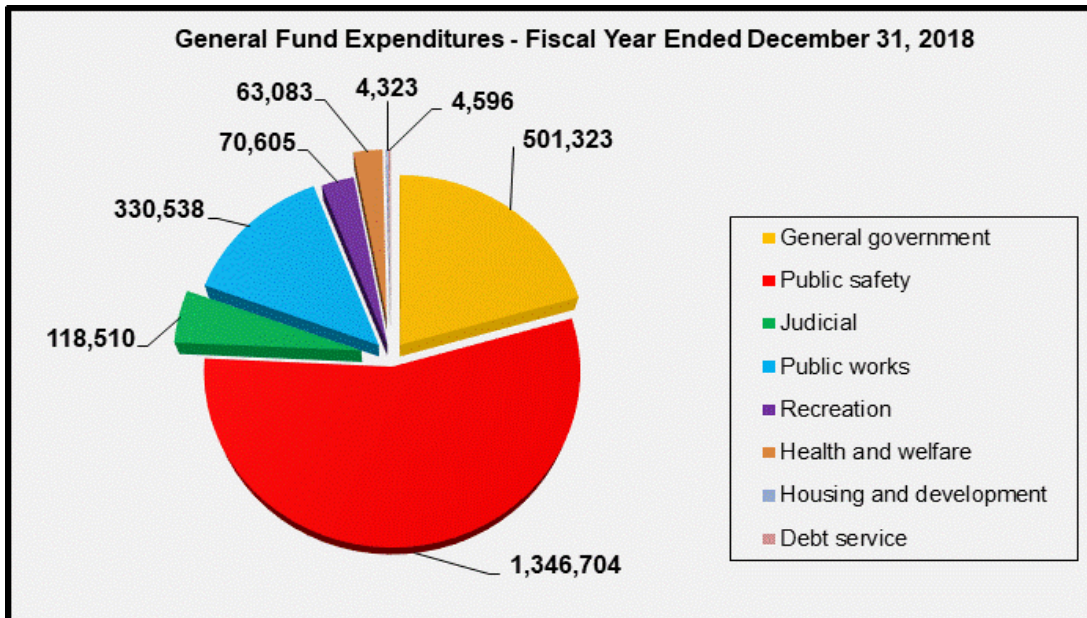
## Auditor's Discussion & Analysis

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The following chart depicts the primary revenue sources of the General Fund for the 2018 fiscal year. Taxes and fines represent key components of revenue.



The following chart presents the General Fund's expenditures by major function for the fiscal year ended December 31, 2018.

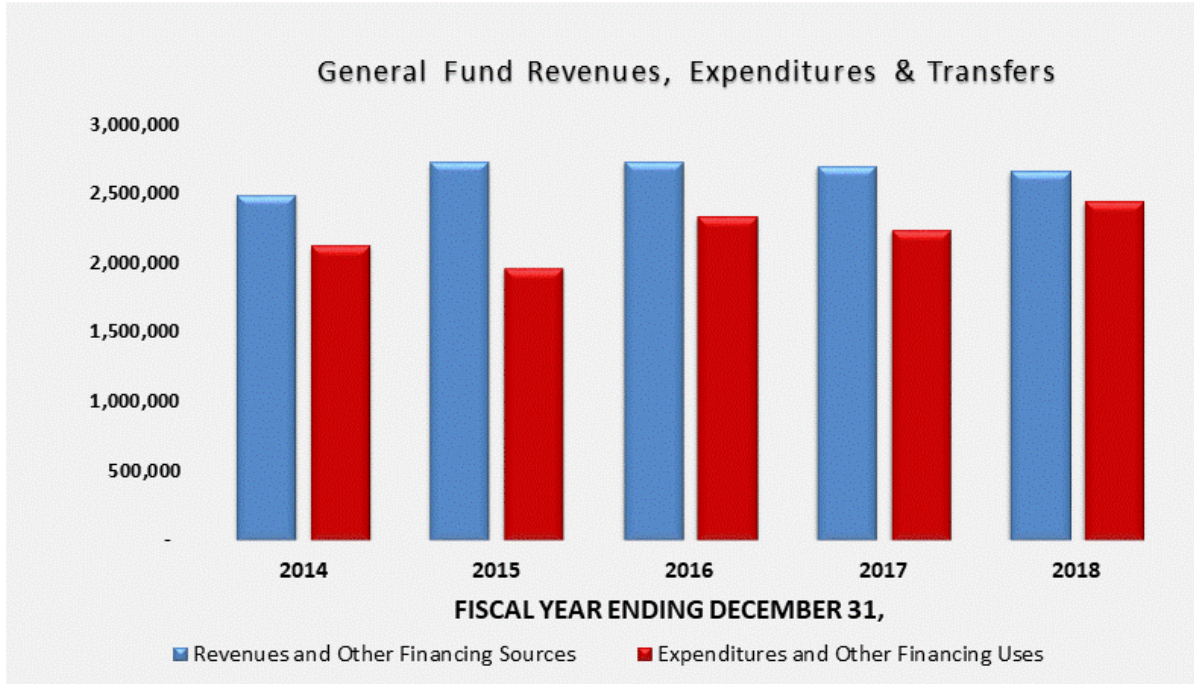


# Town of Thunderbolt, Georgia

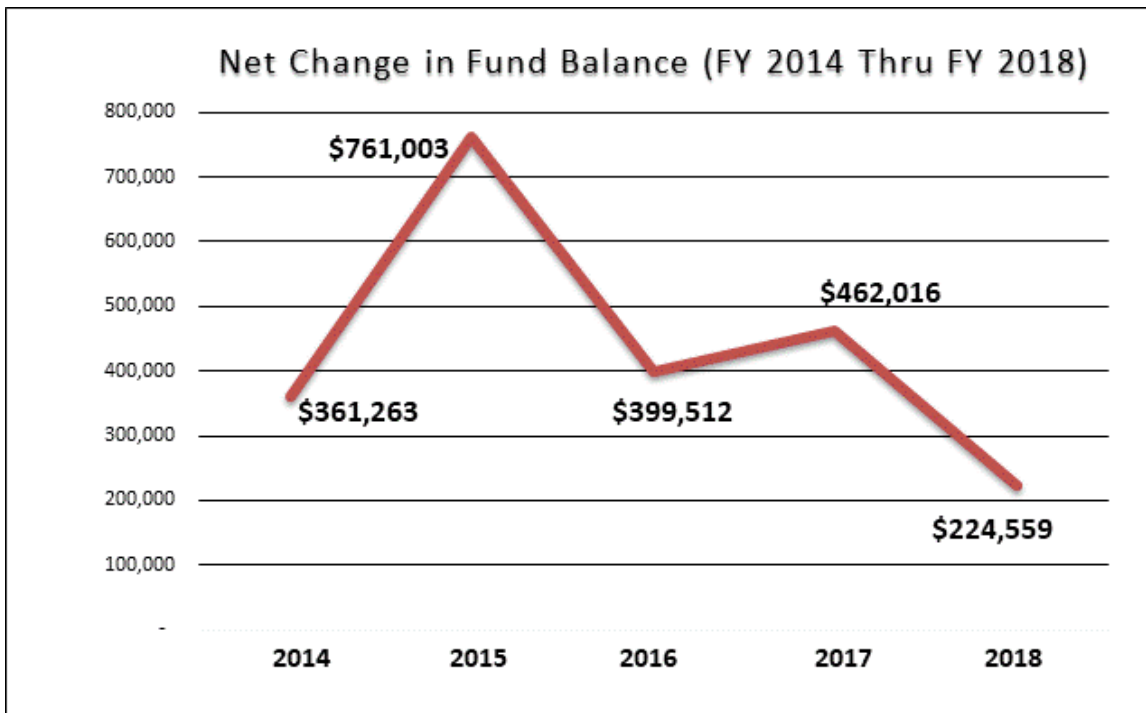
## Auditor's Discussion & Analysis

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The following chart demonstrates General Fund revenues versus expenditures for the past five (5) years.



The following chart present the annual net change in fund balance of the General Fund for the past five (5) fiscal years. All years have resulted in a positive change (increase) fund balance.



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As of December 31, 2018, the Town reflected a fund balance that is available to cover approximately 523 days. This is a strong fund balance, however, we must keep in mind that the majority of our property taxes for the year have been collected, and we will be relying on these collections for the duration of the next fiscal year.

The relationship of year-end fund balance as compared to each year's expenditures should be further considered. The following is the relative percentage of fund balance as compared to annual expenditures for each of the past five (5) fiscal years:

- 2014 = 77.4%
- 2015 = 122.5%
- 2016 = 120.5%
- 2017 = 146.5%
- 2018 = 143.3%

The percentages noted above are indicative of the Town's ability to be proactive with its initiatives and general operations, and also its ability to proceed into the new fiscal year with or without certain seasonal revenue streams. Of course, it is of great importance to further reflect that fund balance does not always equate to cash and investments. Fund balance is simply the difference in all assets (and deferred outflows) and all liabilities (and deferred inflows). Cash and investments are simply a component of this equation.

### **Enterprise Fund**

The Town maintains one (1) *enterprise fund*, which is used to account for operations in a manner similar to private business enterprises, where the intent is that the costs of providing the goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. While the Town's Water and Sewer Utility Fund reported an operating loss of approximately \$107,000, the fund reported an overall increase in net position of approximately \$42,000 as a result of capital contributions (increase) received in the current year.

The statement of cash flows is a very important statement for any enterprise, and the Town is no different. The "cash flows from operating activities" is the most important element in the statement of cash flows, because it should be the operations of an entity that provides a substantial portion of the capital needed in a growth environment. This section of the statement begins with operating income (not net income as you see in the commercial sector) as reported in the statement of operations. The Town's Water and Sewer Utility Fund reported approximately \$42,000 in cash provided by operating activities.

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### 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 and 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.

**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, interest rate risk, and foreign currency risk.

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

**Note 5 – Interfund Receivables, Payables, and Transfers:** This footnote discloses detailed information on the Town's interfund balances and transfers and the purpose of these balances and transactions.

**Note 6 – Capital Assets:** This footnote discloses the Town's capital asset activity and its related accumulated depreciation for the year.

**Note 7 – Long-Term Debt:** This footnote discloses the Town's long-term debt activity for the year, and other information and maturities for the bonds and capital leases.

**Note 8 – Risk Management:** This footnote discloses various risks of loss related to various factors which the Town carries insurance coverage for.

**Note 9 – Commitments and Contingencies:** This footnote discloses the outstanding commitments and contingencies of the Town. Certain matters disclosed in this footnote include: litigation; grant contingencies; construction commitments, risk management, and economic dependency.



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**Note 10 – Employee Benefits:** This footnote discloses the details of the Town's Pension Plan.

**Note 11 – Prior Period Adjustments/Restatements:** This footnote discloses the details of the prior period adjustments made during the year.

**Required Supplementary Information** includes information relative to the Town's pension plan.

**Supplementary Information** includes information required by Georgia State law.

### **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 TO THE TOWN**

#### **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 Thunderbolt, Georgia (the "Town") for the year ended December 31, 2018 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.

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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.

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; valuation of financial and non-financial instruments; 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 our audit and in forming our opinion on the financial statements.

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### **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.

### **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.

### **Management's Consultations with Other Accountants**

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

### **Audit Adjustments and Uncorrected Misstatements**

During our audit of the Town's basic financial statements as of and for the year ended December 31, 2018, there were several adjustments proposed to the funds of the Town. All adjustments have been discussed with management and posted by management. No uncorrected misstatements were noted.

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### 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.

## 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, 2018, 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.

### Item Cited in the Town's Financial Statements as a Material Weakness

#### 1) Correction of Errors

Generally accepted accounting principles (GAAP) generally require the reporting of accounts receivable and related revenue in the accounting period in which they are realized or realizable and earned. Additionally, GAAP requires the recognition of grant revenue in the period the revenue is realized or realizable and earned. As of December 31, 2017, amounts recorded as utility accounts receivable for the Water and Sewer Utility Fund were not properly stated and amounts recorded as revenue for the General and Special Purpose Local Option Sales Tax funds were not properly stated. Prior period adjustments were required to increase net position and accounts receivable in the Water and Sewer Utility Fund in the amounts of \$132,746 and \$108,228, respectively, were required as of December 31, 2017. A prior period adjustment was required to decrease unearned revenue and increase fund balance in the Special Purpose Local Option Sales Tax Fund in the amount of \$14,825 was required as of December 31, 2017. An adjustment was required to decrease unearned revenue and increase revenue in the General Fund in the amount of \$31,637 was required as of December 31, 2018.



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### Item Cited in the Town's Financial Statements as a Significant Deficiency

#### 2) Segregation of Duties

Internal controls should be in place to provide reasonable assurance that an individual cannot misappropriate funds without such actions being detected during the normal course of business. Appropriate segregation of duties among the functions of payroll processing, maintaining personnel files, performing human resources functions and making personnel changes in the payroll system does not exist. Additionally, we noted that appropriate segregation of duties does not exist among recording, distribution, and reconciliation of cash accounts and other financial cycles in the various funds possessed by the Town. The duties among the various financial cycles associated with the various funds of the Town should be segregated among employees to eliminate various overlapping duties.

### OTHER COMMUNICATIONS TO THE TOWN COUNCIL

#### New Standards and Pronouncements

During our audit of the financial statements as of and for the year ended December 31, 2018, 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. 82, *Pension Plans*** was issued in April 2016, and is effective for the first reporting period in which the Town's pension plan's measurement date is on or after June 15, 2017. No real significant matters noted in this standard which addresses:
- Presentation of payroll-related measures in the Required Supplementary Information of the annual audited financial report. Covered payroll is defined as the payroll on which contributions are based;
  - Selection of actuarial assumptions. Any deviation from guidance of Actuarial Standards Board is not in conformity with GASB No. 67 & 68;

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- Classification of payments made by employers to satisfy contribution requirements:
  - Payments made by employer to satisfy contribution requirements that are identified as plan member contributions should be classified as “plan member contributions” for GASB No. 67, and as “employee contributions” for GASB No. 68; and,
  - Expense to be classified as other compensation elements.

**b) Statement No. 83, *Certain Asset Retirement Obligations*** was issued in November 2016, and is effective for the first reporting period beginning after June 15, 2018. An asset retirement obligation (ARO) is a legally enforceable liability associated with the retirement of a tangible capital asset. This statement establishes the criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for ARO's. Timing could be based on the occurrence of external laws, regulations, contracts or court judgments. Examples include the closure of a nuclear reactor or a sewage treatment facility. This statement addresses the financial reporting and accounting as well as the respective disclosures relative to ARO's.

**c) Statement No. 84, *Fiduciary Activities*** was issued in January 2017 and is effective for the first reporting period beginning after December 15, 2018. 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.

**d) Statement No. 85, *Omnibus 2017*** was issued in March 2017 and is effective for the first reporting period beginning after June 15, 2017. This Statement addresses a variety of topics including issues related to:

- Component Units - blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation;
- Goodwill - reporting amounts previously reported as goodwill and “negative” goodwill;
- Real Estate - classifying real estate held by insurance entities;

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- Fair Value Measurement and Application - measuring certain money market investments and participating interest earning investment contracts at amortized cost;
  - Postemployment benefits (pensions and other postemployment benefits [OPEB]):
    - Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus;
    - Recognizing on-behalf payments for pensions or OPEB in employer financial statements;
    - Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB;
    - Classifying employer-paid member contributions for OPEB;
    - Simplifying certain aspects of the alternative measurement method for OPEB; and,
    - Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.
- e) **Statement No. 86, *Certain Debt Extinguishment Issues*** was issued in May 2017 and is effective for the first reporting period beginning after June 15, 2017. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources (resources other than the proceeds of refunding debt) are placed into an irrevocable trust for the sole purpose of extinguishing debt. This Statement also addresses prepaid insurance on debt that is extinguished and the notes to financial statements for debt that is in-substance defeased.
- f) **Statement No. 87, *Leases*** was issued in June 2017 and is effective for the first reporting period beginning after December 15, 2019. 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.

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**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 leases guidance, unless specifically excluded in this Statement.

**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.

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***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.

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.

- g) 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 December 31, 2019). This standard defines debt for disclosure purposes and adds disclosures related to debt (it does not reduce any previously required disclosures).

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.

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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
- Debt disclosures should separate information regarding direct borrowings and direct placements from other debt.

**h) Statement 89, Accounting for Interest Cost Incurred Before the End of a Construction Period** was issued in June 2018 and is effective for reporting periods beginning after December 15, 2019 (meaning December 31, 2021). 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.

**i) Statement 90, Majority Equity Interests – An Amendment of GASB's No. 14 and 61** was issued in August 2018, and is effective for reporting periods beginning after December 15, 2018 (meaning December 31, 2019). 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 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 Town.

**j) 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

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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.
- **Conduit Debt.** The GASB is looking at improving the definition of conduit debt and determining whether a liability should be reported for these transactions. Additionally, they are reviewing what information should be disclosed by government issuers. Final standard is expected in mid-2019.

### 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.



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### **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. Examples of subjects addressed in the past few quarters include:

*"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
- 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



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- 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
- 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

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- 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

**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 [gdavis@micpa.com](mailto:gdavis@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.

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### CLOSING

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.

If you have any questions regarding any comments, suggestions or recommendations 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 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 Thunderbolt, Georgia and look forward to serving the Town in the future. Thank you.

