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Passcode: 261760 Meeting ID: 893 2842 3560

Phone In #: 1 346 248 7799



CITY OF BEAUFORT
1911 BOUNDARY STREET
BEAUFORT MUNICIPAL COMPLEX
BEAUFORT, SOUTH CAROLINA 29902
(843) 525-7070
CITY COUNCIL WORKSESSION AGENDA
January 12, 2021

STATEMENT OF MEDIA NOTIFICATION

"In accordance with South Carolina Code of Laws, 1976, Section 30-4-80(d), as amended, all local media was duly notified of the time, date, place and agenda of this meeting."

WORKSESSION - Electronic Meeting - 5:00 PM

Please note, this meeting will be conducted electronically via Zoom and broadcasted via livestream on Facebook. You can view the meeting live via Facebook at the City's page City Beaufort SC

I. CALL TO ORDER

- A. Stephen D. Murray III, Mayor

II. PRESENTATION

- A. FY 2020 Comprehensive Annual Financial Report

III. DISCUSSION ITEMS

- A. Mossy Oaks Stormwater Project Update - Neal Pugliese
- B. Updated Financial Position through December

IV. EXECUTIVE SESSION

- A. Pursuant to Title 30, Chapter 4, Section (70) (a) (1) of the South Carolina Code of Law: Discussion regarding appointments to City Boards, Commissions, and Task Force and Personnel.

V. ADJOURN



CITY OF BEAUFORT

DEPARTMENT REQUEST FOR CITY COUNCIL AGENDA ITEM

TO: CITY COUNCIL **DATE:** 1/6/2021
FROM: Kathy Todd
AGENDA ITEM TITLE: FY 2020 Comprehensive Annual Financial Report
MEETING DATE: 1/12/2021
DEPARTMENT: Finance

BACKGROUND INFORMATION:

Present to City Council the FY 2020 Comprehensive Annual Financial Report.

Introduce the Partner from Mauldin & Jenkins, David Irwin where he will present the required communications to City Council.

PLACED ON AGENDA FOR: *Action*

REMARKS:

ATTACHMENTS:

Description	Type	Upload Date
Auditors Discussion & Analysis	Cover Memo	1/6/2021
CAFR Overview	Backup Material	1/7/2021

City of Beaufort, South Carolina



Auditor's Discussion & Analysis (AD&A)
Financial & Compliance Audit Summary
June 30, 2020

Presented by:
David Irwin, CPA

**MAULDIN
& JENKINS**
CPAs & ADVISORS

City of Beaufort
Auditor's Discussion & Analysis (AD&A)
June 30, 2020

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.

- ◆ Accounting Recommendations and Related Matters.

- ◆ Answer Questions.

Lawrenceville Long Boat Key Forest Park Albany
 Stockbridge Thunderbolt Garner Roswell Flovilla Port Wentworth
 Alpharetta Pensacola Fayetteville Plant City
 Vernonburg Kennesaw
 Clover Goose Creek Hinesville
 Bristol Hapeville Doraville Jefferson Peachtree City
 St. Marys Chattahoochee Hills Augusta
 Clayton County Marco Island Villa Rica Naples Monroe
 Grantville
 Loris Milton Tucker College Park Griffin Hollywood
 Cooper City Cedartown Brunswick Wildwood
 Cartersville Suwanee Baldwin
 Sharpsburg Orangeburg Lilburn Powder Springs
 Bloomingdale
 Union Jamestown
 City Macon
 Quitman Lake Placid
 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
 Chamblee Social Circle Selma Crossville South Fulton
 Columbus Pinecrest Americus
 Hardeeville Richmond Hill Brookhaven Savannah
 Crystal River Ballground Tifton Kingsland
 Milledgeville Braselton Douglasville Covington Islamorada
 Aiken Callaway Cordele Sandy Springs Gum Branch

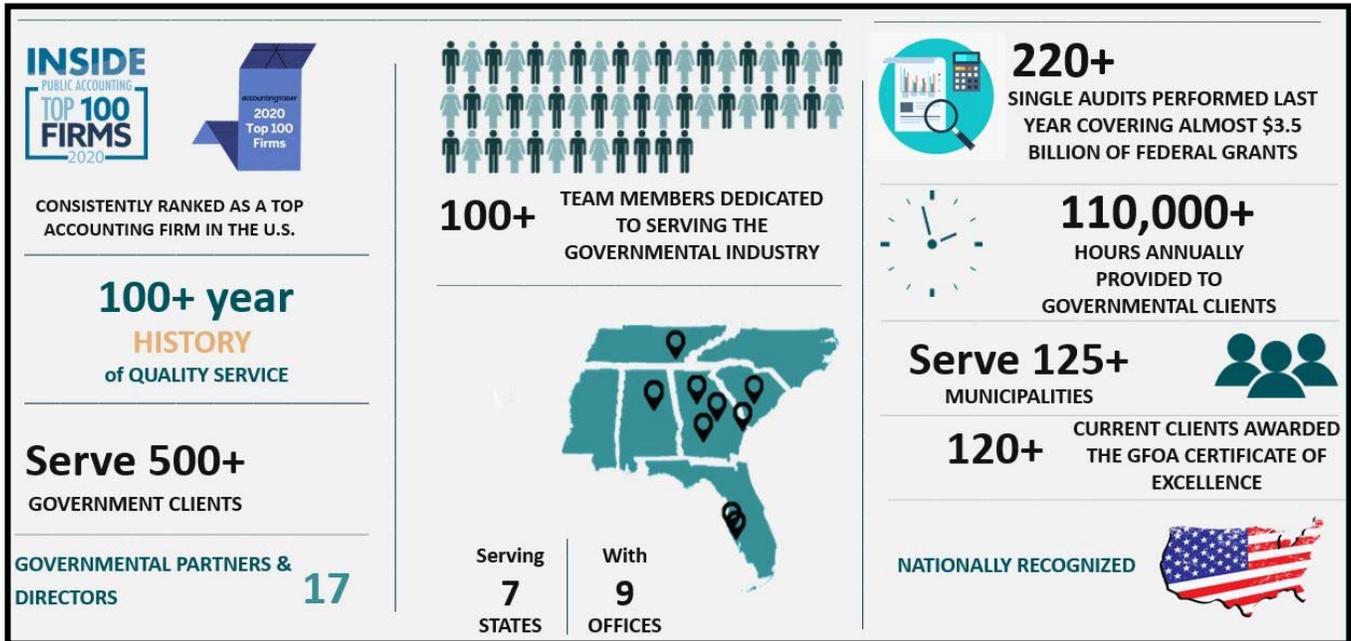


City of Beaufort, South Carolina

Auditor's Discussion & Analysis (AD&A)

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MAULDIN & JENKINS – BY THE NUMBERS



Engagement team leaders on the audit engagement include:

- David Irwin, Engagement Partner – 17 years experience
- Miller Edwards, Quality Control Reviewer – 33 years experience
- Samantha Richardson, Engagement Manager – 17 years experience

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.

City of Beaufort, South Carolina

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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

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.

City of Beaufort, South Carolina

Auditor's Discussion & Analysis (AD&A)

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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 June 30, 2020.

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.

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 City's structure and the services it provides.
 - Letter of Transmittal
 - Organizational Chart
 - Directory of Officials
 - Certificate of Achievement for Excellence in Financial Reporting

City of Beaufort, South Carolina

Auditor's Discussion & Analysis (AD&A)

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- **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 City'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 City should be commended for going beyond the minimum and providing such a report.

Recognition and Award

Once completed, the fiscal year 2019 CAFR was submitted to the Government Finance Officers Association (GFOA) for determination if the report would merit the GFOA's Certificate of Achievement for Excellence in Financial Reporting. We are happy to inform everyone that the GFOA did indeed review the CAFR and awarded the City with the sought after Certificate.

The GFOA Certificate has been made a part of the City's 2020 fiscal year CAFR, and is included in the Introductory Section.

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 City management.

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

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

City of Beaufort, South Carolina

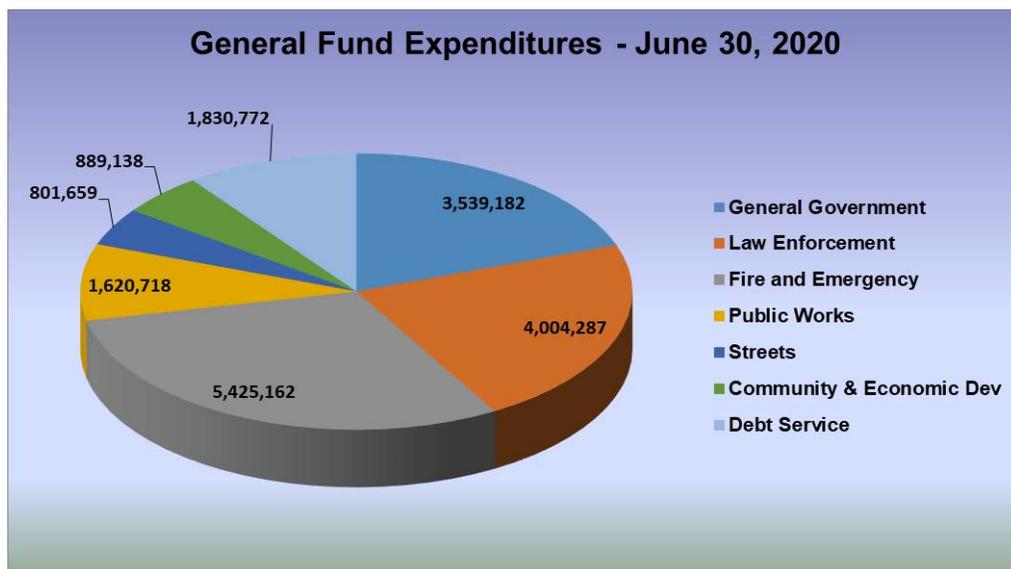
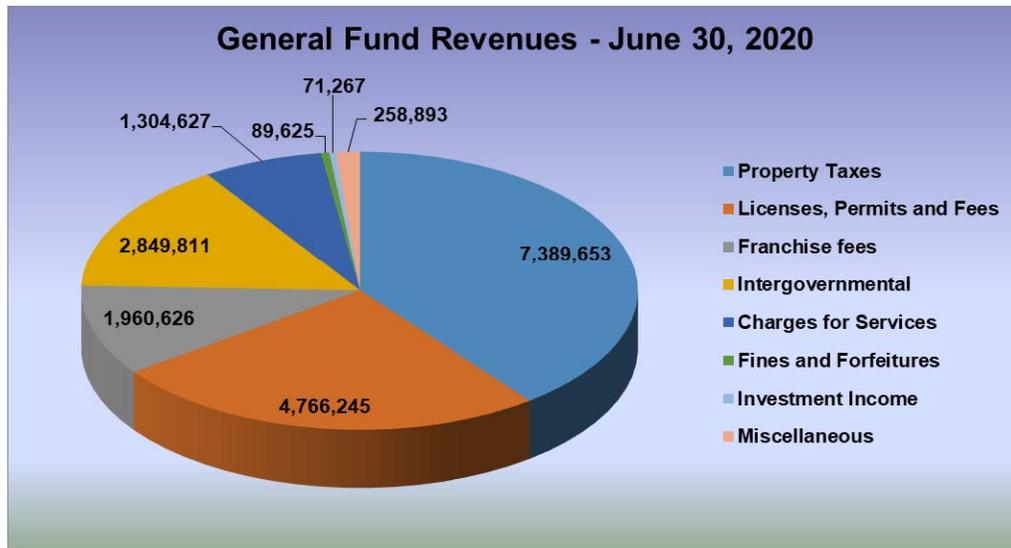
Auditor's Discussion & Analysis (AD&A)

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The **fund financial statements** more closely resemble the financial statements as presented prior to the adoption of GASB Statement No. 34. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

General Fund

Of primary interest to the City is the General Fund, which accounts for the majority of revenues received and funds expended in the operations of the City, including administration, judicial activities, public safety, public works, parks and recreation, and community service. The following charts present the sources of revenues and the expenditures of the General Fund for the fiscal year ended June 30, 2020:



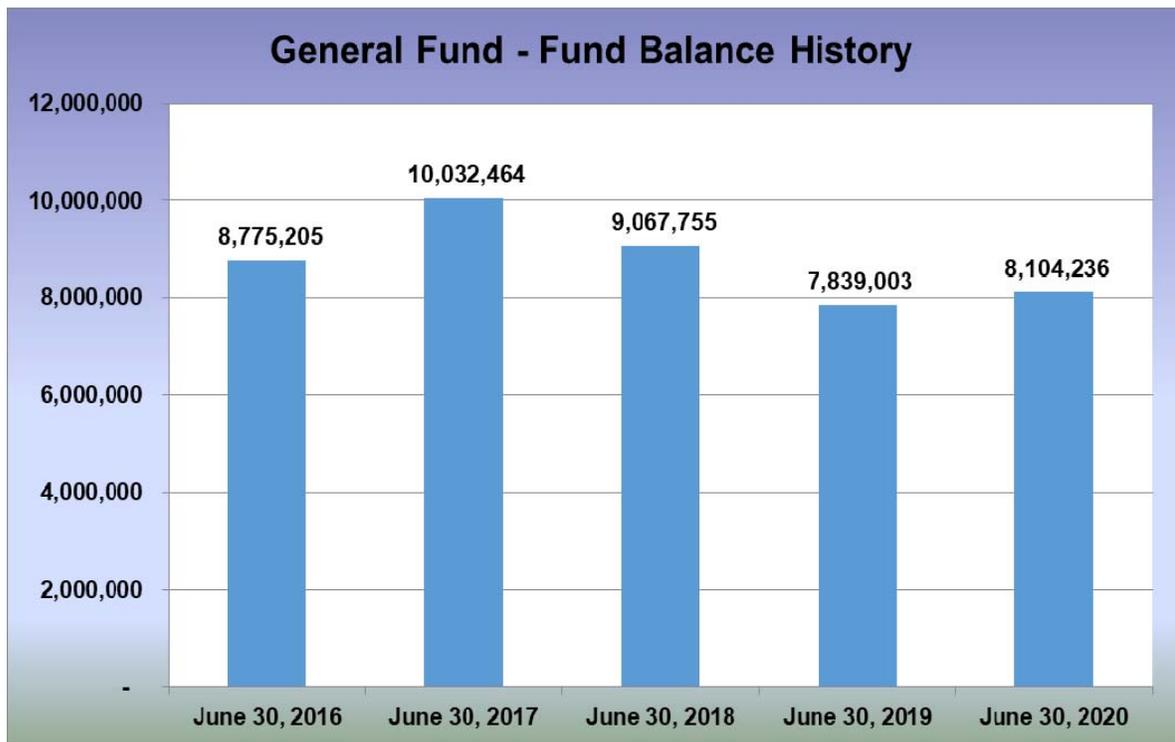
City of Beaufort, South Carolina

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Total fund balance of the General Fund at June 30, 2020, was a positive \$8,104,236. Fund balance does not necessarily equal cash on hand and available to spend. Fund balance is the difference between assets and liabilities, only a portion of which is cash available to be spent. While the General Fund has cash and cash equivalents on hand at June 30, 2020, of \$8,368,717, the General Fund also has \$1,294,346 in current liabilities due to outside parties and employees and deferred inflows of resources totaling \$102,721 in unavailable revenues. Additionally, the General Fund incurs expenditures of approximately \$1.5 million per month. A large part of the cash on hand at June 30, 2020, will be needed in subsequent months to fund these expenditures, until the City's property tax revenues are collected in November and December.

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



Other Governmental Funds

The City also maintains six (6) special revenue funds (TIF II Fund, Parks and Tourism Fund, Stormwater Fund, Redevelopment Fund, State Accommodations Tax Fund, and the Drug Control and Prevention Fund); one capital projects fund, and one permanent fund (the Cemetery Fund). These funds account for revenues derived from specific sources, which are legally restricted to finance particular functions or activities.

City of Beaufort, South Carolina

Auditor's Discussion & Analysis (AD&A)

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COMPLIANCE REPORTS

Last, but not least, two (2) reports on compliance and internal controls are included.

The first report is based on our tests of the City's internal controls and compliance with laws, regulations, etc. The report is not intended to provide an opinion, but to provide a form of negative assurance as to the City's internal controls and compliance with applicable rules and regulations. This report and the procedures performed are required by *Government Auditing Standards* as issued by the U. S. Government Accountability Office (GAO).

The second report is based on our tests of the City's internal controls and compliance with laws, regulations, etc. relative to the federal award expenditures reported for the fiscal year ended as required by the Single Audit Act and Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). In this report we do provide an opinion on compliance that could have a direct and material effect on the City's major federal programs for the respective year ended.

REQUIRED COMMUNICATIONS

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

Our audit of the financial statements of the City of Beaufort, South Carolina (the "City") for the year ended June 30, 2020 was conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error, fraudulent financial reporting or misappropriation of assets. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Accordingly, the audit was designed to obtain reasonable, rather than absolute, assurance about the financial statements. We believe our audit accomplishes that objective.

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

City of Beaufort, South Carolina

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Accounting Policies

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

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

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. Management has informed us they used all the relevant facts available to them at the time to make the best judgments about accounting estimates and we considered this information in the scope of our audit. We considered this information and the qualitative aspects of management's calculations in evaluating the City's significant accounting policies. Estimates significant to the financial statements include such items as the estimated lives of depreciable assets, 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.

City of Beaufort, South Carolina

Auditor's Discussion & Analysis (AD&A)

June 30, 2020

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

During our audit of the City's basic financial statements as of and for the year ended June 30, 2020, the only adjustments posted were proposed and prepared by management.

Uncorrected Misstatements

We had no passed adjustments.

Other Information in Documents Containing Audited Financial Statements

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

Independence

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

City of Beaufort, South Carolina

Auditor's Discussion & Analysis (AD&A)

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Other Matters for Communication to the Board and Management

During our audit of the financial statements as of and for the year ended June 30, 2020, we noted other matters which we wish to communicate to you in an effort to keep the City abreast of accounting matters that could present challenges in financial reporting in future periods.

1) Looking Forward: New Governmental Accounting Standards Board (GASB) Standards and 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 is effective for the first reporting period beginning after December 15, 2018. However, in light of the COVID-19 Pandemic, in May 2020 the GASB issued Statement No. 95 (*Postponement of the Effective Dates of Certain Authoritative Guidance*) which changed the effective date of Statement No. 84 to reporting periods beginning after December 15, 2019.

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 is effective for the first reporting period beginning after December 15, 2019. However, in light of the COVID-19 Pandemic, in May 2020 the GASB issued Statement No. 95 (*Postponement of the Effective Dates of Certain Authoritative Guidance*) which changed the effective date of Statement No. 87 to fiscal years beginning after June 15, 2021.

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.

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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 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.

City of Beaufort, South Carolina

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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.

- 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 June 30, 2019). However, in light of the COVID-19 Pandemic, in May 2020 the GASB issued Statement No. 95 (*Postponement of the Effective Dates of Certain Authoritative Guidance*) which changed the effective date of Statement No. 88 to reporting periods beginning after June 15, 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.

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

- d) **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 June 30, 2021). However, in light of the COVID-19 Pandemic, in May 2020 the GASB issued Statement No. 95 (*Postponement of the Effective Dates of Certain Authoritative Guidance*) which changed the effective date of Statement No. 89 to reporting periods beginning after December 15, 2020.

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 2019.

- e) **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 June 30, 2020). However, in light of the COVID-19 Pandemic, in May 2020 the GASB issued Statement No. 95 (*Postponement of the Effective Dates of Certain Authoritative Guidance*) which changed the effective date of Statement No. 90 to reporting periods beginning after December 15, 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.

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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 City.

- 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, in light of the COVID-19 Pandemic, in May 2020 the GASB issued Statement No. 95 (*Postponement of the Effective Dates of Certain Authoritative Guidance*) which changed the effective date of Statement No. 91 to reporting periods beginning after December 15, 2021.

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

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

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

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

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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.

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.

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g) Statement No. 92, Omnibus 2020 was issued in January 2020 and because it is an omnibus standard, contains several different effective dates as follows (as amended by Statement No. 95 issued in May 2020):

- For fiscal years beginning after June 15, 2021 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, 2021 relative to the requirements related to application of Statement 84 to postemployment 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, 2021. The requirements related to the measurement of liabilities (and assets, if any) associated with AROs in a government acquisition.
- Other items addressed by this omnibus statement (requirements related to Statement No. 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments) were effective upon issuance.

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.
- 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 Postemployment Benefit Plans Other Than Pension Plans, as amended, to reporting assets accumulated for postemployment benefits.
- The applicability of certain requirements of Statement No. 84, Fiduciary Activities, to postemployment benefit arrangements.
- Measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition.

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- 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 contains two (2) different effective dates. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2020.

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
- 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.

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

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

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

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

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

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

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

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

Under this Statement, a government generally should recognize a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability. A government should recognize the subscription liability at the commencement of the subscription term, which is when the subscription asset is placed into service. The subscription liability should be initially measured at the present value of subscription payments expected to be made during the subscription term. Future subscription payments should be discounted using the interest rate the SBITA vendor charges the government, which may be implicit, or the government's incremental borrowing rate if the interest rate is not readily determinable. A government should recognize amortization of the discount on the subscription liability as an outflow of resources (for example, interest expense) in subsequent financial reporting periods.

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

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

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

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

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- k) **Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*** was issued in June 2020 and is effective for fiscal years beginning after June 15, 2021 (year ends of June 30, 2022 and following).

The primary objectives of this Statement are to: 1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; 2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and 3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

This Statement requires that for purposes of determining whether a primary government is financially accountable for a potential component unit, except for a potential component unit that is a defined contribution pension plan, a defined contribution OPEB plan, or an other employee benefit plan (for example, certain Section 457 plans), the absence of a governing board should be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform. This Statement also requires that the financial burden criterion in paragraph 7 of Statement No. 84, *Fiduciary Activities*, be applicable to only defined benefit pension plans and defined benefit OPEB plans that are administered through trusts.

This Statement: 1) requires that a Section 457 plan be classified as either a pension plan or an other employee benefit plan depending on whether the plan meets the definition of a pension plan and 2) clarifies that Statement 84, as amended, should be applied to all arrangements organized under IRC Section 457 to determine whether those arrangements should be reported as fiduciary activities.

- l) **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 a final standard expected in early 2022.

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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 2022.

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.

Compensated Absences is technical topic being examined by the GASB currently due to significant changes in benefits offered by governmental employers. Current GAAP does not address certain items such as paid time off (PTO) and there is a wide divergence in practice. A final standard on this topic is expected towards the end of 2021.

Prior-Period Adjustments, Accounting Changes, and Error Corrections is a technical topic being examined by the GASB due to a wide diversity in practice regarding required presentation on the face of the financial statements, disclosures, etc. A final standard on this topic is expected in early 2022.

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 City staff and officials will be 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

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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
- 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.

City of Beaufort, South Carolina

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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
- 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

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- 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@mjcpa.com (send corresponding copy to dirwin@mjcpa.com), and provide to her 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 City's management, and others within the City's organization and is not intended to be and should not be used by anyone other than these specified parties. 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.

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





Comprehensive Annual Financial Report

Overview

JUNE 30, 2020

Management Discussion & Analysis

INTRODUCTION

As management of the City of Beaufort, SC, we offer readers of the City of Beaufort's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2020. Management encourages readers to consider the information presented within this discussion and analysis in conjunction with additional information presented as part of this report. Readers are directed to the transmittal letter, financial statements, notes to the financial statements and statistical information to enhance their understanding of the City's financial performance.

The basic financial statements contain three components:

- 1) Government-wide financial statements including the Statement of Net Position and the Statement of Activities which provide a broad, long-term overview of the City's finances.
- 2) Fund financial statements, including the balance sheets, that provide a greater level of detail of revenues and expenditures and focus on how well the City has performed in the short term in the most significant funds, and
- 3) Notes to the financial statements.

This report presents the financial highlights for the fiscal year ending June 30, 2020 and contains other supplementary information.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of the City exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$40,968,031 (net position). Unrestricted net position is reported as (\$9,292,394) due to the effects of reporting net pension liability in accordance with GASB Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27, which is not an accurate representation of the City’s financial position to meet the government’s ongoing obligations to citizens and creditors. Excluding net pension liability (\$18,610,352) from net position, results in \$9,317,958 unrestricted net position available to meet the City’s ongoing obligations to citizens and creditors.
- The government’s total net position decreased \$10,168. The net decrease demonstrates the City’s fiscal conservatory approach as we closed the year during the COVID 19 pandemic.
- The City’s total cash position at June 30, 2020, was \$19,619,119 compared to \$24,299,901 at June 30, 2019, a decrease primarily due to the use of general obligation bond proceeds and other restricted resources for capital projects.
- The City’s Government-wide total accounts payables, accrued expenses, refundable deposits and other payables at June 30, 2020 were \$1,972,682, a decrease of \$1,200,282 from June 30, 2019. The decrease is primarily due to a reduction to the liability related to the Boundary Street project following project closeout and the final cost of the project less than what was estimated.
- As of June 30, 2020, the City’s long-term indebtedness, including the liability for accrued vacation and net pension liability, had decreased a net of \$826,551 from June 30, 2019. Net pension liability contributed to an increase by \$1,172,778 and a decrease in debt of \$1,999,329 comprised of a normal annual debt payment contributed to the overall net decrease. During the fiscal year, the City expended \$591,375 for interest associated with its long-term indebtedness which was \$132,609 less than the interest paid during fiscal year 2019.
- The City’s bond rating from Standard & Poor’s is AA and an Aa2 rating from Moody’s Investors Services for general obligation debt.
- Property taxes support 29.8% of the governmental services to citizens and the community in fiscal year 2020.

OVERVIEW OF THE FINANCIAL STATEMENTS

Government-wide Financial Statements:

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances in a manner similar to a private sector business. The Statement of Net Position and the Statement of Activities provide information about the activities of the City as a whole, presenting both an aggregate and long-term view of the finances. These statements include all assets and liabilities using the accrual basis of accounting. This basis of accounting includes all the current year's revenues and expenses regardless of when cash is received or paid.

The Statement of Net Position presents information on all of the City's assets and deferred outflows of resources, liabilities and deferred inflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused compensated absences).

Both statements attempt to distinguish functions of the City that are principally supported by taxes and intergovernmental revenues.

The governmental activities reported in the statements include General Government, Law enforcement, Fire and Emergency Services, Public Works, Culture and Recreation, Streets, Community and Economic Development and Interest on Long-Term Debt.

The government-wide financial statements can be found on pages D-1 through D-2 listed in the table of contents of this report.

Fund Financial Statements:

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Like other state and local governments, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All funds of the City government can be divided into two categories: governmental funds and fiduciary funds.

The City has adopted Governmental Accounting Standard Board (GASB) Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, that establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources.

Governmental funds - Governmental funds, presented on pages D-3 and D-5, essentially account for the same functions as those reported under the government-wide statement of net position and statement of activities. However, this set of financial statements focuses on events that produce near-term inflows and outflows of spendable resources as well as on the balances of spendable resources available at the end of the fiscal year and is a narrower focus than the government-wide financial statements. Such information may be useful in evaluating the City's near-term financing requirements and available resources.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on pages D-4 and D-6.

The City's fund financial statements provide detailed information about the most significant funds – not the City as a whole. The majority of the City's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year-end that are available for spending. They are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's operations and the services it provides.

Fiduciary funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City of Beaufort's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements for the Agency fund can be found on pages D-7.

Notes to the Financial Statements - The notes provide additional information that are essential to a full understanding of the data provided in both government-wide and fund financial statements. Notes are presented beginning on page D-8.

Other information - In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's budget process. The City adopts an annual budget for its general fund and certain special revenue funds. A budgetary comparison schedule has been provided for the General Fund and major Special Revenue fund as required supplementary information. This required supplementary information begins on page E-1.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The City's net position totaled \$40,968,031 at June 30, 2020.

The following table presents a summary of the City's Net Position at June 30, 2020.

	<u>2020</u>	<u>2019</u>	<u>Change</u>	<u>% Change</u>
Assets:				
Current and other assets	\$ 21,500,981	\$ 26,335,195	\$ (4,834,214)	-18.36%
Capital assets	56,777,233	53,593,284	3,183,949	5.94%
Total assets	<u>78,278,214</u>	<u>79,928,479</u>	<u>(1,650,265)</u>	<u>-2.06%</u>
Deferred outflows of resources:				
Deferred loss on debt refunding	385,040	435,815	(50,775)	-11.65%
Deferred pension charges	3,486,262	3,737,451	(251,189)	-6.72%
Total deferred outflows of resources	<u>3,871,302</u>	<u>4,173,266</u>	<u>(301,964)</u>	<u>-7.24%</u>
Liabilities:				
Long-term liabilities	36,622,957	37,459,155	(836,198)	-2.23%
Other liabilities	4,420,909	5,611,546	(1,190,637)	-21.22%
Total liabilities	<u>41,043,866</u>	<u>43,070,701</u>	<u>(2,026,835)</u>	<u>-4.71%</u>
Deferred inflows of resources:				
Deferred pension credits	<u>137,619</u>	<u>52,845</u>	<u>84,774</u>	<u>160.42%</u>
Net position:				
Net investment in capital assets	43,040,371	38,221,670	4,818,701	12.61%
Restricted	7,220,054	8,948,671	(1,728,617)	-19.32%
Unrestricted	(9,292,394)	(6,192,142)	(3,100,252)	-50.07%
Total net position	<u>\$ 40,968,031</u>	<u>\$ 40,978,199</u>	<u>\$ (10,168)</u>	<u>-0.02%</u>

The largest portion of the City's total net position (105.0%) reflect its net investment in capital assets such as land, buildings, and equipment, less any related debt used to acquire those assets, that is still outstanding. The City uses these capital assets to provide services to citizens. Consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position (17.7%) represents resources that are subject to external restrictions on how they may be used, and the remaining balance (a negative 22.7%) is reported as unrestricted net position.

At the end of the current fiscal year, the City reports a positive balance in net investment in capital assets and restricted net position. Unrestricted net position was impacted by the required reporting of net pension liability under the City's participation in the State of South Carolina Employee Benefit Administrations retirement plans: the South Carolina Retirement Plan and the South Carolina Police Officers Retirement Plan. Even though the City ended the fiscal year with a modest decrease to net position of \$10,168, the impact of pension liability on net position had a negative impact on unrestricted net position.

Net position presented in the Governmental-wide financial statements decreased by a net \$10,168 during the current fiscal year.

	<u>2020</u>	<u>2019</u>	<u>Change</u>	<u>% Change</u>
Revenues:				
Program Revenues				
Charges for services	\$ 11,258,801	\$ 11,315,994	\$ (57,193)	-0.51%
Operating grants and contributions	988,942	783,084	205,858	26.29%
Capital grants and contributions	719,770	850,698	(130,928)	-15.39%
General Revenues				
Taxes	10,869,475	10,823,839	45,636	0.42%
Other	920,722	482,606	438,116	90.78%
Total Revenues	<u>24,757,710</u>	<u>24,256,221</u>	<u>501,489</u>	<u>2.07%</u>
Expenses:				
General Government	4,476,711	4,637,348	(160,637)	-3.46%
Law Enforcement	6,023,509	5,875,655	147,854	2.52%
Fire and emergency	6,127,033	5,652,110	474,923	8.40%
Public works	2,730,724	2,692,627	38,097	1.41%
Culture and recreation	1,639,684	1,783,253	(143,569)	-8.05%
Streets	1,765,635	1,598,979	166,656	10.42%
Community development	1,413,207	1,518,066	(104,859)	-6.91%
Interest	591,375	723,984	(132,609)	-18.32%
Total Expenses	<u>24,767,878</u>	<u>24,482,022</u>	<u>285,856</u>	<u>1.17%</u>
Change in net position	(10,168)	(225,801)	215,633	-95.50%
Net position - beginning of year	40,978,199	41,204,000	(225,801)	-0.55%
Net position - end of year	<u>\$ 40,968,031</u>	<u>\$ 40,978,199</u>	<u>\$ (10,168)</u>	<u>-0.02%</u>

Overall revenues increased \$501,489, or 2.07% over the preceding year. Key elements of significant changes in governmental activity revenues are as follows:

- Operating grants and contributions increased a net \$205,858, or 26.29% which is due to the receipt of \$515,469 of federal and state disaster funding related to Hurricane Matthew following the successful appeal to the Federal Emergency Management Agency and the reduction in federal operating grant funding under the SAFER program as the grant term goes into its final phase of funding.
- Capital grants and contributions decreased by net \$130,928 or 15.39% primarily as result of a capital grant for infrastructure that was completed in the prior year.
- Other General Revenues increased a net \$438,116. During FY 2020, the City realized declining interest rates impacting interest revenue resulting in decreased interest earnings of \$121,456 from the prior year. This loss was offset by the sale of property that netted \$169,572 increase in miscellaneous revenue and the donation of 13 acres of land valued at \$390,000 at the time of the donation.

Overall expenses increased \$285,856 or a modest 1.17% over the preceding year. Significant changes in expenses within governmental activities are as follows:

- General Government expenses decreased \$160,637 or 3.46% from the prior fiscal year as a result in professional services contracts in the prior year reduced in FY 2020.
- Fire and Emergency services expenses increased \$474,923 or 8.4% from FY 2019. Increases in pension expenses of \$256,203 and \$179,941 increase in personnel related costs contributed to the overall increase.
- The Streets expenses increased \$166,656 resulting from a greater depreciation expense of \$111,000 from assets placed in service in FY 2019 that were depreciated for the full year in FY 2020. In addition, increased costs to right of way contracts of \$17,000 and repairs and maintenance costs for mast arms of \$19,500 contributed to the balance of the overall increase.

- Community and Economic Development decreased \$104,859 due to community events and redevelopment activities that were undertaken in the prior year but discontinued in FY 2020.
- Interest expenses decreased by \$132,609 or 18.3% over the preceding year as the City has taken measures to refinance debt and take advantage of favorable interest rates.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds:

Governmental funds provide information on near-term inflows, outflows, and balances of available resources. The governmental funds include the General Fund, Parks & Tourism Fund, Stormwater Fund, Redevelopment Fund, Accommodation Tax Fund, Tax Increment Financing District II Fund (TIF II), Capital Projects Fund, Drug Control and Prevention Fund and Cemetery Fund. The General Fund, TIF II Fund, Parks & Tourism Fund, Stormwater Fund and Capital Projects Fund are reported as the City's major funds. The remaining governmental funds of the City are aggregated and presented as Other Governmental Funds. As of June 30, 2020, the City governmental funds reported combined fund balances of \$19,622,470, a net decrease of \$3,647,971 from the prior year's balances.

Decreases in fund balance were reported in the TIF II Fund of \$828,081, the Capital Projects Fund of \$2,371,833 the Parks and Tourism Fund of \$173,417 and the Stormwater Fund of \$614,532. Modest increases were noted in the General Fund of \$265,233 and Other Governmental Funds of \$74,659. The net increase in the General Fund is primarily a result of the receipt of FEMA funds related to Hurricane Matthew based on the City's appeal being approved which was an unplanned revenue source. Decreases in the TIF II Fund, the Capital Projects Fund and the Stormwater Fund are the result of planned uses for capital project activities related to Greenlawn Drive Infrastructure project and the Mossy Oaks Stormwater projects. The decrease in the Parks and Tourism Fund is a direct result of decreased revenues from tourism related activity affected by COVID 19.

36.8% (\$7,220,054) of the total Governmental Fund balance at June 30, 2020, is nonspendable or restricted in its use. \$7,188,610 of that amount is restricted by external parties through bond covenant (such as unspent bond proceeds) or state law governing the use of Tax Increment Financing District revenues. In addition, 37.2% of the total Governmental Fund Balances is committed for a variety of purposes that are internally constrained by formal action of the City Council, such as for subsequent land acquisitions, replacement of rolling stock, redevelopment initiatives, future capital project initiatives and law enforcement purposes. The remainder of the total Governmental Fund Balance of \$5,105,341 or 26% is unrestricted and unassigned and therefore available for spending at the City's discretion.

GENERAL, TAX INCREMENT FINANCING DISTRICT II, CAPITAL PROJECTS, PARKS AND TOURISM, AND STORMWATER FUNDS

General Fund

At June 30, 2020 the General Fund had a fund balance of \$8,104,236 representing 41.3% of the total Governmental ending fund balance. Of the General Fund's June 30, 2020 fund balance, 90.8% is *unrestricted* and of that amount 63% is *unrestricted and unassigned*. As a measure of the General Fund's liquidity, it may be useful to compare both unrestricted/unassigned fund balance and total fund balance to total fund expenditures. The unassigned fund balance represents 28.2% of the General Fund's expenditures, while total fund balance of the General Fund represents 44.7% of that same amount.

General fund revenues increased a net \$1,091,089 or 6.2% from the prior year. The significant changes are primarily attributed to the following:

- Property Taxes reported a 6.88% increase totaling \$475,672. This increase is primarily related to growth in the assessed values from the reassessment of real property and an increase in the millage rate based on growth and CPI.
- Licenses and permits increased \$318,558 or 7.16% as new commercial and residential construction growth continued for a second year causing increased temporary licenses to contractors and new permits issued.

- Intergovernmental revenues increased a net \$402,098, or 16.43% over the prior fiscal year. This increase is a result of the City receiving a favorable result from the Hurricane Matthew appeal with the Federal Emergency Management Agency.
- Miscellaneous revenue increased \$160,585 or 163.35% as a result of property sales.
- Net decreases of \$109,892 were realized in Franchise Fee revenue primarily due to new ownership of the energy company in the region and the reduced customer fees that were implemented; net decrease of \$80,168 in fines and forfeitures which continue to decrease as a greater portion of fines are remitted to the State; and a decrease of \$61,004 in interest income as interest rates fall due to effect of COVID 19.

The General Fund expenditures increased a net of \$968,159 or 5.65 % over fiscal year ended June 30, 2020.

Minor changes in expenditure activity between the current fiscal year and the prior fiscal year were realized in Law Enforcement, Public Works and in Community & Economic Development. Law Enforcement decreased a net \$40,183; Public Works increased a net \$11,524; Community & Economic Development increased \$99,899 and Debt Service increase of \$7,903. More significant changes in the General Fund expenditures were a result of the following:

- General Government increased \$708,625 over the prior year. Majority of the increase in a result of a \$466,512 increase attributed to the acquisition of land in Commerce Park, \$115,962 increase in support of economic development partnership activities and \$96,673 increase in legal fees.
- Fire and Emergency services saw a \$302,644 net increase over the prior year. Net increases in Personnel and benefit attributed to \$249,027 of the overall increase and a \$83,550 increase in maintenance of vehicles.

- Streets decreased a net of \$122,253 or 13.23%. Most of that decrease is due to capital acquisitions in prior years that were not applicable in the current year.

Tax Increment Financing District II Fund (TIF II)

Total revenues in this fund amounted to \$100,077 consisting primarily of interest earnings on investments. Significant expenditures are associated with other financing uses – transfers out to the capital projects fund to cover Greenlawn project costs and the acquisition of land in the redevelopment district to encourage growth.

Capital Projects Fund

The Capital Project Fund expended \$4,505,223 or \$2,255,345 more than fiscal year 2019. Most of the amount expended was a result of four projects: the Greenlawn project of \$2.4M, the Arsenal Restroom and Windows project of \$453K, the Waterfront Park Relieving Platform project of \$640K, and costs associated with Stormwater in the Mossy Oaks area of the City totaling \$496K. During fiscal year 2020, the City had thirteen (13) active capital projects that were underway and at various stages of completion.

Parks and Tourism Fund

The Parks & Tourism fund expended \$3,303,633 in the current year which is \$112,158 less than the prior year and revenues of \$3,130,216 were \$672,282 less than FY 2019. The reductions in revenue are due to the effect of COVID 19 on the tourism industry within the City. Cut back measures were taken in the last quarter of the fiscal year by delaying planned activities until the tourism activity resume normal.

Stormwater Fund

Stormwater revenue of \$1,169,725 which is \$77,250 more than fiscal year 2019 and due to new growth within the City. Stormwater expenditures were \$1,784,257 and included debt service payments associated with a general obligation bond issued for major stormwater projects to reduce the impact of flooding and other financing uses – transfers out to the capital projects fund for the Mossy Oaks project. These expenditures were \$445,062 greater than fiscal year 2019. \$507,792 represents the principal and interest associated with the new debt.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets: The Statement of Net Position presents capital assets in two groups: those assets subject to depreciation, such as equipment or operational facilities and those assets not subject to depreciation such as land and construction-in-progress. At June 30, 2020, the City's net capital assets totaled \$56,777,233 a net increase of \$3,183,949 from fiscal year 2019. Capital assets include assets purchased and donated, land, buildings, system improvements and machinery and equipment.

Major capital asset additions during the year included the following:

- Increase in Construction in Progress resulting from capital projects noted above under the Capital Projects Fund and other projects at various stages of progress totaling \$1,526,765.
- Net increase in land of \$871,911 through strategic land acquisitions to promote growth.
- The closing of \$2,887,314 of current year and prior year's construction in project costs related to the completion of the Greenlawn Infrastructure project.
- Purchased additional equipment of \$47,819 for the Police Departments CJIS security and license plate reader equipment; Audio Visual upgrade equipment in City Hall and Municipal Court complex of \$224,411 the acquisition of heavy equipment of \$156,759 for the Public Works department

Additional information on the City's capital assets can be found in Note 3.A to the Financial Statements beginning on page D-17.

Long-term debt: The long-term liabilities, including compensated absences and net pension liability, at June 30, 2020 totaled \$39,071,186.

The City's total indebtedness decreased a net \$826,551 from the previous year. Scheduled debt payments totaling \$1,965,444, amortization on the premium related to the Series 2016 General Obligation Bond was \$118,062. Debt related to compensated absences realized an increase of \$84,177 and the Net Pension Liability saw an increase of \$1,172,778.

The City maintains an AA rating from Standard & Poor's and an Aa2 rating from Moody's Investors Services for general obligation debt.

South Carolina Statutes prohibit a municipality from issuing general obligation debt which in the aggregate principal amount exceeds 8% of the assessed value of taxable property in the municipality. However, general obligation debt approved by voter referendum is not charged against the 8% limit. The City's general obligation debt was approved by referendum and therefore exempt from the 8% debt limit. The current debt limitation for the City is \$7,622,524 of which \$6,316,460 is subject to that limitation or 82.87% of the 8% limit.

Additional information on the City's debt can be found in Note 3.C. in the notes to financial statements on page D-18.

GENERAL FUND BUDGETARY HIGHLIGHTS

The budgetary comparison schedule of the General Fund, Parks & Tourism Fund and the Stormwater Fund are provided as Required Supplementary Information beginning on page E-1. Additional budgetary comparison schedules of the special revenue funds can be found within other supplementary information beginning on page F-1. Budget columns are provided for both the original budget adopted for fiscal year 2020 as well as the final budget. A column for actual resources (revenues), appropriations (expenditures) and a column for any variances between final budget and actual are also provided. Resources and appropriations are discussed excluding transfers in or out.

During the year there were net increases in the General Fund appropriations between the original and final amended budget to adjust for the release of committed fund balances for capital projects and various contractual obligations and capital acquisitions.

The total actual revenues including other financing sources reported for the General Fund of \$18,739,081, was more than the final budgeted revenues of \$18,365,858 by \$373,223.

The total actual expenditures including other financing uses of the General Fund were \$18,473,848. This amount was \$477,517 less than the final budgeted amount due to fiscally responsible spending in the departments and cutbacks in operations and capital to ensure fiscal strength through the effects of the COVID 19.

ECONOMIC FACTORS, NEXT YEAR'S BUDGET

The City continues to face limited abilities for growth, both in population and jobs. In addition, the fiscal impacts of COVID 19 are affecting the tourism industry as hospitality and accommodations revenues are anticipated to drop as much as 40% from the current year and anticipated decreases in business license tax revenue as area business gross income is affected. This in turn results in anticipated future revenue shortfalls, and though there are anticipated increases in our health insurance and other employee benefits, operating expenses in the next year budget were held at fiscal year 2019 levels.

The City adopted a general fund budget for fiscal year ended June 30, 2021 in the amount of \$18,014,415.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview for the governmental operations of the City of Beaufort. It is designed for anyone with an interest in our government's finances and management. Questions concerning any of the information provided in this report or requests for additional financial information may be addressed to the City of Beaufort, Finance Director, 1911 Boundary Street, Beaufort, South Carolina 29902.



CITY OF BEAUFORT
DEPARTMENT REQUEST FOR CITY COUNCIL AGENDA ITEM

TO: CITY COUNCIL **DATE:** 1/6/2021
FROM: Kathy Todd
AGENDA ITEM
TITLE: Updated Financial Position through December
MEETING
DATE: 1/12/2021
DEPARTMENT: Finance

BACKGROUND INFORMATION:

Through the use of Open Gov, review the financial position of the General Fund, Parks & Tourism Fund and Stormwater Fund through December 31, 2020.

PLACED ON AGENDA FOR: Discussion

REMARKS: