

City of Stonecrest, Georgia

Auditor's Discussion & Analysis
Financial & Compliance Audit Summary
December 31, 2018



Presented by:

**MAULDIN
& JENKINS**

City of Stonecrest, Georgia

Auditor's Discussion & Analysis (AD&A)

December 31, 2018

PURPOSE OF THE AUDITOR'S DISCUSSION & ANALYSIS

- ◆ Engagement Team and Firm Information.

- ◆ Overview of:
 - Audit Opinion;
 - Financial Statements, Footnotes and Supplementary Information; and
 - Compliance Reports.

- ◆ Required Communications under Government Auditing Standards.

- ◆ Accounting Recommendations and Other Matters.

- ◆ Other Items and Closing Thoughts.

- ◆ Answer Questions.



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MAULDIN & JENKINS – GOVERNMENTAL PRACTICE

General Information:

- Founded in 1918. Large regional firm serving the Southeastern United States.
- Offices located in Macon, Atlanta, Albany, Savannah, Bradenton, Chattanooga, Birmingham, and Columbia.
- Approximately 280 personnel are employed at Mauldin & Jenkins.

Governmental Sector:

- Largest specific industry niche served by Firm representing 25% of Firm practice.
- Serve more governmental entities in the Southeast than any other certified public accounting firm requiring over 85,000 hours of service on an annual basis.
- Approximately 90 professional staff persons with current governmental experience.
- In past three (3) years, have served approx. **400 governments** in the Southeast, including:
 - ✓ **100 cities**;
 - ✓ 45 counties;
 - ✓ 50 school systems and another 30 charter schools;
 - ✓ 40 state entities;
 - ✓ 100 stand-alone governmental special purpose entities (housing, development, industrial, other educational, health & welfare, retirement, libraries, etc.);
 - ✓ 100+ water & sewer systems, 20 airport operations, 10 gas systems, 15 electrical utilities, & 10 transit services;
 - ✓ Inclusive of the above, we serve 100 governments receiving the GFOA's Certificate of Achievement for Excellence in Financial Reporting.
- Auditor of a substantial part of the State of Georgia including approximately 30% of the State's General Fund, and a substantial number of the State of Georgia's component units.
- Experience performing forensic audit services and information technology consultations.
- Experience performing municipal bond debt issuance attestation services serving approx. 50 clients with over \$11 billion in aggregate publicly issued debt instruments.
- Experience performing an aggregation of Single Audits in excess of \$8 billion annually.
- Experience auditing a substantial part of the State of Georgia including approximately 30% of the State's General Fund, and a substantial number of the State's component units.

Engagement Team Leaders for the City of Stonecrest Include:

- Adam Fraley – Engagement Partner – Over 20 years' experience, 100% governmental
- James Bence – Audit Service Partner – 16 years' experience, 100% governmental

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MAULDIN & JENKINS – ADDITIONAL INFORMATION

Other Industries & Services by Mauldin & Jenkins:

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

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

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

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

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

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INDEPENDENT AUDITOR'S REPORT

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

Management's Responsibility for the Financial Statements

The financial statements are the responsibility of management.

Auditor's Responsibility

Our responsibility, as external auditors, is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We planned and performed our audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Opinion

We have issued an unmodified audit report (i.e., "clean opinion"). The respective financial statements are considered to present fairly the financial position and results of operations as of, and for the year ended December 31, 2018.

Other Matters

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

Other Reporting

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

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REVIEW OF COMPREHENSIVE ANNUAL FINANCIAL REPORT (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
- **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.



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Recognition and Award

Once completed, the fiscal year 2017 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 2018 fiscal year CAFR, and is included in the Introductory Section.

OVERVIEW OF FINANCIAL STATEMENTS

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 resulting difference reported as net position. The *Statement of Activities* presents information showing how the City's net position changed during the most recent fiscal year. Revenues are categorized as program revenues or general revenues. Expenses are categorized by function.

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

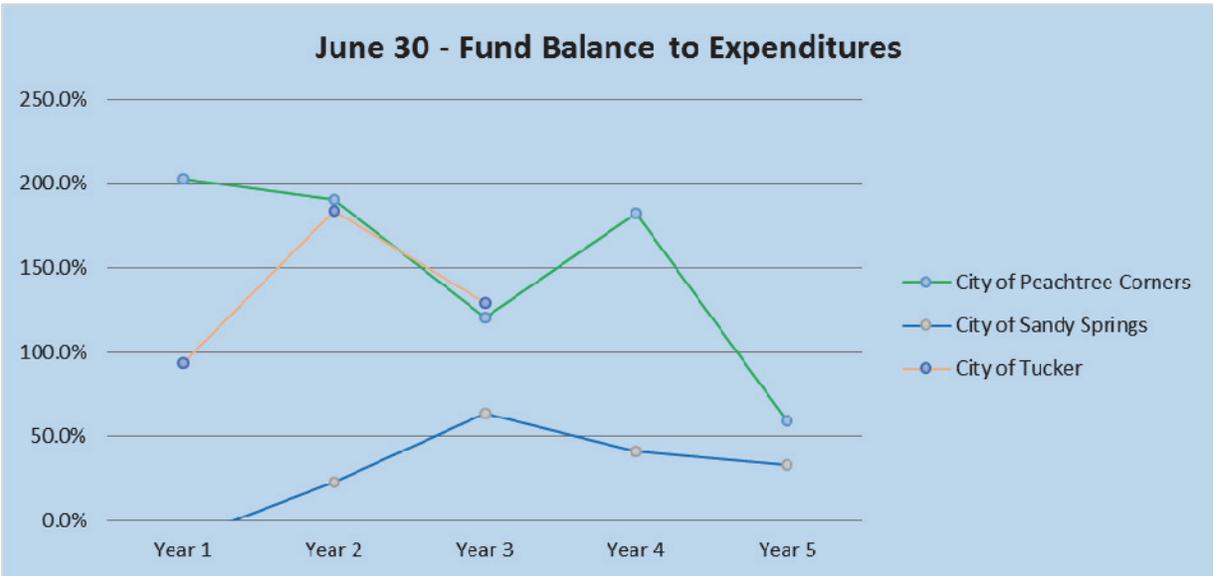
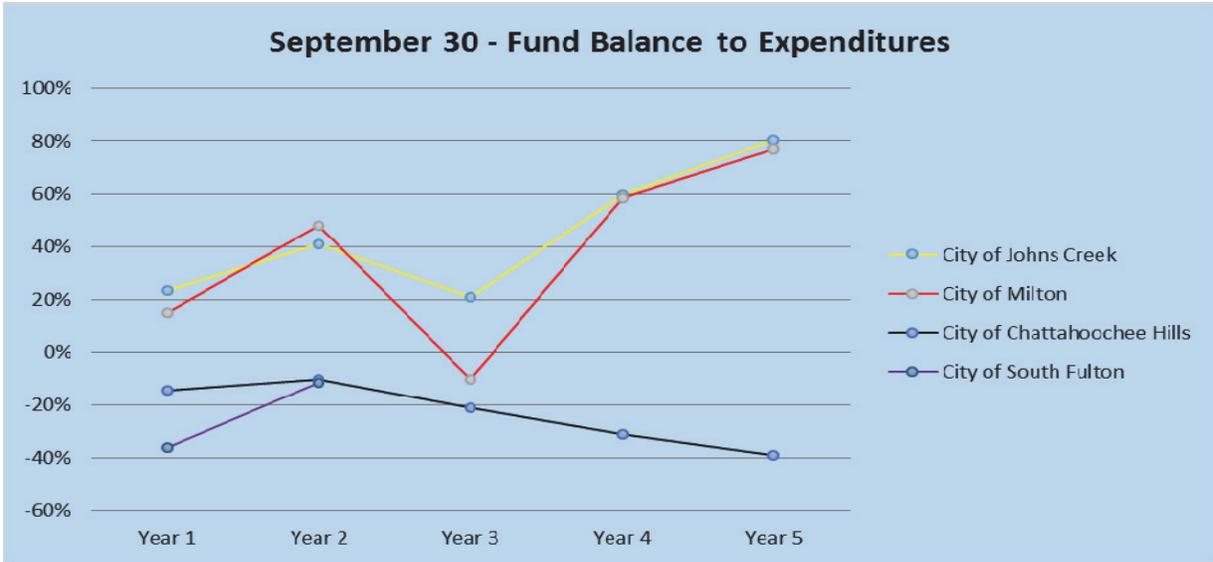
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Newly Incorporated City Analytics

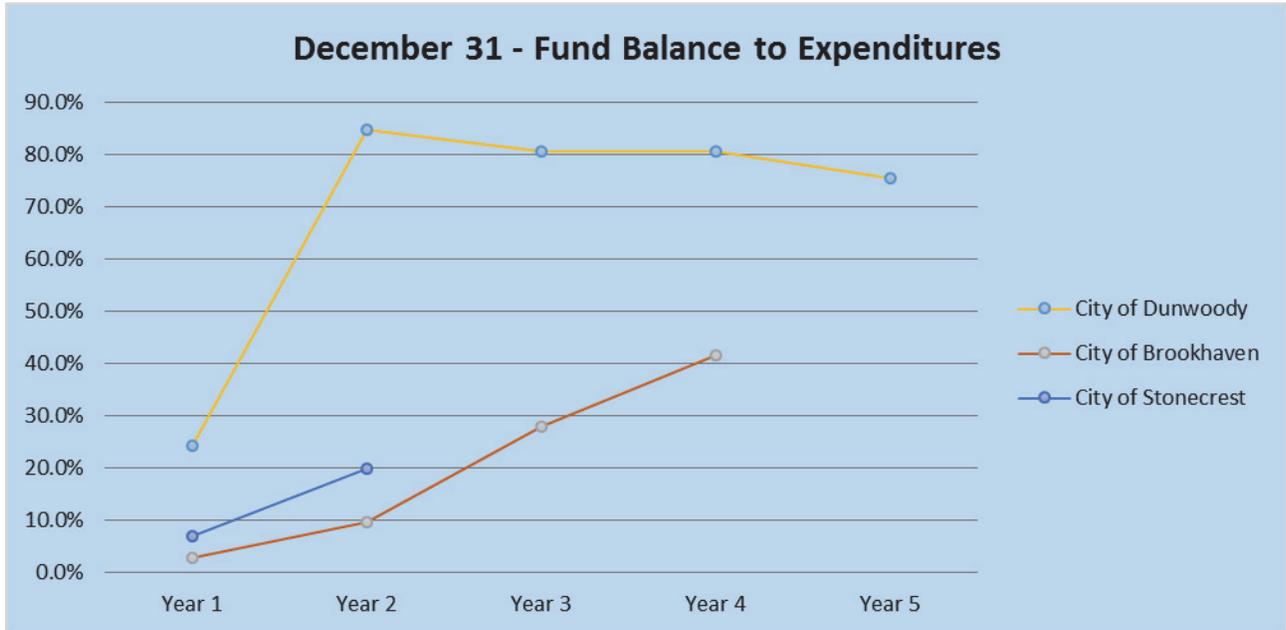
Over the past 14 years we have worked with each of the newly incorporated cities throughout the State. Below is an analysis of the City of Stonecrest's year two performance as compared to each of the cities, broken into charts for each of the respective fiscal years (September 30, June 30, and December 31 year-ends):



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It is common for new cities to commence operations with the use of a tax anticipation note (TAN). In year one, the City of Stonecrest utilized a TAN for its operations. However, in year two management elected not to use one. Typically year three is the point in which cities can operate without the use of a TAN. Year three is also the typical time period for taking over the infrastructure systems from the County and the period when the cities begin getting more involved into the capital improvements and expansions.

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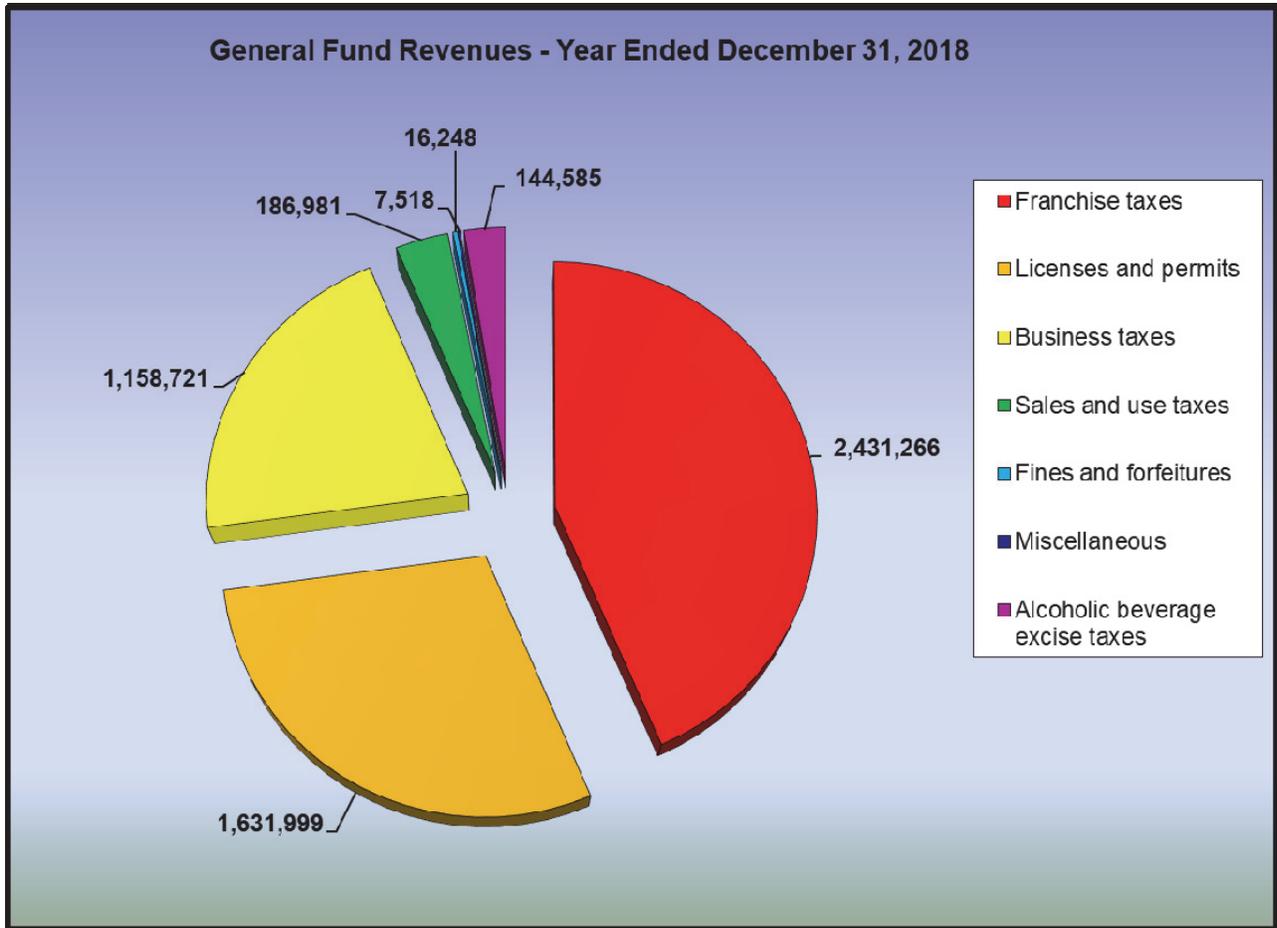
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General Fund

Of primary interest to the City is the **General Fund**, which accounts for all revenues received and funds expended in the operations of the City, including general government activities, judicial and housing and development. The following charts present the sources of revenues and the expenditures of the General Fund for the year ended December 31, 2018:

General Fund Revenues: The following chart depicts the primary revenue sources of the General Fund for the 2018 fiscal year. Franchise taxes, licenses and permits and business taxes represent a key component of revenue.



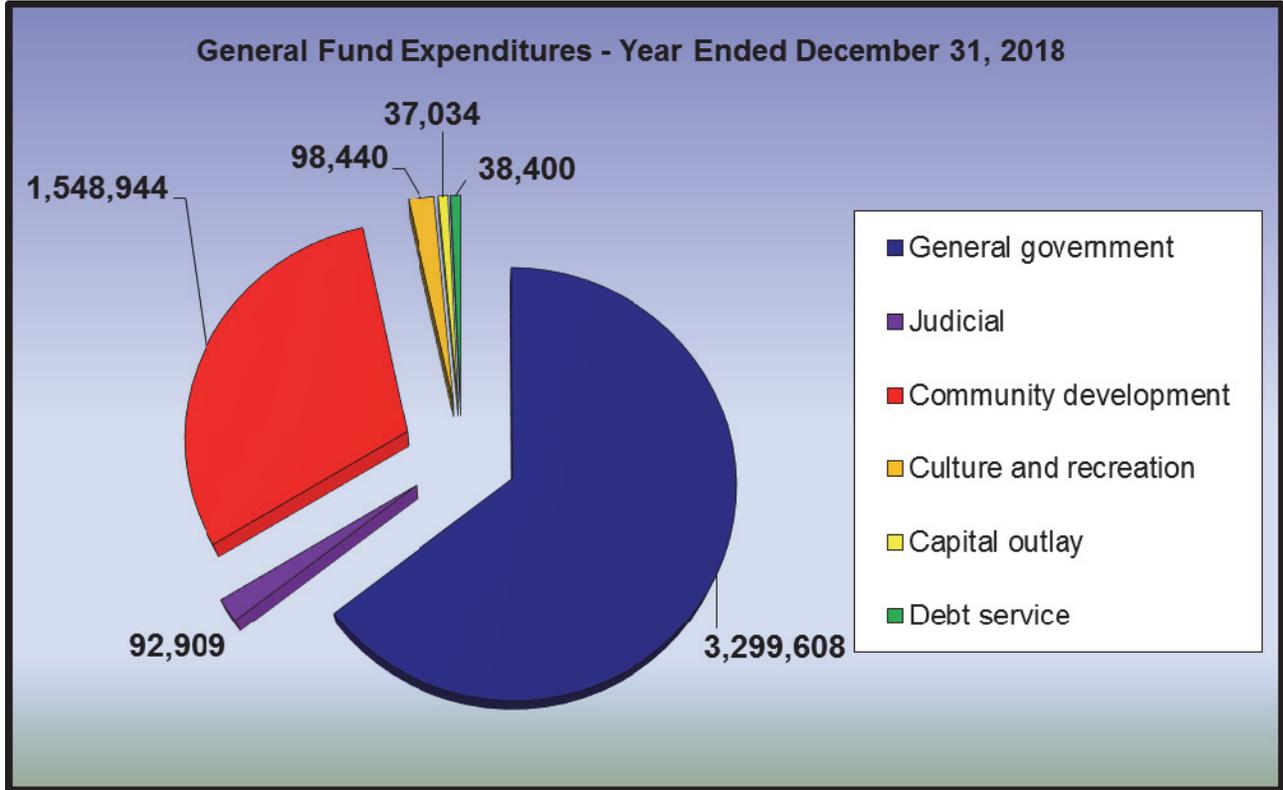
The City did not collect real property taxes in the fiscal year ended December 31, 2018.

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General Fund Expenditures: The following chart presents the General Fund's expenditures by major function for the year ended December 31, 2018. As expected, general government is the primary expenditure of the City.



Footnotes

Note 1 – Accounting Policies: This footnote discusses the overall organization of the City, the nature of its operations, and the fact that it was created by the State of Georgia in 2017. This note also discloses pertinent information regarding the governing body of the City.

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

Note 2 – Reconciliation of Government-wide Financial Statements and Fund Financial Statements: This footnote provides additional detailed information that is not already shown within the financial statements themselves, on the differences between the City's fund level financial statements and its government-wide financial statements.

Note 3 – Legal Compliance – Budgets: This footnote discloses the City's procedures in establishing its annual budget and discloses excesses of actual expenditures over appropriations for the year, if any.

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Note 4 – Deposits and Investments: The disclosure addresses common deposit and investment risks related to custodial credit risk.

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

Note 6 – Long-Term Debt: This footnote discloses the City's long-term debt activity for the year, and other information and maturities for the capital leases.

Note 7 – Interfund Receivables, Payables and Transfers: This footnote discloses detailed information on the City's interfund transfers and the purpose of these balances and transactions.

Note 8 – Hotel/Motel Lodging Tax: This footnote discloses the City's tax rate for hotel/motel taxes, along with the amounts and nature of these revenues and expenditures.

Note 9 – Motor Vehicle Excise Tax: This footnote discloses the City's tax on motor vehicle rental along with the amounts and nature of collections.

Note 10 – Operating Leases: This footnote discloses the details of the City's operating lease for the City Hall and information on the maturity of this lease.

Note 11 – Risk Management: This footnote discloses the City's various risks of loss and the measures the City has taken to mitigate those potential losses.

Note 12 – Commitments and Contingent Liabilities: This footnote discloses the contingencies from potential litigation, claims, and assessments filed against the City and significant contractual commitments of the City at year end.

Note 13 – Joint Venture: This footnote discloses the City's involvement in the Atlanta Regional Commission (ARC) as required by State law.



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COMPLIANCE REPORT

The financial report package contains one (1) compliance report.

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

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 Stonecrest, Georgia (the "City") for the year ended December 31, 2018, was conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error, fraudulent financial reporting or misappropriation of assets. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Accordingly, the audit was designed to obtain reasonable, rather than absolute, assurance about the financial statements. We believe our audit accomplishes that objective.

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.

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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 deferred revenues.

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.

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Disagreements with Management

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

Representation from Management

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

Management's Consultations with Other Accountants

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

Significant Issues Discussed with Management

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

Audit Adjustments

During our audit of the City's basic financial statements as of and for the year ended December 31, 2018, there were a few adjustments proposed to the funds of the City. We have provided a detail of all such adjustments to management. All adjustments have been discussed with management.

Uncorrected Misstatements

We had no passed adjustments.

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Independence

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

Other Information in Documents Containing Audited Financial Statements

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

ACCOUNTING RECOMMENDATIONS AND RELATED MATTERS

Recommendations for Improvement and Other Matters

During our audit of the financial statements as of and for the year ended December 31, 2018, we noted some areas within the accounting and internal control systems that we believe can be improved. We have reported one finding (material weakness). Additionally, we noted some items management should consider as part of its decision making process, referred to as management recommendations. Further, 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. Our recommendations and proactive thoughts and communications are presented in the following paragraphs.

Items Cited in the City's Financial Statements as Noncompliance and Material Weakness

1) Revenue Recognition

During our audit for the year ended December 31, 2018, we noted that the City had recorded deferred revenue for business and alcohol licenses collected in the current year. Under GASB Statement No. 33, the licenses should be considered imposed non-exchange transactions. Under GASB Statement No. 33, the revenues for imposed non-exchange transactions should be recognized as revenue at the time in which the City receives the asset or has a legally enforceable claim, whichever occurs first. As the City collected the cash as of December 31, 2018, an adjustment was recorded to recognize the revenues. To properly recognize the revenue and reduce the deferred revenues, an adjustment of approximately \$149,000 was recorded in the General Fund.

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2) Governmental Fund Budgets

State law requires local governments to adopt annual appropriated balanced budgets for all governmental funds. Management did not adopt a balanced budget for the General Fund and the Hotel/Motel Tax Fund. The City was not adopting and operating under balanced budgets as follows:

- The City's original and final Hotel/Motel Tax Fund's budgets were set to utilize fund balance of \$650,000 to fund current period expenditures. The Hotel/Motel Tax Fund's available fund balance for appropriation was \$0. As a result the Hotel/Motel Tax Fund's original and final budget was not balanced.
- The City's original General Fund's budget was appropriately established. However, throughout the year supplemental appropriations were approved which ultimately created an unbalanced budget. The final approved budget amendments for the General Fund resulted in a budgeted deficit of \$36,250; whereby the expenditures were greater than revenues and available fund balance by \$36,250.

The City failed to operate under balanced budgets in the Hotel/Motel Fund and General Fund, which has resulted in a compliance violation with State law.

Recommendations for Improvement (Management Points)

1) Credit Card Policy and Procedures

During our testing of credit card transactions, we noted that, for the two employees that are issued a credit card, the cards are maintained by the two employees and are kept in their possession at all times. We recommend that, when not in use, the credit cards be securely kept in the Accounting Manager's office for safekeeping and control purposes.

2) Checks Custody

During our testing of cash we noted that three checks totaling \$311,556 were held in custody by finance and reported as outstanding checks, but not submitted until January 2019. A reclassification in the General Fund balance sheet was posted to correct the reporting. We recommend that the City not hold drawn checks and should timely issue those checks. Additionally, held checks should not be shown as outstanding checks.

3) Hotel/Motel Taxes

During our testing of the City's Hotel/Motel Fund we noted the County has levied a 5% Hotel/Motel tax in accordance with OCGA 48-13-51(a)(3). Under the code section, the City is

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required to remit 40% of the annual collections to the DeKalb Convention and Visitors Bureau (DCVB) and 60% can be transferred to the General Fund. Based on testing of the activity in the Hotel/Motel Fund, we noted the City expended 39% of the revenues to DCVB.

4) Policy Adoption

During our walkthroughs, review of the City Council minutes, and examination of the City's Internal Control Questionnaires we noted the City has yet to formally adopt the following policies and/or procedures:

- Capital Asset policy – The City should adopt a formal capitalization policy that specifies the types of items that qualify for reporting as capital assets, the thresholds over which those items will be capitalized, and the applicable depreciable lives to be applied to those assets.
- Fund balance policy - the City should adopt a fund balance policy in accordance with Governmental Accounting Standards Board (GASB) Statement No. 54 that specifies the relevant aspects of the City's reporting of fund balances, including to whom the authority has been given to assign fund balances for reporting in the City's financial statements.
- Information Technology policy, which formalizes the procedures and policies related to set-up, user access, testing of back-up procedures, and emergency changes to the City's software applications.
- A record retention policy for the legal, fiscal, and administrative needs of the City.
- Purchasing – the City should implement and systemize the use of purchase orders within its operations; management and/or governing body approval should be required for purchase orders that exceed established limits per the City's purchasing policy and there should be an adequate segregation of duties for those employees that initiate, approve and record purchase orders within the purchasing cycle.
- Management should establish a well-defined process for financial reporting that includes the following: formal documentation for approval and review of new accounting policy, a system to monitor changes in authoritative guidance and implement necessary changes on a timely basis, and an independent review and supporting analysis for all significant judgements, estimates and non-routine transactions that documents compliance with relevant GAAP framework.

We strongly recommend the City's management begin to create and adopt these accounting policies.

5) Capital Asset Software

During our testing of the City's capital assets, we noted the assets are maintained in Microsoft Excel. While the City is still new and developing many of the accounting systems and processes, we strongly recommend the City consider purchasing a system for capital asset maintenance. The

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schedules and detail listings are much more susceptible to errors with having all of the calculations being based on manually created formulas, as opposed to system generated reports.

6) IT and Cybersecurity

The Information Technology environment is characterized by rapid change and there has been no shortage of headlines about cybersecurity attacks. While breaches of large organizations have been very high profile and have received a lot of press coverage, organizations of all sizes face the same types of threats and are experiencing similar breaches. Many organizations are still struggling to effectively address cybersecurity issues; however, they are no longer ignoring them. During the performance of our audit of the financial statements of the City, we noted that the organization is lacking some elements of a Cybersecurity Framework or Cybersecurity Risk Management Program (CRMP). A functioning CRMP will assist the City with comprehensively identifying cybersecurity weaknesses, potential threats and risks, and controls used to safeguard information and systems. We recommend that the City investigate and consider implementation of a Cybersecurity Risk Management Program covering: monitoring and testing of controls in place, selection of a particular framework and general cybersecurity training for employees.

Other Matters for Communication to the Council and Management

During our audit of the financial statements as of and for the year ended December 31, 2018, we noted other matters which we wish to communicate to you in an effort to keep the City abreast of accounting matters that could present challenges in financial reporting in future periods.

1) New Governmental Accounting Standards Board (GASB) Pronouncements



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

- a) **Statement No. 83, Certain Asset Retirement Obligations** was issued in November 2016, and is effective for the first reporting period beginning after June 15, 2018. An asset retirement obligation (ARO) is a legally enforceable liability associated with the retirement of a tangible capital asset. This statement establishes the criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for ARO's. Timing could be based on the occurrence of external laws, regulations, contracts or court judgments. Examples include the closure of a nuclear reactor or a sewage treatment facility. This statement addresses the financial reporting and accounting as well as the respective disclosures relative to ARO's.
- b) **Statement No. 84, Fiduciary Activities** was issued in January 2017 and is effective for the first reporting period beginning after December 15, 2018. This statement establishes criteria for identifying fiduciary activities with a focus on: 1) whether a government is controlling the

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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.

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

- Component Units - blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation;
- Goodwill - reporting amounts previously reported as goodwill and “negative” goodwill;
- Real Estate - classifying real estate held by insurance entities;
- Fair Value Measurement and Application - measuring certain money market investments and participating interest earning investment contracts at amortized cost;
- Postemployment benefits (pensions and other postemployment benefits [OPEB]):
 - Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus;
 - Recognizing on-behalf payments for pensions or OPEB in employer financial statements;
 - Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB;
 - Classifying employer-paid member contributions for OPEB;
 - Simplifying certain aspects of the alternative measurement method for OPEB; and,
 - Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

d) Statement No. 86, Certain Debt Extinguishment Issues was issued in May 2017 and is effective for the first reporting period beginning after June 15, 2017. The primary objective of this statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources (resources other than the proceeds of refunding debt) are placed into an irrevocable trust for the sole purpose of extinguishing

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debt. This statement also addresses prepaid insurance on debt that is extinguished and the notes to financial statements for debt that is in-substance defeased.

- e) **Statement No. 87, Leases** was issued in June 2017 and is effective for the first reporting period beginning after December 15, 2019. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

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

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

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

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

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.

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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.

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.

- f) **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 September 30, 2019). This standard defines debt for disclosure

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purposes and adds disclosures related to debt (it does not reduce any previously required disclosures).

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

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

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

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.

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

h) Statement 90, Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61 was issued in August 2018 and is effective for reporting periods beginning after December 15, 2018 (meaning December 2019). This standard improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment.

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- i) **Other Pending or Current GASB Projects.** As noted by the numerous pronouncements issued by GASB over the past decade, the GASB continues to research various projects of interest to governmental units. Subjects of note include:
- **Re-Examination of the Financial Reporting Model.** GASB has added this project to its technical agenda to make improvements to the existing financial reporting model (established via GASB 34). Improvements are meant to enhance the effectiveness of the model in providing information for decision-making and assessing a government's accountability.
 - **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. Project placed on hold for now.
 - **Revenue and Expense Recognition** is another long-term project where the GASB is working to develop a comprehensive application model for recognition of revenues and expenses from non-exchange, exchange, and exchange-like transactions. The final standard is expected in 2023.
 - **Conduit Debt.** The GASB is looking at improving the definition of conduit debt and determining whether a liability should be reported for these transactions. Additionally, they are reviewing what information should be disclosed by government issuers. Final standard is expected in mid-2019.

Summations of Thoughts Noted Above

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

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FREE QUARTERLY CONTINUING EDUCATION AND NEWSLETTERS FOR GOVERNMENTAL CLIENTS

Free Continuing Education. We provide free continuing education (quarterly is the goal and objective) for all of our governmental clients. Each quarter we pick a couple of significant topics tailored to be of interest to governmental entities. In an effort to accommodate our entire governmental client base, we offer the sessions several times per quarter at a variety of client provided locations resulting in greater networking among our governmental clients. We normally see approximately 100 people per quarter. We obtain the input and services of experienced outside speakers along with providing the instruction utilizing our in-house professionals. We hope City staff and officials have been able to participate in this opportunity, and that it has been beneficial to you. Examples of subjects addressed in the past few quarters include:

- Accounting for Debt Issuances
- American Recovery & Reinvestment Act (ARRA) Updates
- Best Budgeting Practices, Policies and Processes
- CAFR Preparation (several times including a two (2) day hands-on course)
- Capital Asset Accounting Processes and Controls
- 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 Stds. (presented several occasions)
- GASB Updates (ongoing and several sessions)
- Grant Accounting Processes and Controls
- Internal Controls Over Accounts Payable, Payroll and Cash Disbursements
- Internal Controls Over Receivables & the Revenue Cycle
- Internal Revenue Service (IRS) Issues, Primarily Payroll Matters
- Legal Considerations for Debt Issuances & Disclosure Requirements
- Policies and Procedures Manuals
- Segregation of Duties
- Single Audits for Auditees
- Special Purpose Local Option Sales Tax (SPLOST) Accounting, Reporting & Compliance
- Uniform Grant Reporting Requirements and the New Single Audit

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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.

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 Adam Fraley at afraley@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

We believe the implementation of these suggestions will enhance both the control environment and the financial reporting process, making both more effective. We also believe these recommendations can be easily implemented, and all problems resolved quite timely should management elect to employ the corrective measures. If you have any questions regarding any comments, suggestions or recommendations set forth in this memorandum, we will be pleased to discuss it with you at your convenience.

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

We appreciate the opportunity to serve the City of Stonecrest, Georgia and look forward to serving the City in the future. Thank you.



Client: **03013437 - City of Stonecrest**
 Engagement: **03013437 - City of Stonecrest**
 Period Ending: **12/31/2018**
 Trial Balance: **0200.000 - General Fund Database**
 Workpaper: **0204.100 - Adjusting Journal Entries Report**

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 1		PBC		
To record due from Hotel / motel fund				
100-390-39100-39120	Transfer from Hotel/Motel		18,553.80	
100-110-11110-11375	Due From Hotel Motel			18,553.80
Total			18,553.80	18,553.80
Adjusting Journal Entries JE # 2		1001.000		
To reclass amounts recorded as outstanding checks as accounts payable for financial reporting				
100-110-11110-11110	Bb&t Bank		311,556.64	
100-210-21000-21200	Accounts Payable			311,556.64
Total			311,556.64	311,556.64
Adjusting Journal Entries JE # 3		5001.000		
To reclass debt service payment made prior to FYE as prepaid asset				
100-110-11110-111MJ	Prepaid expense		3,200.00	
100-110-11110-11382	Prepaid Expenses			3,200.00
Total			3,200.00	3,200.00
Adjusting Journal Entries JE # 4		1701.000		
To record imposed non-exchange transaction as revenues in FY 2018				
100-210-21000-22500	Deferred Revenue		149,055.38	
100-032-03210-32110	Alcoholic Beverages			142,786.48
100-032-03210-32120	General Business License			6,268.90
Total			149,055.38	149,055.38

Client: 03013437 - City of Stonecrest
 Engagement: 03013437 - City of Stonecrest
 Period Ending: 12/31/2018
 Trial Balance: 0200.275 - Hotel Motel Tax Fund Database
 Workpaper: 0204.275 - Adjusting Journal Entries Report

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries				
Adjusting Journal Entries JE # 1				
To correct 2018 Hotel/motel balances				
275-075-07500-75400	Discover Dekalb		109,845.59	
275-210-21000-12190	Due To City		18,553.80	
275-075-07500-61100	Transfer To General Fund			18,553.80
275-210-21000-12190	Due To City			109,845.59
Total			128,399.39	128,399.39
Total Adjusting Journal Entries			128,399.39	128,399.39
Total All Journal Entries			128,399.39	128,399.39