Annual Audit Agenda
June 30, 2012

MAULDIN & JENKINS
CERTIFIED PUBLIC ACCOUNTANTS, LLC

1-800-277-0050

CITY OF ST. MARYS

Annual Audit Agenda

June 30, 2012

PURPOSE OF ANNUAL AUDIT AGENDA

- Engagement Team and Firm Information.

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

- Required Communications under Government Auditing Standards.

- Accounting Recommendations and Related Matters.

- Answer Questions.

MAULDIN & JENKINS – GOVERNMENTAL PRACTICE

General Information:

- Founded in ~1920.
- Large regional firm serving the Southeastern United States.
- Offices located in Macon, Atlanta, Albany, Bradenton, FL and Birmingham, AL with firm governmental leadership positioned in the Macon office.
- Approximately 240 personnel are employed at Mauldin & Jenkins.

Governmental Sector:

- Largest specific industry niche served by Firm representing 27% of Firm practice.
- Serve more governmental entities in the Southeast than any other certified public accounting firm requiring over 60,000 hours of service on an annual basis.
- Approximately 65 professional staff persons with current governmental experience.
- Current auditor for over 185 total governments in the Southeast, including approximately:
    - ✓ 50 cities;
    - ✓ 30 counties;
    - ✓ 35 school systems;
    - ✓ 15 state entities; and,
    - ✓ 55 special purpose entities (stand-alone business type entities, libraries, etc).
- Serves 67 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 25% of the State's general fund; 13 of the State of Georgia's component units; and 2 State of Alabama entities.

Engagement team leaders for the City of St. Marys include the following:

- Meredith Lipson, Quality Assurance Partner – 23 years experience serving governments
- David Irwin, Client Executive – 9 years experience serving governments.

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:

- Financial Institutions (community banks, savings & loans, thrifts, credit unions, mortgage companies, and finance companies)
- SEC Registrants
- Wholesale Distribution
- Agri-Businesses
- Manufacturing
- Employee Benefit Plans
- Non-Profit Organizations
- Retail Businesses
- Long-term Healthcare
- Construction & Development
- Individuals, Estates and Trusts
- Real Estate Management
- Professional Services

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

AUDIT OPINION

City's Responsibility

The financial statements are the responsibility of the City of St. Marys, Georgia's management and the City Council.

Auditor's Responsibility

Our responsibility, as external auditors, is to express an opinion on these financial statements.

Auditing Standards

We audited the City's financial statements 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.

Clean Opinion

The financial statements of the City are considered to present fairly the financial position and results of operations as of, and for the year ended June 30, 2012.

FINANCIAL STATEMENTS,

The financial report for the City of St. Marys' June 30, 2012 fiscal year include the basic financial statements as well as Management's Discussion and Analysis as prepared by City management. Also included in the financial report is the Schedule of Expenditures of Special Purpose Local Option Sales Tax.

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 Assets* presents information on all assets and liabilities of the City, with the difference between the two reported as net assets. The *Statement of Activities* presents information showing how the City's net assets changed during the most recent fiscal year. Revenues are categorized as program revenues or general revenues. Expenses are categorized by function.

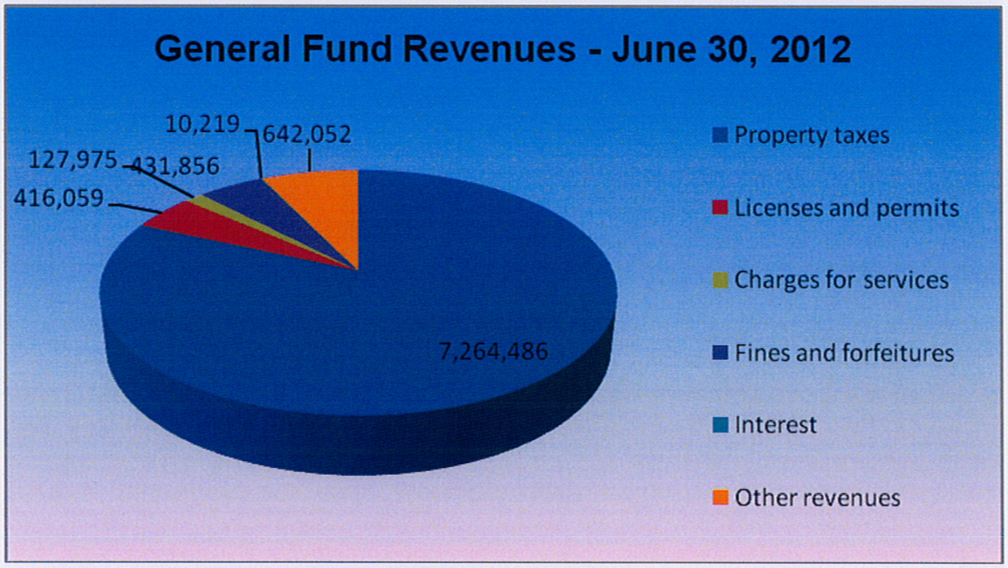
The **fund financial statements** more closely resemble the financial statements as presented prior to the adoption of GASB Statement No. 34. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

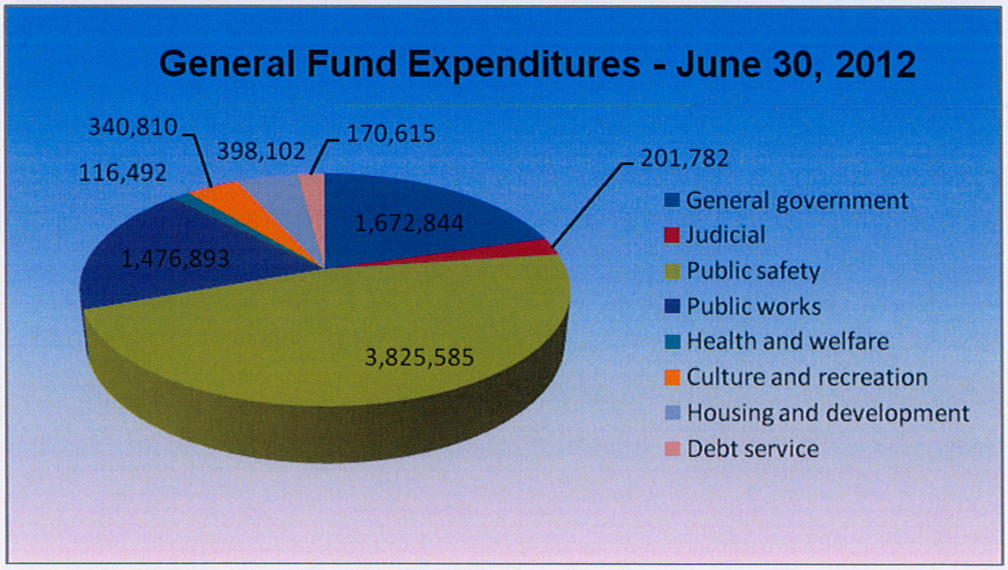
The **notes to the financial statements** provide additional information that is essential to a full understanding of the data provided in both the government-wide and fund financial statements.

The **supplementary statements and schedules** present combining information for all of the City's non major funds (special revenue funds). Additionally, schedules of expenditures of special purpose local option sales tax (SPLOST) proceeds are presented for each SPLOST issue. These schedules show prior year expenditures, current year expenditures and cumulative expenditures to date.

General Fund

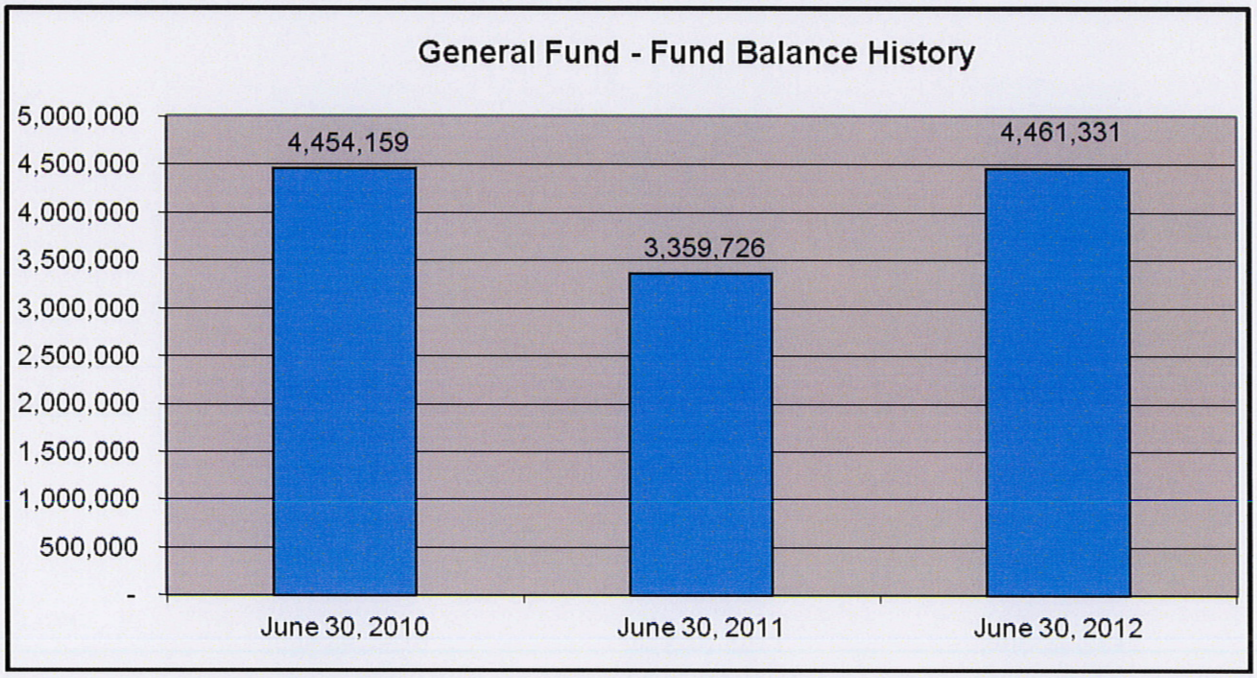
Of primary interest to the City is the General Fund, which accounts for the majority of revenues received and funds expended in the operations of the City, including administration, judicial activities, public safety, public works, and housing and development. The following charts present the sources of revenues and the expenditures of the General Fund for the fiscal year ended June 30, 2012:





Total fund balance of the General Fund at June 30, 2012, was a positive $4,461,331. Note that fund balance does not necessarily equal cash on hand and available to spend. Fund balance is the difference between assets and liabilities, only a portion of which is cash available to be spent. A large part of fund balance at June 30, 2012 is needed to fund expenditures going forward until property taxes are collected in November and December.

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

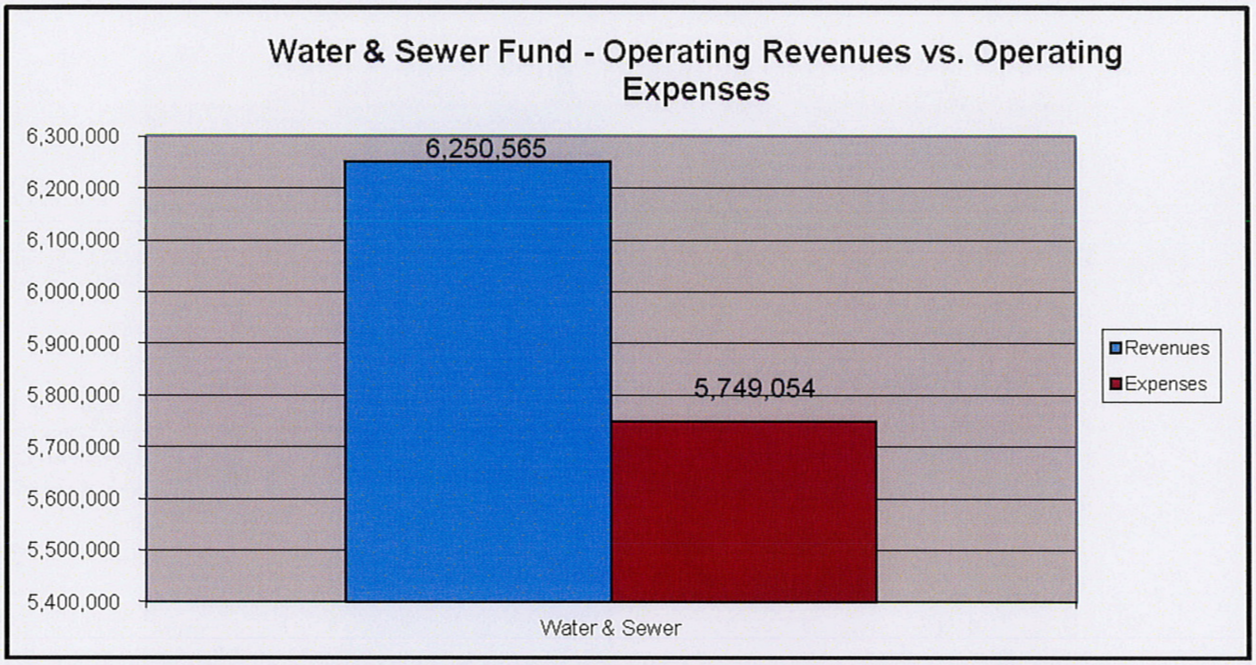


Other Governmental Funds

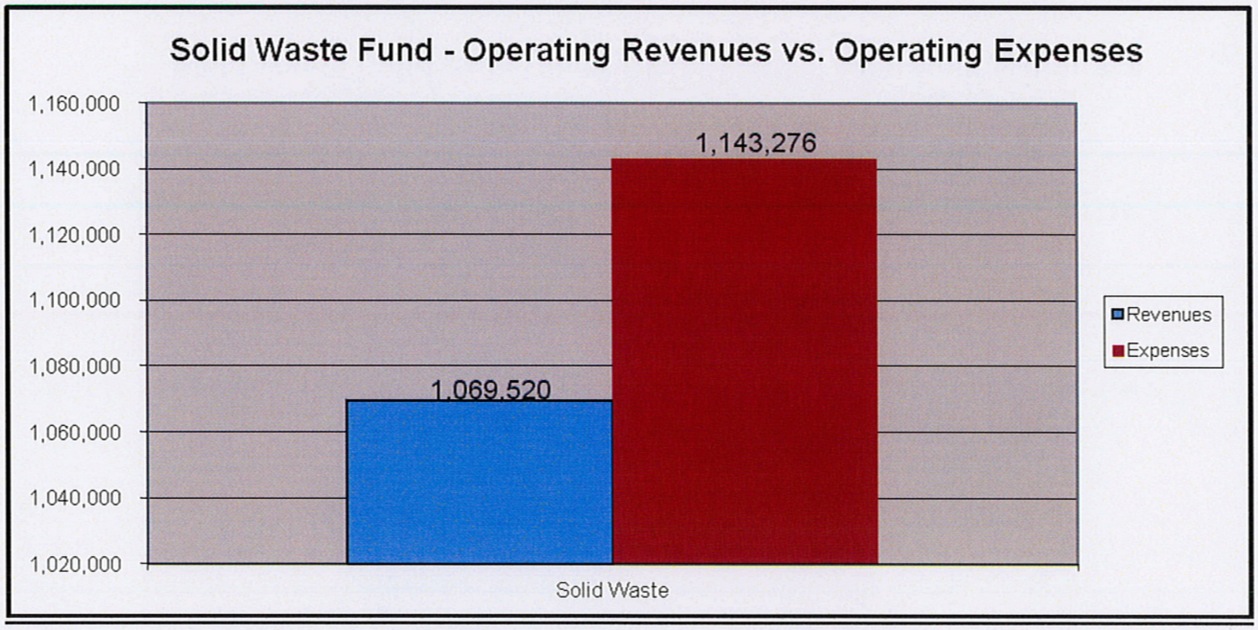
The City also maintains the SPLOST Fund, which is used to record activity related to projects financed with SPLOST proceeds as well as other capital projects of the City. The City also maintains various special revenue funds (Hotel/Motel, Multiple Grants, and the Convention and Visitors Bureau). These funds account for revenues derived from specific sources which are legally restricted to finance particular functions or activities.

Enterprise Funds

The City maintains three enterprise funds which are used to account for operations in a manner similar to private business enterprises – where the intent is that the costs of providing the goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The Water and Sewer and Solid Waste funds qualify as major funds for fiscal year 2012.



Water & Sewer Fund - Operating Revenues vs. Operating Expenses
6,300,000
6,200,000
6,100,000
6,000,000
5,900,000
5,800,000
5,700,000
5,600,000
5,500,000
5,400,000
6,250,565
5,749,054
Water & Sewer
Revenues
Expenses



Solid Waste Fund - Operating Revenues vs. Operating Expenses
1,160,000
1,140,000
1,120,000
1,100,000
1,080,000
1,060,000
1,040,000
1,020,000
1,143,276
1,069,520
Solid Waste
Revenues
Expenses

COMPLIANCE REPORT

The financial report package contains a report on our tests of the City's internal controls and compliance with laws, regulations, etc. The report is not intended to provide an opinion, but to provide a form of negative assurance as to the City's internal controls and compliance with applicable rules and regulations.

This report makes reference to the fact that we have issued a management letter which contains recommendations for improvement we noted during the course of our annual audit engagement.

This report and the procedures performed are required by *Government Auditing Standards*.

REQUIRED COMMUNICATIONS

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

Our audit of the financial statements of the City for the year ended June 30, 2012, 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.

Accounting Policies

Management has the ultimate responsibility for the appropriateness of the accounting policies used by the City. There were no significant new accounting policies or standards implemented this year. There are 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 aspect of management's calculations in evaluating the City'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 capital 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 City's basic financial statements as of and for the year ended June 30, 2012, there were several adjustments proposed to the funds of the City. All adjustments have been discussed with, and delivered to management. 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.

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.

Other Information in Documents Containing Audited Financial Statements

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

Independence

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

CITY OF ST. MARYS

Annual Audit Agenda

June 30, 2012

ACCOUNTING RECOMMENDATIONS AND RELATED MATTERS

Recommendations for Improvement

During our audit of the financial statements as of and for the year ended June 30, 2012, we noted areas within the accounting and internal control systems that we believe can be improved and certain items management should consider as part of its decision making process. Our recommendations are presented in the following paragraphs. We believe consideration of these recommendations will help provide proper control over financial activities, and add effectiveness and efficiency to overall operations.

Items Noted As Management Recommendations

We have discussed various matters with management pertaining to operations and controls including, but not limited to:

1. **Utility Accounts Receivable**
   During our testing of utility accounts receivable, we noted that there are numerous accounts that have been inactive for several years, some as far back as 1994. While an allowance has been properly booked for these accounts, M&J recommends that the City review their Aging Report and write off those accounts for which it has been determined that the City will not receive payment.

Other Matters

During our audit of the financial statements as of and for the year ended June 30, 2012, we noted other matters which we wish to communicate to you in an effort to keep the Government abreast of accounting matters that could present challenges in financial reporting in future periods.

1) New GASB Standards

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. 56, *Codification of Accounting and Financial Reporting Guidance Contained in AICPA Statements on Auditing Standards*** which is currently effective and attempts to incorporate into GASB's literature certain accounting and financial reporting guidance that is currently included in the AICPA's Statements on Auditing Standards. Subjects include: related party transactions; subsequent events; and going concern considerations. The City was not significantly affected by the implementation of this statement.

b) **Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple Employer Plans*** is effective the year ending June 30, 2013. The City is not significantly affected by the implementation of this statement.

c) **Statement No. 58,** ***Accounting and Financial Reporting for Chapter 9 Bankruptcies.*** This statement is currently effective and addresses financial reporting issues for governments who have declared bankruptcy. The City was not significantly affected by the implementation of this statement.

d) **Statement No. 59,** ***Financial Instruments Omnibus*** is currently effective and deals with certain financial instruments and external investment pools. The City was not significantly affected by the implementation of this statement.

e) **Statement No. 60,** ***Accounting and Financial Reporting for Service Concession Arrangements*** will be effective for fiscal years beginning after December 15, 2011 resulting in the City's fiscal year ending June 30, 2013. This statement addresses arrangements where a transferor conveys to an operator the right, and related obligation, to provide public services through the use and operation of a capital asset in exchange for significant consideration. The City should: apply certain due diligence to addressing the potential for restatements relative to the pronouncements; review various agreements previously entered into by the City; and, determine the potential effects from adopting the requirements of this pronouncement. The provisions of this pronouncement generally are required to be applied retroactively for all periods presented.

f) **Statement No. 61,** ***The Financial Reporting Entity: Omnibus (An Amendment to GASB No.'s 14 and 34)*** will be effective for fiscal years beginning after June 15, 2012 resulting in the City's fiscal year ending June 30, 2013. This standard addresses the concept and definition of a component unit. This new statement raises the bar for an entity to be included in another primary government's financial statements. This statement also addresses the recognition of joint venture arrangements with other governmental units. The City should apply certain due diligence to addressing the potential effects from adopting the requirements of this pronouncement.

g) **Statement No. 62,** ***Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*** was effective during the City's current fiscal year.. The provisions of this pronouncement generally are required to be applied retroactively for all periods presented.

FASB has adopted a new codification and its original pronouncements are considered to be non-authoritative. This standard identifies those provisions in FASB Statements & Interpretations, APB Opinions, ARB's, and AICPA Accounting Interpretations issued before November 30, 1989 that are applicable to state and local governmental entities and incorporated into the GASB's literature. GASB Statement No. 20 is superseded by this statement. Matters of significance to the City that are specifically addressed in this new standard include:

- Capitalization of interest costs
- Statement of net asset's classifications
- Special and extraordinary items
- Comparative financial statements
- Related party activities, transactions and relationships
- Prior period adjustments and restatements
- Accounting changes and error corrections

- Contingencies
- Extinguishment of debt
- Troubled debt restructuring
- Inventory
- Leases (capital, operating, etc.)
- Sales of real estate
- Real estate projects
- Research and development arrangements
- Broadcasters
- Cable television systems
- Insurance enterprises
- Lending activities
- Mortgage banking activities
- Regulated operations

h) **Statement No. 63,** ***Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*** will be effective for fiscal years beginning after December 15, 2011 resulting in the City's fiscal year ending June 30, 2013.

This statement is intended to improve financial reporting by providing citizens and other users of state and local government financial reports with information about how past transactions will continue to impact a government's financial statements in the future. This statement provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (which is the net residual amount of the other elements). This statement requires that deferred outflows of resources and deferred inflows of resources be reported separately from assets and liabilities.

A deferred outflow of resources is a consumption of net assets that is applicable to a future reporting period. An example of a deferred outflow of resources is a government's hedging interest rate swap agreement in which the fair value becomes negative. If the hedge is determined to be effectively offsetting the changes in fair value of the debt, the decrease in the fair value of the derivative instrument would be reported as a liability with a corresponding deferred outflow of resources to reflect the fact that this decrease is not expected to be recognized in investment income in future periods.

A deferred inflow of resources is an acquisition of net assets that is applicable to a future reporting period. An example of a deferred inflow of resources is a service concession arrangement that involves a public toll road. If the government receives an up-front payment from an operator, the revenue associated with that payment will be recognized in future years because the arrangement that generated the up-front payment relates to those periods.

Statement No. 63 also amends certain provisions of Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, and related pronouncements to reflect the residual measure in the statement of financial position as net position, rather than net assets.

A further breakdown of the change in the balance sheet presentation to the new statement of net position is as follows:

Assets:			**Liabilities:**		
Current:			Current:		
Cash	$	xxx	Accounts Payable	$	xxx
Accounts Receivable		xxx	Accrued Expenses		xxx
Inventory		xxx	Bonds Payable		xxx
Prepaids		xxx	Notes Payable		xxx
	$	xxx		$	xxx
Non-current:			Non-current:		
Fixed Assets	$	xxx	Bonds Payable	$	xxx
Accumulated Depreciation		xxx	Notes Payable		xxx
	$	xxx		$	xxx
Total Assets	$	xxx	Total Liabilities	$	xxx
Deferred Outflows:			**Deferred Inflows:**		
Grants Paid in Advance			Grants Received in Advance		
of Timing Requirements	$	xxx	of Timing Requirements	$	xxx
Total Deferred Outflows	$	xxx	Taxes Received in Advance		xxx
			Total Deferred Outflows	$	xxx
			Net Financial Position:		
			Invested in Capital Assets Net		
			of Related Debt	$	xxx
			Restricted		xxx
			Unrestricted		xxx
			Net Financial Position	$	xxx

i) **Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions (An Amendment of GASB Statement No. 53)*** is effective for government fiscal years beginning after June 15, 2011 which resulted in being effective with the close of fiscal year June 30, 2012. This statement is intended to improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap **counterparty, or a swap counterparty's credit support provider, is replaced.** This statement clarifies that when certain conditions are met, the use of hedge accounting should not be terminated. Hedge accounting entails reporting fair value changes of a hedging derivative as either deferred outflows of resources or deferred inflows of resources, rather than recognizing those changes in investment income. When a hedging derivative is terminated, Statement 53 requires that hedge accounting cease and all accumulated deferred amounts be reported in investment income.

As Statement 53 was being implemented, questions had arisen regarding situations in which a government has entered into a hedging interest rate swap or a hedging commodity swap and the swap counterparty (or the swap counterparty's credit support provider) commits or experiences an act of default or a termination event under the swap agreement through no fault of the government. When a swap counterparty (or a swap counterparty's credit support provider) is replaced through an assignment or an in-substance assignment, the GASB concluded that the government's financial position remains unchanged.

j) **Statement No. 65, *Items Previously Reported as Assets and Liabilities*** will be effective for fiscal years beginning after December 15, 2012 resulting in the City's fiscal year ending June 30, 2014. GASB Concepts Statement No. 4, *Elements of Financial Statements,* specifies that recognition of deferred outflows and deferred inflows should be limited to those instances specifically identified in authoritative GASB pronouncements. Consequently, guidance was needed to determine which balances being reported as assets and liabilities should actually be reported as deferred outflows of resources or deferred inflows of resources, according to the definitions in Concepts Statement 4. Based on those definitions, Statement 65 reclassifies certain items currently being reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. In addition, this Statement recognizes certain items currently being reported as assets and liabilities as outflows of resources and inflows of resources.

Examples of these changes are as follows:

Reclassifying certain assets to be deferred outflows of resources:

- Grants paid in advance of meeting time requirements;
- Deferred amounts from refunding of debt (debits);
- Costs to acquire rights to future revenues;
- Deferred losses from sale-leasebacks;

Reclassifying certain liabilities to be deferred inflows of resources:

- Grants received in advance of meeting time requirements;
- Taxes received in advance;
- Deferred amounts from refunding of debt (credits);
- Proceeds from sales of future revenues;
- Deferred gains from sale-leasebacks;
- "Unavailable" revenue in governmental funds.

Recognizing certain assets as outflows (expenses):

- Debt issuance Costs (other than insurance);
- Initial costs incurred by lessor in an operating lease;
- Loan origination costs (by entities in the lending business);
- Costs to acquire loans.

Recognizing certain assets as inflows (revenues):

- Loan origination fees, excluding points (by entities in the lending business);
- Commitment fees (after exercise or expiration);
- Fees received for sales of loans.

k) **Statement No. 66, *Technical Corrections – 2012*** will be effective for fiscal years beginning after December 15, 2012 resulting in the City's fiscal year ending June 30, 2014. This pronouncement amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues,* by removing the provision that limits fund-based reporting of a state and local government's risk financing activities to the general fund and the internal service fund type. As a result, governments would base their decisions about governmental fund type usage for risk financing activities on the definitions in Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions.*

This Statement also amends Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* by modifying the specific guidance on accounting for: (1) operating lease payments that vary from a straight-line basis; (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans; and, (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes would eliminate any uncertainty regarding the application of Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases,* and result in guidance that is consistent with the requirements in Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues,* respectively.

l) **Statement No. 67, *Financial Reporting for Pension Plans*** will be effective for fiscal years beginning after June 15, 2013 resulting in the City's fiscal year ending June 30, 2014. This pronouncement replaces the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and Statement 50 as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria.

Statement No. 67 builds upon the existing framework for financial reports of defined benefit pension plans, which includes a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position. Statement No. 67 enhances note disclosures and RSI for both defined benefit and defined contribution pension plans. Statement No. 67 also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year RSI schedules.

The changes noted above by Statement No. 67 are significant to pension plans, and we strongly encourage City officials to review the actual pronouncement and consider the potential effects on the financial reporting of the City.

m) **Statement No. 68, *Accounting and Reporting for Pensions*** will be effective for fiscal years beginning after June 15, 2014 resulting in the City's fiscal year ending June 30, 2015. This pronouncement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 50, *Pension Disclosures,* as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria.

Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information (RSI).

Defined Benefit Pension Plans. Statement No. 68 requires governments that participate in defined benefit pension plans to report in their statement of net position a net pension liability. The net pension liability is the difference between the total pension liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries.

Statement No. 68 calls for immediate recognition of more pension expense than is currently required. This includes immediate recognition of annual service cost and interest on the pension liability and immediate recognition of the effect on the net pension liability of changes in benefit terms. Other components of pension expense will be recognized over a closed period that is determined by the average remaining service period of the plan members (both current and former employees, including retirees). These other components include the effects on the net pension liability of: (1) changes in economic and demographic assumptions used to project benefits; and, (2) differences between those assumptions and actual experience. Lastly, the effects on the net pension liability of differences between expected and actual investment returns will be recognized in pension expense over a closed five-year period.

Statement No. 68 requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the cost-sharing plan. The Statement also will improve the comparability and consistency of how governments calculate the pension liabilities and expense. These changes include:

- **Projections of Benefit Payments.** Projections of benefit payments to employees will be based on the then-existing benefit terms and incorporate projected salary changes and projected service credits (if they are factors in the pension formula), as well as projected automatic postemployment benefit changes (those written into the benefit terms), including automatic cost-of-living-adjustments (COLAs). For the first time, projections also will include ad hoc postemployment benefit changes (those not written into the benefit terms), including ad hoc COLAs, if they are considered to be substantively automatic.

- **Discount Rate.** The rate used to discount projected benefit payments to their present value will be based on a single rate that reflects (a) the long-term expected rate of return on plan investments as long as the plan net position is projected under specific conditions to be sufficient to pay pensions of current employees and retirees and the pension plan assets are expected to be invested using a strategy to achieve that return; and (b) a yield or index rate on tax-exempt 20-

year, AA-or-higher rated municipal bonds to the extent that the conditions for use of the long-term expected rate of return are not met.

- **Attribution Method.** Governments will use a single actuarial cost allocation method – "entry age," with each period's service cost determined as a level percentage of pay.

Note Disclosures and Required Supplementary Information. Statement No. 68 also requires employers to present more extensive note disclosures and RSI, including disclosing descriptive information about the types of benefits provided, how contributions to the pension plan are determined, and assumptions and methods used to calculate the pension liability. Single and agent employers will disclose additional information, such as the composition of the employees covered by the benefit terms and the sources of changes in the components of the net pension liability for the current year. A single or agent employer will also will present RSI schedules covering the past 10 years regarding:

- Sources of changes in the components of the net pension liability
- Ratios that assist in assessing the magnitude of the net pension liability
- Comparisons of actual employer contributions to the pension plan with actuarially determined contribution requirements, if an employer has actuarially determined contributions.

Cost-sharing employers also will present the RSI schedule of net pension liability, information about contractually required contributions, and related ratios.

Defined Contribution Pensions. The existing standards for governments that provide defined contribution pensions are largely carried forward in this new statement. These governments will recognize pension expenses equal to the amount of contributions or credits to employees' accounts, absent forfeited amounts. A pension liability will be recognized for the difference between amounts recognized as expense and actual contributions made to a defined contribution pension plan.

Special Funding Situations. Certain governments are legally responsible for making contributions directly to a pension plan that is used to provide pensions to the employees of another government. For example, a state is legally required to contribute to a pension plan that covers local school districts' teachers. In specific circumstances called special funding situations, the Statement requires governments that are non-employer contributing entities to recognize in their own financial statements their proportionate share of the other governmental employers' net pension liability and pension expense.

The changes noted above by Statement No. 68 are significant to Governments who sponsor retirement plans, and we strongly encourage City officials to review the actual pronouncement and consider the potential effects on the financial reporting of the City.

3) Yellow Book Standards

While GASB has been issuing new financial reporting pronouncements affecting governmental units, the Government Accountability Office (GAO) has been issuing revised standards relative to the audits of state and local governments. An exposure draft was issued in August 2010 by the GAO amending and revising *Government Auditing Standards* (the Yellow Book). Finally, it has now been finalized. The more significant items addressed by the GAO in this revision of auditing standards include:

a) Actions required if an impairment to auditor independence is identified;

b) Definition of those charged with governance consistent with other AICPA audit guidelines;

c) Definition of internal control deficiencies to be consistent with other AICPA audit guidelines;

d) Promoting modernization of auditing standards consistent with technologies of today;

e) Added requirements for reporting restatements of previously issued financial statements;

f) Addressed standards related to 1) performance audits, and 2) internal audits; and,

g) Changed and emphasized continuing education requirements of auditors in the governmental sector to obtain a minimum of 80 hours of continuing education every two (2) years. The GAO emphasized a significant component of these hours must be directly relevant to governmental auditing. Further, audit team specialist (actuaries, engineers, etc.) have specific guidelines as well.

Summations of Thoughts Noted Above

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

FREE QUARTERLY CONTINUING EDUCATION AND NEWSLETTERS FOR GOVERNMENTAL CLIENTS

Free Continuing Education. We provide free quarterly continuing education 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:

1. American Recovery & Reinvestment Act (ARRA) information and issues;
2. GASB updates (several sessions);
3. Internal Controls Over Revenue and Cash Receipting;
4. Collateralization of Deposits and Investments;
5. SPLOST Accounting, Reporting and Compliance;
6. Internal Controls Over Accounts Payable, Payroll and Cash Disbursements;
7. Capital Asset Accounting Processes and Controls;
8. Grant Accounting Processes and Controls;
9. American Recovery & Reinvestment Act (ARRA) Updates;
10. Policies and Procedures Manuals;
11. Segregation of Duties;
12. GASB No. 51 – Intangible Assets;
13. Single Audits for Auditees;
14. GASB No. 54 – Governmental Fund Balance (subject addressed twice);
15. Best Budgeting Practices, Policies and Processes;
16. Internal Revenue Service (IRS) Compliance Issues, Primarily Payroll Matters;
17. CAFR Preparation (several times including a two (2) day hands-on course).
18. GASB No. 60, Service Concession Arrangements.

Governmental Newsletters. We 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 produced and delivered periodically {approximately ten (10) times per year}, and 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 Lauren Payne at LPayne@mjcpa.com (send corresponding copy to dirwin@mjcpa.com), and provide to her individual names, mailing addresses, email addresses and phone numbers of anyone you wish to participate and be included in our database.

CLOSING

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 of St. Marys, Georgia'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 St. Marys, Georgia and look forward to serving the City in the future. Thank you.