

Waccamaw Regional
Transportation Authority



Auditor's Discussion & Analysis (AD&A)

Financial & Compliance Audit Summary

September 30, 2019

Meeting with the Board

Presented by:

**MAULDIN
& JENKINS**

Over 450 Governments Served Annually

Waccamaw Regional Transportation Authority

Auditor's Discussion & Analysis (AD&A)

September 30, 2019

PURPOSE OF ANNUAL AUDITOR'S DISCUSSION & ANALYSIS

- ◆ Engagement Team and Firm Information:
 - The Governmental Practice
 - Additional Information Regarding Other Industries & Services

- ◆ Overview of:
 - Independent Auditor's Report
 - Overview of the Financial Statements
 - Compliance Report (Internal Controls and Laws & Regulations)

- ◆ Required Communications under Government Auditing Standards.

- ◆ Accounting Recommendations and Related Matters:
 - Recommendations for Improvement
 - Management Points
 - Other Matters for Communication

- ◆ Free Continuing Education and Newsletters

- ◆ Closing Thoughts

- ◆ Answering Your Questions.



Waccamaw Regional Transportation Authority

Auditor's Discussion & Analysis (AD&A)

September 30, 2019

MAULDIN & JENKINS – GOVERNMENTAL PRACTICE

General Information:

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



Governmental Sector:

- Serve more governmental entities in the Southeast than any other firm with over 100,000 hours annually.
- Largest industry niche served by Firm (28% of Firm).
- Over 100 people with current governmental experience.
- **In past three (3) years, we have served approx. 450 governments:**
 - ✓ 55 counties;
 - ✓ 115 cities;
 - ✓ 55 school systems and 40 charter schools;
 - ✓ 40 state entities;
 - ✓ 45 stand-alone business-type special purpose entities (water/sewer, transit, gas, electric, and airports, etc.);
 - ✓ 105 stand-alone governmental special purpose entities (housing, development, industrial, other educational, health & welfare, retirement, libraries, etc.);
 - ✓ 100+ water & sewer systems, 25 airport operations, 10 gas systems, 15 electrical utilities, & 10 transit services; and,
 - ✓ 115 governments awarded the GFOA's and, or ASBO's Financial Reporting Certificates.
- Experience performing forensic audit services and information technology consultations.
- Experience performing municipal bond debt issuance attestation services serving approx. 50 clients with over \$11 billion in aggregate publicly issued debt instruments.
- Considered to be in the Top 20 total number of Single Audits conducted in U.S.A.

Engagement team leaders on the audit engagement include:

- Grant Davis, Engagement Director – 7 years' experience
- Miller Edwards, Concurring Reviewer – 34 years' experience
- Brian Nicholson, Supervisor – 4 years' experience



Waccamaw Regional Transportation Authority

Auditor's Discussion & Analysis (AD&A)

September 30, 2019

MAULDIN & JENKINS – ADDITIONAL INFORMATION

Other Industries & Services by Mauldin & Jenkins:

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

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

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

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

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

Waccamaw Regional Transportation Authority

Auditor's Discussion & Analysis (AD&A)

September 30, 2019

INDEPENDENT AUDITOR'S REPORT

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

Management's Responsibility for the Financial Statements

The financial statements are the responsibility of management.

Auditor's Responsibility

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

Opinions

We have issued an unmodified audit report (i.e., "clean opinions"). The respective financial statements are considered to present fairly the financial position and results of operations as of, and for the year ended September 30, 2019.

Other Matters

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

Other Reporting

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

Waccamaw Regional Transportation Authority

Auditor's Discussion & Analysis (AD&A)

September 30, 2019

OVERVIEW OF THE FINANCIAL STATEMENTS

Statement of Net Position

Assets & Deferred Outflows of Resources

Assets and deferred outflows of resources decreased approximately \$787,000 in the current period. Cash increased approximately \$77,500 while accounts receivable decreased approximately \$46,000. These changes are the result of fluctuations in federal and state grant activity and timing of receipts. Total assets and deferred outflows of resources amount to \$4,564,583, of which \$2,810,871 is invested in capital assets.

Liabilities & Deferred Inflows of Resources

Liabilities and deferred inflows of resources decreased approximately \$119,500 in the current year. This decrease is attributed to the decrease in the amounts of \$115,000 and \$142,400 for accounts payable and due to the Federal Transit Administration, respectively, offset by an increase in the due to the SCDOT in the amount of \$166,700. Total liabilities and deferred inflows of resources amount to \$6,980,269 as of year-end of which \$6,015,828 is considered long-term in nature.

Net Position

Total net position (otherwise known as equity) amounts to a deficit of \$2,415,686, of which \$5,069,057 is an unrestricted deficit. The remaining elements of net position are net investment in capital assets of \$2,593,371 and restricted for transit operations of \$60,000. The overall deficit net position at year end is primarily the result of the Authority's portion of the SCRS plan net pension liability and related deferred outflow and inflows of resources.

Statement of Revenues, Expenses and Changes in Net Position

Total operating revenues of the Authority decreased for the year in the amount of \$27,515 from \$529,993 for the year ended September 30, 2018 to \$502,478 for the year ended September 30, 2019. This can primarily be attributed to a decrease in advertising in 2019 of \$20,220.

Total operating expenses of the Authority increased from \$6,939,086 in 2018 to \$6,998,689 in 2019. Additionally, the Authority recognized pension expense in the amount of approximately \$539,800 from the change in the Authority portion of the collective SCRS and PORS net pension liabilities. This \$539,800 pension expense is in addition to the Authority's required employer contributions to the SCRS and PORS plans for the year ended September 30, 2019.

Waccamaw Regional Transportation Authority

Auditor's Discussion & Analysis (AD&A)

September 30, 2019

Total net non-operating revenues of the Authority decreased from \$5,764,864 in 2018 to \$5,450,679 in 2019. In total, the Authority's net position decreased by \$667,383 for an ending deficit balance of \$2,415,686.

Statement of Cash Flows

The statement of cash flows is a very important statement for any enterprise, and the Authority is no different.

Net cash used in operating activities totaled \$5,476,356 for the year ended September 30, 2019. However, net cash provided by noncapital financing activities totaled \$5,354,246 for the year ended September 30, 2019. The primary source of funds are the intergovernmental receipts in the amount of \$5,350,651.

Net cash provided by capital and related financing activities totaled \$199,648 for the year ended September 30, 2019. Additional items to note from the Authority's statement of cash flows are the following:

- The Authority purchased capital assets in the amount of \$230,725, but also received proceeds from the sale of capital assets in the amount of \$208,172.
- The Authority received capital grants in the amount of \$378,149.
- The Authority repaid principal on notes payables in the amount of \$137,500.

In conclusion, the Authority reflects an increase in cash and cash equivalents in the amount of \$77,567 for an ending balance of \$158,868.

Waccamaw Regional Transportation Authority

Auditor's Discussion & Analysis (AD&A)

September 30, 2019

Footnotes

Note 1 - Accounting Policies

This footnote discusses the overall organization of the Authority, the nature of its operations, and also discloses pertinent information regarding the governing body of the Authority.

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 – Deposits

This footnote discloses the Authority's deposits for year ended September 30, 2019. The disclosure addresses custodial credit risk.

Note 3 – Receivables

This footnote discloses the Authority's accounts receivable activity at year end, net of allowance for uncollectibles.

Note 4 – Capital Assets

This footnote discloses the Authority's capital asset activity and its related accumulated depreciation for the year.

Note 5 – Long-Term Liabilities

This footnote discloses the long-term obligations outstanding of the Authority.

Note 6 – Short Term Liabilities

This footnote discloses the short term obligations outstanding of the Authority.

Note 7 – Retirement System

This footnote discloses the Authority's participation in the South Carolina Retirement System and Police Officers' Retirement System during the year. It also disclosed the Authority's net pension liability in accordance with GASB 68 and 71.

Footnotes (Continued)

Waccamaw Regional Transportation Authority

Auditor's Discussion & Analysis (AD&A)

September 30, 2019

Note 8 – Commitments and Contingencies

This footnote discloses the Authority's various contingencies.

Note 9 – Risk Management

This footnote discloses the Authority's various risks of loss.

Required Supplementary Information includes information relative to the Authority's PEBA managed SCRS and PORS pension plans.

Supplementary Information includes information relative to the Authority's budgets for general operations as well as the SCDOT Grants and WRCG (GSATS) funds.

COMPLIANCE REPORT

The financial report package contains two (2) compliance reports.

Yellow Book Report - The first compliance report is a report on our tests of the Authority'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 Authority'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 Authority's internal controls and compliance with applicable rules and regulations.

Single Audit Report - The second compliance report is a report on our tests of the Authority's internal controls and compliance with laws, regulations, etc. relative to certain Federal grant programs and the respective expenditures. In accordance with the respective standards, we did provide an unmodified (or positive) opinion on the Authority's compliance based on our audit. However, we were not required to provide an opinion on the relevant internal controls, but to provide a form of negative assurance on such controls.

Waccamaw Regional Transportation Authority

Auditor's Discussion & Analysis (AD&A)

September 30, 2019

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 Authority for the year ended September 30, 2019, was conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error, fraudulent financial reporting or misappropriation of assets. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Accordingly, the audit was designed to obtain reasonable, rather than absolute, assurance about the financial statements. We believe our audit accomplishes that objective.

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

Accounting Policies

Management has the ultimate responsibility for the appropriateness of the accounting policies used by the Authority. 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 Authority'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 Authority'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

Waccamaw Regional Transportation Authority

Auditor's Discussion & Analysis (AD&A)

September 30, 2019

of management's calculations in evaluating the Authority's significant accounting estimates. Estimates significant to the financial statements include such items as the estimated allowance for uncollectible accounts receivable and the estimated lives of depreciable assets.

Financial Statement Disclosures

The footnote disclosures to the financial statements are also an integral part of the financial statements. The process used by management to accumulate the information included in the disclosures was the same process used in accumulating the financial statements and the accounting policies described above are included in those disclosures. The overall neutrality, consistency, and clarity of the disclosures was considered as part our audit and in forming our opinion on the financial statements.

Significant Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management relating to the performance of the audit.

Audit Adjustments

During our audit of the Authority's basic financial statements as of and for the year ended September 30, 2019, there were several adjustments proposed to the funds of the Authority. The detail of all audit adjustments for each fund have been discussed and provided to management. We have a copy of these adjustments for presentation to the Council.

Uncorrected Misstatements

We had no passed adjustments.

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.

Waccamaw Regional Transportation Authority

Auditor's Discussion & Analysis (AD&A)

September 30, 2019

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.

Independence

We are independent of the Authority, 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 Authority.

Waccamaw Regional Transportation Authority

Auditor's Discussion & Analysis (AD&A)

September 30, 2019

OTHER COMMUNICATIONS TO THE AUTHORITY

New Standards and Pronouncements

During our audit of the financial statements as of and for the year ended September 30, 2019, we noted other matters which we wish to communicate to you in an effort to keep the Authority abreast of accounting matters that could present challenges in financial reporting in future periods.

1) New Governmental Accounting Standards Board (GASB) Pronouncements



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

- a) **Statement No. 84, *Fiduciary Activities*** was issued in January 2017 and is effective for the first reporting period beginning after December 15, 2018 (Authority's fiscal year ended September 30, 2020). 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 (Authority's fiscal year ended September 30, 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.

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

Waccamaw Regional Transportation Authority

Auditor's Discussion & Analysis (AD&A)

September 30, 2019

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.

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).

Waccamaw Regional Transportation Authority

Auditor's Discussion & Analysis (AD&A)

September 30, 2019

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.

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

Waccamaw Regional Transportation Authority

Auditor's Discussion & Analysis (AD&A)

September 30, 2019

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 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 September 30, 2021). This standard eliminates the requirement/ability to capitalize construction period interest costs as part of the cost of a capital asset in enterprise funds. This standard should be applied prospectively with no restatement. This standard can be early implemented as part of fiscal year 2019.
- d) ***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 (Authority's fiscal year ended September 30, 20). Under this standard, an equity interest is: a) a financial interest in a legally separate organization by the ownership shares of the organization's stock; or, b) by otherwise having an explicit, measurable right to the net resources of the organization that is usually based on an investment of financial or capital resources by a government. An equity interest is explicit and measurable if: a) the government has a present or future claim to the net resources of the entity, and b) the method for measuring the government's share of the entity's net resources is determinable.

If the interest is deemed to be an investment under GASB No. 72, paragraph 64, then the interest should be reported as an investment and measured using the equity method. If the interest is held by a special-purpose government engaged in fiduciary activities, a

Waccamaw Regional Transportation Authority

Auditor's Discussion & Analysis (AD&A)

September 30, 2019

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 Authority.

- e) **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.

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.

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

Waccamaw Regional Transportation Authority

Auditor's Discussion & Analysis (AD&A)

September 30, 2019

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.

f) **Other Pending or Current GASB Projects.** As noted by the numerous pronouncements issued by GASB over the past decade, the GASB continues to research various projects of interest to governmental units. Subjects of note include:

- **Re-Examination of the Financial Reporting Model.** GASB has added this project to its technical agenda to make improvements to the existing financial reporting model (established via GASB 34). Improvements are meant to enhance the effectiveness of the model in providing information for decision-making and assessing a government's accountability. GASB anticipates issuing an initial due

Waccamaw Regional Transportation Authority

Auditor's Discussion & Analysis (AD&A)

September 30, 2019

process document on this project by the end of 2018 with a final standard expected in early 2022.

- **Conceptual Framework** is a constant matter being looked at by GASB. Current measurement focus statements (for governmental funds) to change to near-term financial resources measurement. May dictate a period (such as 60 days) for revenue and expenditure recognition. May expense things such as supplies and prepaid assets at acquisition. Will look into which balances (at all statement levels) are measured at acquisition and which need to be re-measured at year-end. Final standard is expected in 2021.

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 your staff and officials have been able to participate in this opportunity, and that it has been beneficial to you. Examples of subjects addressed in the past few quarters include:

"I've been a CPA for 32 years. Today's CPE class by Mauldin & Jenkins has been the best of my career". Terry Nall, CPA, City of Dunwoody (GA) Council Member

"They are always on top of new accounting pronouncements and provide training well before implementation deadlines. This is a very valuable resource for our organization". Laurie Puckett, CPA, CPFO, Gwinnett County (GA), Accounting Director



Examples of subjects addressed in past quarters include:

- Accounting for Debt Issuances
- American Recovery & Reinvestment Act (ARRA) Updates
- Best Budgeting Practices, Policies and Processes
- Budget Preparation
- CAFR Preparation (several times including a two (2) day hands-on course)
- Capital Asset Accounting Processes and Controls
- Closing Out and Audit Preparation
- Collateralization of Deposits and Investments

Waccamaw Regional Transportation Authority

Auditor's Discussion & Analysis (AD&A)

September 30, 2019

- 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.

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

Waccamaw Regional Transportation Authority

Auditor's Discussion & Analysis (AD&A)

September 30, 2019

- 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
- Special Purpose Local Option Sales Taxes (SPLOST) Expenditures
- Supplemental Social Security for Inmates
- The New Tax Cuts and Jobs Act – Impact on Bond Refunding
- The Return of the Component Unit – GASB 61
- Uniform Guidance & New Procurement Requirements
- What's Happening with Property Tax Assessments

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

Waccamaw Regional Transportation Authority

Auditor's Discussion & Analysis (AD&A)

September 30, 2019

gdavis@micpa.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

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 Authority's management, and others within the Authority'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 Waccamaw Regional Transportation Authority and look forward to serving the Authority in the future. Thank you.

