CITY OF SOUTH FULTON, GEORGIA

FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2018

Prepared by:
City of South Fulton Finance Department

INTRODUCTORY SECTION

CITY OF SOUTH FULTON, GEORGIA

FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2018

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INTRODUCTORY SECTION

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FINANCIAL SECTION

MAULDIN & JENKINS

INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and Members
of the City Council of the
City of South Fulton, Georgia

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the **City of South Fulton, Georgia** (the "City"), as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the City of South Fulton, Georgia as of September 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and budgetary comparison information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of South Fulton, Georgia's basic financial statements. The combining and individual fund statements and schedules, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 24, 2019 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Mauldin & Jenkins, LLC

Atlanta, Georgia
June 24, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the City of South Fulton, GA (the "City") introduces the basic financial statements for the fiscal year ended September 30, 2018. This period is the first full year of operations as a City; therefore, selected comparative information does not exist. Management prepared this discussion that should be read in conjunction with the basic financial statements, footnotes, and supplementary information found in this report. This information, taken collectively, is designed to provide readers with an understanding of the City's finances.

CITY ACTIVITY HIGHLIGHTS

South Fulton was incorporated in May of 2017 and celebrated its second anniversary on May 1, 2019. Positioned in a metro area, South Fulton is a demographically diverse community and covers 85 square mile area in southwest of Fulton County, Georgia. City of South Fulton is the third largest City in Fulton County and the fifth largest City in the State of Georgia, serving a population of 95,158 (U.S. Census estimate for 2016). The City's daytime population remains consistent with more than 110,000 due to concentration of major industries and business districts located within the City, including wholesale trade, educational services, retail trade, waste management and remediation, and food services. The City is home to the South Fulton Parkway Corridor, which connects Hartsfield Jackson Atlanta International Airport to the City and the Old National Highway Corridor. The City is adjacent to the Fulton Industrial District, one of the largest industrial and business areas in the metro Atlanta region. The City also houses the Wolf Creek Amphitheater, an outdoor recreation and concert venue.

Policy making, and legislative authority of the government is vested in the Mayor and seven Council Members, who are elected for four-year terms. Council Members are elected by district, and the Mayor is elected at-large by popular vote. Terms of office begin after the certification of the election and swearing into office. The City operates under a council/manager form of government, where the Council is the legislative authority and the Mayor possesses all the executive powers granted to the government under the constitution and laws of the State of Georgia and the City of South Fulton charter. The City Manager maintains all the administrative powers granted to the government under the constitution and laws of the State of Georgia and the City's charter. The City is empowered to levy a property tax on both real and personal property located within its boundaries and is qualified to levy all other taxes granted to municipalities within the State of Georgia.

The Current Situation of South Fulton

On November 18, 2018, the City of South Fulton successfully transitioned all City services from Fulton County. The pace and breadth of policy development and organizational establishment since early 2017 has been significant. Rightly so, this has been the focus of the City for last year and a half.

In addition, the City Council, have worked tirelessly to make decisions and advance the burgeoning City so that it is functional and operational. While the process has been fraught with disagreement at times, the intent and heart behind the City's development debates has been positive.

Now the City is turning its focus to more operational matters as there is a significant amount of organizational, process, technology, relational and policy matters yet to firmly establish. Being a new City brings with it the positive of a considerable amount of control and better services, but also brings a significant need for the development of new processes, systems, relationships and direction.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner like a private-sector business.

The *statement of net position* presents information on all the City's assets and liabilities, with the difference between the two reported as *net position.* Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. A summarized version of the City statement of net position is hereby presented. A more detailed version can be found on page 14 of the financial statements.

City of South Fulton's Net Position

	Governmental Activities	
	September 30, 2018	**September 30, 2017**
ASSETS		
Current assets	$ 38,318,186	$ 12,800,257
Capital assets, net	13,090,650	291,584
Total assets	51,408,836	13,091,841
LIABILITIES		
Other liabilities	16,374,682	18,956,068
Long-term liabilities	1,200,369	-
Total liabilities	17,575,051	18,956,068
DEFERRED INFLOWS OF RESOURCES		
Deferred revenues	28,627,283	-
Total deferred inflows of resources	28,627,283	-
NET POSITION		
Investment in capital assets	13,090,650	291,584
Restricted	51,473	-
Unrestricted	(7,935,621)	(6,155,811)
Total net position	$ 5,206,502	$ (5,864,227)

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by $5,206,502.

The largest portion of the City's current assets, $38,318,186, includes anticipated tax revenues billed in the fiscal year 2018 with a due date of November 30, 2018. The City utilized a tax anticipation note (TAN) to assist with operating costs, as well as the cash position at the end of the fiscal period. The City used its capital assets to provide various services to its citizens and the City reported its unrestricted net position (deficit) of ($7,935,621).

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal period. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows.* Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). The below statement is a summary of the City's statement of activities for the fiscal year ended September 30, 2018.

City of South Fulton's Statement of Activities

	Governmental Activities	
	September 30, 2018	**September 30, 2017**
REVENUES		
Program revenues		
Charges for services	$ 2,707,332	$ 1,390,803
Operating grants and contributions	3,630,149	
Capital grants and contributions	13,029,454	157,313
General revenues		
Property taxes	14,625,008	-
Title ad valorem taxes	854,804	340,407
Sales taxes	24,650,013	9,708,371
Franchise taxes	1,760,981	328,409
Business taxes	1,946,092	15,647
Alcoholic beverage taxes	301,332	113,744
Other taxes	378,236	75,668
Miscellaneous revenues	583,739	-
Total revenues	64,467,140	12,130,362
EXPENSES		
General governments	4,508,869	1,375,830
Judicial	622,080	10,278
Public safety	32,787,168	12,113,136
Public works	7,339,476	1,798,802
Culture and recreation	4,987,263	1,813,405
Housing and development	2,828,989	862,905
Interest charges	322,566	20,233
Total liabilities	53,396,411	17,994,589
Increase (decrease) in net position	$ **11,070,729**	$ **(5,864,227)**

Both government-wide financial statements report only governmental activities of the City which are principally supported by taxes and intergovernmental revenues. The governmental activities of the City include general government, judicial, public safety, public works, culture and recreation, and community development.

The government-wide financial statements include financial information presented for the primary government itself. The government-wide financial statements can be found on pages 14 and 15 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal period. Such information may be useful in evaluating the City's near-term financing requirements.

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

The City maintains five individual governmental funds, the General Fund, two non-major special revenue funds, and two non-major capital project funds. The City adopts an annual appropriated budget for its governmental funds. The basic governmental funds financial statements can be found on pages 16 through 19 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20 through 35 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information such as the budgetary comparison schedule for the general fund as presented on a generally accepted accounting principal basis in this section. These schedules are intended to demonstrate the City's compliance with the legally adopted and amended budgets. Required supplementary information can be found on pages 36 and 37 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The City's governmental activities are heavily reliant on taxes to support operations.

Revenue Impacts

Taxes of $44,516,466 provided 69% of governmental revenues of general operations. Sales taxes were the biggest contributor at 55% of all taxes collected with a total collection of $24,650,013. Property Taxes in the amount of $14,625,008 provided 33% of taxes. The M&O millage rate remained the same at 11.07 mills.

Business taxes in the amount of $1,946,092 and Franchise taxes for $1,760,981 accounted for 8% of all taxes.

All other taxes accounted for less than 3% of tax revenue and total revenues.

The City received $3,122,390 in revenues from an intergovernmental agreement with Fulton County and the City of Atlanta for Fire Rescue Services. This amount accounted for 6% of total revenues.

Other Income included an insurance reimbursement for a damaged fire truck in the amount of $$489,967, Donations to the Fire Department of $10,600 and other miscellaneous revenues added up to $83,603

Expenses

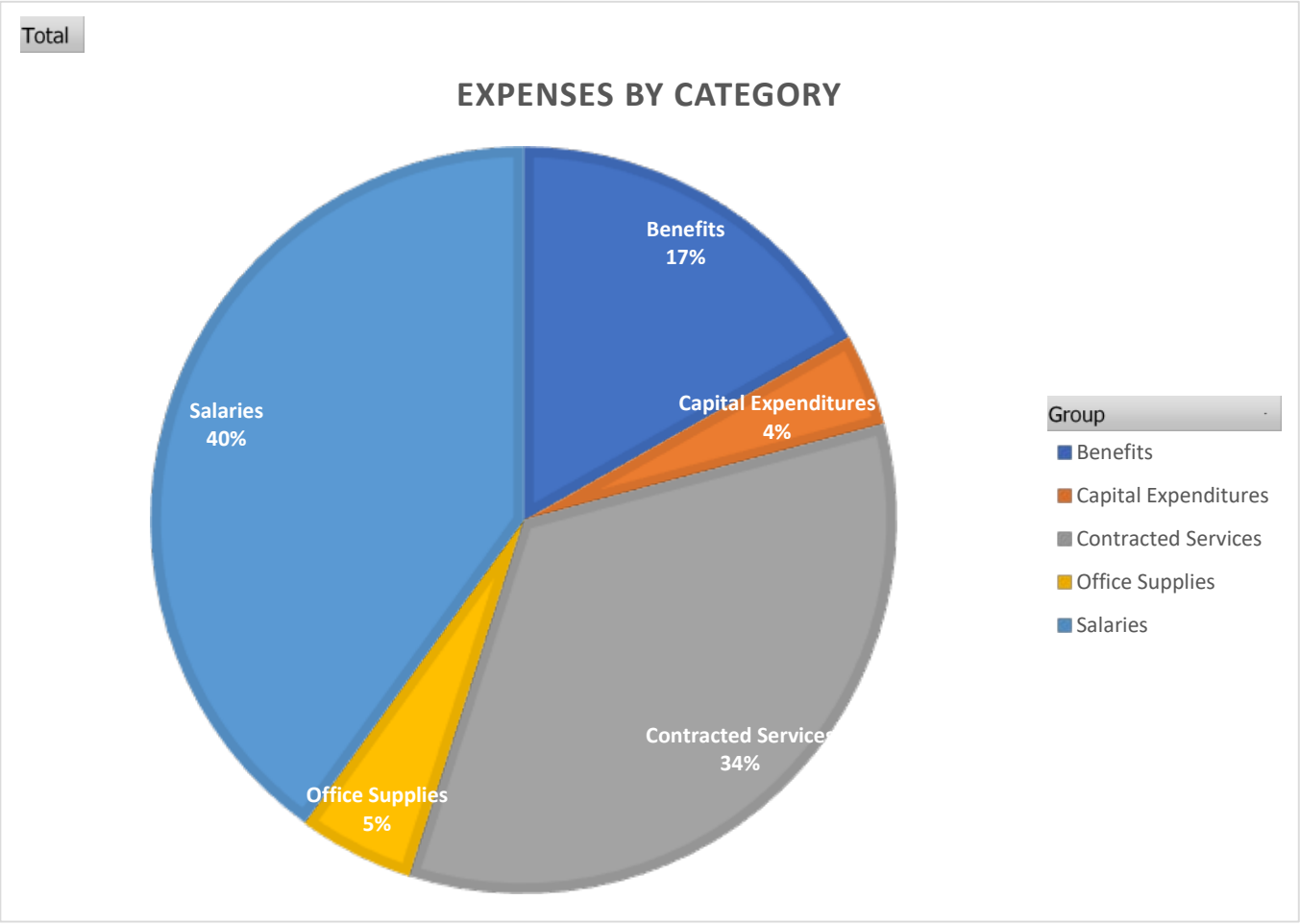
Total expenses for the year were $53,396,411. Personnel cost accounted for 57% of this amount with Contracted services at $17,783,006 or 34% and supplies at $2,614,795 or 5%. Of the total expenses for contracted services $7,150,719 was to Fulton County through an IGA for the provision of services during the period of transition of the various departments**.**

Personnel expenses this year included all departments except for Transportation, a division of the Public Works department, which did not transition from the County until November 2018. Total Personnel cost amounted to $29,629,260 which included related benefits such as employee health insurance and pension contribution in the amount of $8,777,102. Public Safety expenses of $19,518,305 account for 66% of total personnel expenses.

Public Works expenses of $7,339,476 accounted for 14% of governmental expenses. These costs included general fleet and facility services as well as amounts paid to Fulton County for transportation, animal control and road maintenance.

General government expenses of $4,508,869 represents 8% of total expenses. Culture and recreation expenses of $4,987,263 were paid to Fulton County for Park Services for the three quarters of the fiscal year projects. Interest expense represents cost on the Tax Anticipation Note utilized to help with operations and cash flow during the fiscal year.

The graph below highlights expenses by categories and percentages.



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. Unassigned fund balance may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.

General Fund. The general fund is the chief operating fund of the City. The City ended its inaugural year of operations with a negative fund balance of ($6,539,875) for five months of operations. Strong cost control measures and adherence to the Adopted budget guided the City's spending for the fiscal year ending September 30, 2018. Thus, while the City's is still in a deficit position regarding its fund balance the increase over fiscal year 2017 was limited to 33%.

Fund Balance as of September 30, 2017 (5 months)	(6,539,87)
Fund Balance September 30, 2018 (12 months)	(8,690,818)
Percentage Increase	33%

The Finance and Budget team will continue to work with the Legislative and Executive management to develop a positive fund balance through consistent stringent cost control and cash management.

GENERAL FUND BUDGETARY HIGHLIGHTS

The City's budget utilized a conservative approach based on the limited information available. Emphasis was given to ensuring financial stability and long-term stability while providing revenue enhancement, financial priorities and discipline. The City will pursue it five priorities to better serve the Citizens of the City of South Fulton and the following are the priorities: Improve Parks and Recreation, Improve Public Safety (Police and Fire Rescue), Increase Economic Development, Create and Implement Branding and Messages and Increase Focus on Planning and Land Use.

1. Improve Parks & Recreation

    - Explore feasibility of parks and recreation authority
    - Lighting and safety improvements (consider solar)
    - Short term – Develop facilities (capital improvements), programs and staffing plan
    - Long term – Parks and Recreation Vision and Master Plan
    - Ensure parks and recreation serve all ages

2. Improve Public Safety – (Police & Fire Services)

    - Develop staffing plan – hire more officers
    - Focus on national search to hire chief
    - Improve case closure rate
    - Develop services and programs.
    - Capital and facilities
        - ✓ Improve stations and equipment
        - ✓ Need a ladder truck

3. Economic Development

    - Develop an economic development strategy – what are we best suited for?
        - ✓ Include existing business retention and expansion as well as recruitment of new
        - ✓ Explore incentives and their roles in attracting new businesses
        - ✓ Explore the role of a development authority and perhaps a downtown development authority particularly as a project funding mechanism
        - ✓ Encourage small businesses and entrepreneurs – incubator

    - Identify key parcels that the City or development authority could acquire and use for economic development purposes
        - ✓ Identify an area for a "downtown"
        - ✓ Identify redevelopment areas
        - ✓ Revitalize key corridors including Old National Highway
        - ✓ Review and adopt ordinances and policies to encourage economic development
        - ✓ Work on CDBG entitlement designation

4. Planning Update Comprehensive Plan

    - Identify Consultant
    - Hear from the community – what do they want?
    - Consider additional or updates to current design overlays
    - Review current land use plan and zoning within city limits
        - ✓ Is it what is best for the New City?

5. Create and Implement Branding and messaging
    - Develop strategy or plan – needs to feed into economic development strategy
        - ✓ Name, logo and motto
        - ✓ Incorporate into gateway signage, vehicles, uniforms
    - Communicate the message
        - ✓ Data driven
    - Community engagement and communication

The City will employ an annual mid-year budget process to re-align appropriations made during the annual budget process with significant unexpected trends. This will ensure adjustments facilitating appropriations to be in alignment with expected resources. Differences between the original budget and final amended budget will then be resolved via official City Council action.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. The City's net investment in capital assets for its governmental activities as of September 30, 2018, amounts to $13,090,650 with the biggest investments in Buildings of $8,384,272 and Vehicles of $3,147,830. Non-depreciable property includes Land for $1,511,115. The rise in Capital Assets includes contribution amount of $13,018,854 recognized for property bought from Fulton County at a nominal value.

City of South Fulton's Capital Assets (net of depreciation)

	September 30, 2018	September 30, 2017
Land	$ 1,511,115	$ -
Buildings	8,272,915	
Vehicles	2,845,545	157,313
Furniture and fixtures	50,474	-
Machinery and equipment	410,601	134,271
	$ 13,090,650	$ 291,584

Additional information on the City's capital assets can be found in Note 6 on page 31 of this report.

Short-term borrowings. At the end of fiscal year September 30, 2018, the City had outstanding debt of $12,000,000 in form of Tax Anticipation Note payable. All borrowings are backed by the full faith and credit of the City.

Additional information on the City's long-term debt can be found on page 32 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

These factors were considered in preparing the City's budget for the 2019 fiscal year.

A Safer, Stronger South Fulton

The City is committed to ensuring that all residents feel and are safe, providing an environment where businesses can succeed and thrive. To that end, the fiscal year 2019 budget includes the following investments:

- New vehicles to expand the police and fire apparatus fleet
- Investments in public safety personnel, allowing the City to recruit and retain SFPD officers
- Investments in essential software related to crime suppression and investigations
- Investment in 311 activities to reduce the burden on 911 related to non-emergency calls

Destination South Fulton

Maintaining a strong, diverse, and resilient South Fulton requires that business and industry can operate in an environment that supports commerce. We accomplish this by nurturing small business assets, and intentionally connecting local businesses to government service delivery. Some ways the fiscal year 2019 budget supports South Fulton as a key destination for businesses include:

- A $100,000 investment in business incubator
- The alignment of business services under economic development
- A $25,000 investment in retention focused incentives and grants for small businesses operating within the City limits
- Investing in outreach and education events targeting business and industry, allowing for business open houses and connection events

High Performing Government

As our City continues to grow, we must approve these critical investments to ensure that citizens in all seven Districts benefit from our inclusive prosperity. It is imperative that we make all the critical investments in our fiscal year 2019 Budget and Financial Plan to ensure that residents in all seven districts receive world class services and municipal support. Key among these activities is the development of the City's strategic plan. This plan will codify the Mayor-Council's vision for the City and provide strategic direction allowing for the development and implementation of departmental goals and performance measures. Building a government that works for the citizens of the City of South Fulton streamlines processes and improves efficiency

The City will restrict the use of one-time revenues to capital projects when the City starts to accumulate fund balance.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City of South Fulton's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Department of Finance, City of South Fulton, 5440 Fulton Industrial Blvd, South Fulton, GA 30336.

City of South Fulton
5440 Fulton Industrial Blvd
Atlanta, GA 30336

CITY OF SOUTH FULTON, GEORGIA

STATEMENT OF NET POSITION
SEPTEMBER 30, 2018

	Governmental Activities
ASSETS	
Cash and cash equivalents	$ 5,188,989
Accounts receivable	15,499
Taxes receivable	28,604,425
Due from other governments	3,177,133
Prepaid items	1,308,851
Inventories	23,289
Capital assets:	
Nondepreciable	1,511,115
Depreciable, net of accumulated depreciation	11,579,535
Total assets	51,408,836
LIABILITIES	
Accounts payable	2,215,352
Accrued liabilities	2,153,445
Intergovernmental payable	5,885
Tax anticipation notes payable	12,000,000
Pollution remediation payable, due within one year	258,988
Compensated absences, due within one year	564,828
Compensated absences, due in more than one year	376,553
Total liabilities	17,575,051
DEFERRED INFLOWS OF RESOURCES	
Deferred revenues	28,627,283
Total deferred inflows of resources	28,627,283
NET POSITION	
Investment in capital assets	13,090,650
Restricted for hospitality and tourism	51,473
Unrestricted (deficit)	(7,935,621)
Total net position	$ 5,206,502

The accompanying notes are an integral part of these financial statements.

CITY OF SOUTH FULTON, GEORGIA

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expenses) Revenues and Changes in Net Position: Governmental Activities
Primary government:					
Governmental activities:					
General government	$ 4,508,869	$ 650	$ -	$ -	$ (4,508,219)
Judicial	622,080	274,348	-	-	(347,732)
Public safety	32,787,168	166,004	3,630,149	3,970,854	(25,020,161)
Public works	7,339,476	-	-	-	(7,339,476)
Culture and recreation	4,987,263	338,751	-	9,048,000	4,399,488
Housing and development	2,828,989	1,927,579	-	10,600	(890,810)
Interest on long-term debt	322,566	-	-	-	(322,566)
Total governmental activities	$ 53,396,411	$ 2,707,332	$ 3,630,149	$ 13,029,454	(34,029,476)
General revenues:					
Property taxes					14,625,008
Title ad valorem taxes					854,804
Sales taxes					24,650,013
Franchise taxes					1,760,981
Business taxes					1,946,092
Alcoholic beverage taxes					301,332
Hotel motel taxes					93,044
Transfer taxes					277,621
Insurance premium taxes					4,809
Other taxes					2,762
Interest					232
Gain on sale of capital assets					9,937
Miscellaneous revenues					573,570
Total general revenues					45,100,205
Change in net position					11,070,729
Net position, beginning of fiscal year					(5,864,227)
Net position, end of fiscal year					$ 5,206,502

The accompanying notes are an integral part of these financial statements.

CITY OF SOUTH FULTON, GEORGIA

BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2018

ASSETS	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Cash and cash equivalents	$ 5,110,798	$ 78,191	$ 5,188,989
Accounts receivable	2,755	12,744	15,499
Taxes receivable	28,604,425	-	28,604,425
Due from other governments	2,756,366	420,767	3,177,133
Due from other funds	461,739	502,676	964,415
Inventory	23,289	-	23,289
Prepaid items	266,617	1,042,234	1,308,851
Total assets	$ 37,225,989	$ 2,056,612	$ 39,282,601
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE			
LIABILITIES			
Accounts payable	$ 2,215,352	$ -	$ 2,215,352
Intergovernmental payable	5,885	-	5,885
Accrued liabilities	2,153,445	-	2,153,445
Tax anticipation note payable	12,000,000	-	12,000,000
Due to other funds	502,676	461,739	964,415
Total liabilities	16,877,358	461,739	17,339,097
DEFERRED INFLOWS OF RESOURCES			
Deferred revenues	28,627,283	-	28,627,283
Unavailable revenues - taxes	325,074	-	325,074
Unavailable revenues - intergovernmental	87,092	420,767	507,859
Total deferred inflows of resources	29,039,449	420,767	29,460,216
FUND BALANCE (DEFICIT)			
Fund balance:			
Restricted for hospitality and tourism	-	51,473	51,473
Nonspendable:			
Prepaid items	266,617	1,042,234	1,308,851
Inventory	23,289	-	23,289
Assigned for capital projects	-	489,967	489,967
Unassigned	(8,980,724)	(409,568)	(9,390,292)
Total fund balance (deficit)	(8,690,818)	1,174,106	(7,516,712)
Total liabilities, deferred inflows of resources, and fund balance	$ 37,225,989	$ 2,056,612	
Amounts reported for governmental activities in the statement of net position are different because:			
Capital assets used in governmental activities are not current resources and, therefore, are not reported in the governmental			13,090,650
Some receivables are not available to pay for current-period and, therefore, are deferred in the governmental funds.			832,933
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.			(1,200,369)
Net position of governmental activities			$ 5,206,502

The accompanying notes are an integral part of these financial statements.

CITY OF SOUTH FULTON, GEORGIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:			
Property taxes	$ 14,683,998	$ -	$ 14,683,998
Title ad valorem taxes	854,804	-	854,804
Sales taxes	24,650,013	-	24,650,013
Business taxes	1,946,092	-	1,946,092
Franchise taxes	1,760,981	-	1,760,981
Insurance premium taxes	4,809	-	4,809
Transfer taxes	277,621	-	277,621
Alcoholic beverage excise taxes	301,332	-	301,332
Other taxes	2,762	93,044	95,806
Licenses and permits	1,822,564	-	1,822,564
Fines and forfeitures	278,348	-	278,348
Charges for services	606,420	-	606,420
Intergovernmental	2,915,273	207,017	3,122,290
Interest income	232	-	232
Contributions and donations	-	10,600	10,600
Miscellaneous revenues	83,603	489,967	573,570
Total revenues	50,188,852	800,628	50,989,480
Expenditures:			
Current:			
General government	4,339,235	-	4,339,235
Judicial	612,473	-	612,473
Public safety	31,136,919	627,185	31,764,104
Public works	7,339,476	-	7,339,476
Culture and recreation	4,862,923	-	4,862,923
Housing and development	2,735,477	-	2,735,477
Debt service:			
Interest	322,566	-	322,566
Total expenditures	51,349,069	627,185	51,976,254
Excess (deficiency) of revenues over (under) expenditures	(1,160,217)	173,443	(986,774)
Other financing sources (uses):			
Proceeds from sale of capital assets	9,937	-	9,937
Transfers in	41,571	1,042,234	1,083,805
Transfers out	(1,042,234)	(41,571)	(1,083,805)
Total other financing sources (uses)	(990,726)	1,000,663	9,937
Net change in fund balances	(2,150,943)	1,174,106	(976,837)
Fund balances (deficit), beginning of fiscal year	(6,539,875)	-	(6,539,875)
Fund balances (deficit), end of fiscal year	$ (8,690,818)	$ 1,174,106	$ (7,516,712)

The accompanying notes are an integral part of these financial statements.

CITY OF SOUTH FULTON, GEORGIA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018

Amounts reported for governmental activities in the statement of activities are different because:		
Net change in fund balances - total governmental funds	$	(976,837)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period.		(38,180)
The net effect of various miscellaneous transactions involving capital assets (i.e. sales, disposals, and donations) is an increase to net position		12,837,246
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.		448,869
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds		(1,200,369)
Change in net position - governmental activities	$	11,070,729

The accompanying notes are an integral part of these financial statements.

CITY OF SOUTH FULTON, GEORGIA

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUND
SEPTEMBER 30, 2018

	Municipal Court Fund
ASSETS	
Cash	$ 18,513
Total assets	$ 18,513
LIABILITIES	
Due to others	$ 18,513
Total liabilities	$ 18,513

The accompanying notes are an integral part of these financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of South Fulton, Georgia (the "City") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

A. Reporting Entity

The City, which was incorporated by a voter approved referendum on November 8, 2016, commenced operations on May 1, 2017 pursuant to the election of a mayor and council on April 18, 2017. Policy-making and legislative authority are vested in the Mayor and City Council which consists of eight council members and the Mayor. The government provides such services as general government administration, judicial services through its municipal court, code enforcement, building and zoning, housing and development, culture and recreation, and public works.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. Government-wide financial statements do not provide information by fund, but by the City's governmental activities. The statement of net position will include non-current assets and non-current liabilities. In addition, the government-wide statement of activities reflects depreciation expense on the City's capital assets. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to those who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. As such, property tax revenues will be recognized in the current fiscal year for the previous tax year's levy. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers property taxes to be available if they are collected within 60 days of the end of the current fiscal period for which they are levied. Other revenues susceptible to accrual are considered available if they are collected within 90 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to long-term liabilities, such as compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, franchise taxes, business taxes, excise taxes, and licenses and permits associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period if availability criteria are met. All other revenue items are considered to be measurable and available only when cash is received by the City.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

In accordance with GASB Statement No. 33, "Accounting and Financial Reporting for Non-exchange Transactions," the corresponding assets (receivables) in non-exchange transactions are recognized in the period in which the underlying exchange occurs, when an enforceable legal claim has arisen, when all eligibility requirements have been met, or when resources are received, depending on the revenue source.

In accordance with GASB Statement No. 34, major individual governmental funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental fund:

The **General Fund** is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The City also reports the following fund types:

The **Special Revenue** funds are used to account for revenue sources which are legally restricted to expenditures for specific purposes, such as, grants and hotel/motel taxes.

The **Capital Project** funds are used to account for expenditures related to construction, acquisition, or installation of the City's capital assets.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, and 2) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Budgets

Formal budgetary accounting is employed as a management control device for the funds of the City. The governmental fund budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America, with the exception that the City budgets another financing source for the issuance of the tax anticipation note (TAN). An annual operating budget is adopted for the General Fund and each special revenue fund each fiscal year through passage of an annual budget ordinance and amended as required for the General Fund. During the fiscal year ended September 30, 2018, the original budget was amended through supplemental appropriations. These changes are reflected in the budgetary comparison schedule. All appropriations lapse at fiscal year-end. The City does not use encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation.

E. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the City.

F. Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

G. Interfund Receivables and Payables

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year as well as all other outstanding balances between funds are reported as “due to/from other funds.”

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond September 30, 2018, are recorded as prepaid items in both government-wide and fund financial statements. These items are accounted for using the consumption method. The City also reports $990,734 of prepaid items for outlays provided to Fulton County for construction of infrastructure within the City.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Inventories

Inventories are valued at cost, which approximates market, using the weighted average cost method. The consumption method is used to account for inventories. Under the consumption method, inventory items are recognized as expenditures when used.

J. Capital Assets

Capital assets, which include buildings, parks, furniture and fixtures, vehicles and machinery and equipment, are reported in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives is not capitalized.

Capital assets of the City are depreciated using the straight line method over the following useful lives:

Building	50 years
Vehicles	5 years
Furniture and fixtures	10 years
Machinery and equipment	5-10 years

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The City has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has two types of items that qualifies for reporting in this category. The first item, *unavailable revenue*, is only reported in the governmental funds balance sheet. The governmental funds report unavailable revenue from property taxes and intergovernmental revenue as these amounts are deferred and will be recognized as inflow of resources in the period in which the amounts become available. Additionally, the City reports deferred revenues for the 2018 digest which is levied for operation of the 2019 fiscal year and thus reported as deferred revenues in the fund and at the Statement of Net Position.

L. Fund Equity

Fund equity at the governmental fund financial reporting level is classified as “fund balance.” Fund equity for all other reporting is classified as “net position.”

Fund Balance – Generally, fund balance represents the difference between the assets and liabilities and deferred inflows of resources under the current financial resources measurement focus of accounting. In the fund financial statements, governmental funds report fund balance classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Fund balances are classified as follows:

- **Nonspendable** – Fund balances are reported as nonspendable when amounts cannot be spent because they are either (a) not in spendable form (i.e., items that are not expected to be converted to cash) or (b) legally or contractually required to be maintained intact.

- **Restricted** – Fund balances are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Fund Equity (Continued)

- **Committed** – Fund balances are reported as committed when they can be used only for specific purposes pursuant to constraints imposed by formal action of the City Council through the adoption of a resolution. Only the City Council may modify or rescind the commitment, also through a resolution.

- **Assigned** – Fund balances are reported as assigned when amounts are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. The authority to assign fund balances remains with the City Council.

- **Unassigned** – Fund balances are reported as unassigned as the residual amount when the balances do not meet any of the above criterion. The City reports positive unassigned fund balance only in the general fund. Negative unassigned fund balances may be reported in all funds. The City, by resolution, has created a minimum fund balance policy to be no less than two-and-one-half months of its prior fiscal year's actual operating expenditures of the General Fund, in order to cover unforeseen emergencies and/or revenue shortfalls. The City's resolution states the minimum fund balance policy is effective beginning the City's third fiscal year which will be fiscal year ending September 30, 2020.

Flow Assumptions – When both restricted and unrestricted amounts of fund balance are available for use for expenditures incurred, it is the City's policy to use restricted amounts first and then unrestricted amounts as they are needed. For unrestricted amounts of fund balance, it is the City's policy to use fund balance in the following order: (1) Committed, (2) Assigned, and (3) Unassigned.

Net Position – Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources, in reporting which utilizes the economic resources measurement focus. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used (i.e., the amount that the City has spent) for the acquisition, construction or improvement of those assets.

Net position is reported as restricted using the same definition as used for restricted fund balance as described in the section above. All other net position is reported as unrestricted.

The City applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred inflows of resources, and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

N. Compensated Absences

The compensated absences policy of the City provides for accumulation of up to 120 hours of comp time. Once the employee accrues more than 120 hours, the excess is automatically paid out to that employee on the next paycheck. For the City's government-wide statements, an expense and a liability for compensated absences and the salary-related payments are recorded as leave is earned.

NOTE 2. RECONCILIATION OF GOVERNMENT-WIDE FINANCIAL STATEMENTS AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Position

The governmental fund balance sheet includes reconciliations between *fund balance – total governmental fund* and *net position – governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that "Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds." The details of this $1,200,369 difference are as follows:

Pollution remediation liability	$	(258,988)
Compensated absences		(941,381)
Net adjustment to decrease *fund balances - total governmental funds* to arrive at *net position - governmental activities.*	$	(1,200,369)

NOTE 2. RECONCILIATION OF GOVERNMENT-WIDE FINANCIAL STATEMENTS AND FUND FINANCIAL STATEMENTS (CONTINUED)

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balance includes a reconciliation between net change in fund balance and change in net position of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures, however, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this $38,180 difference are as follows:

Capital outlay	$	421,603
Depreciation expense		(459,783)
Net adjustment to decrease *net change in fund balances - total governmental fund to arrive at change in net position - governmental activities*	$	(38,180)

Another element of that reconciliation explains that "The net effect of various miscellaneous transactions involving capital assets (i.e. sales, disposals, and donations) is an increase to net position." The details of this $12,837,246 difference are as follows:

Contributions/donations	$	13,018,854
Disposals		(181,608)
Net adjustment to increase *net change in fund balances - total governmental fund to arrive at change in net position - governmental activities*	$	12,837,246

NOTE 3. LEGAL COMPLIANCE – BUDGETS

A. Budgets and Budgetary Accounting

The budget is officially adopted by the governing body prior to the beginning of its fiscal year, or a resolution authorizing the continuation of necessary and essential expenditures to operate the City will be adopted. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level, within the fund.

Transfers of appropriations within a department budget or within a non-departmental expenditure category require the approval of the City Council. Increases in appropriations in a departmental budget or in a non-departmental expenditure category, require approval of the governing body in the form of amendments to the budget resolution.

For the year ended September 30, 2018 expenditures exceeded final budget in the following funds and General Fund departments as follows:

General Fund:		
General government		
Licensing	$	56
E-911 Services		1,712,484
Public works		48,391
Transfers out		1,042,234

The excess of expenditures over budget were primarily funded by excess budget amounts available within other departments of the City.

NOTE 4. DEPOSITS AND INVESTMENTS

Custodial Credit Risk – Deposits: State statutes require all deposits and investments (other than federal or state government instruments) to be covered by depository insurance or pledged securities. Amounts that exceed standard depository insurance limits are required to be collateralized either (1) individually by the financial institutions through pledged obligations of the U.S. Government, obligations backed by the full faith and credit of the U.S. Government, obligations of the State of Georgia or other states, or obligations of counties, municipalities, or public authorities of the State of Georgia, or (2) participation in the State of Georgia Secure Deposit Program. As of September 30, 2018, the financial institution holding all of the City's deposits is a participant of the State of Georgia Secure Deposit Program, which is administered by the Office of the State Treasurer, requires participating banks holding deposits of public funds to pledge collateral at varying rates depending on tier assigned by the State. As of September 30, 2018, all of the City's bank balances were insured and/or collateralized as defined by GASB and required by State Statutes.

Note 5. Receivables

Property taxes are levied on property values assessed as of January 1, which is also the lien date. The City contracts with Fulton County to bill and collect City of South Fulton property taxes. The taxers were levied on September 1 based on the assessed value of property as listed on the previous January 1 and were due on October 31. Property taxes levied on September 1, 2018 are for the year ended September 30, 2019 and property taxes are recorded as receivables and unavailable revenue when levied. Revenues are recognized in governmental funds when available.

Receivables at September 30, 2018, including any applicable allowances for uncollectible accounts, are as follows:

	General Fund	Nonmajor Governmental
Receivables:		
Accounts receivable	2,755	12,744
Taxes	29,106,481	-
Other governments	2,756,366	420,767
Total receivables	31,865,602	433,511
Less allowance for uncollectible	502,056	-
Net total receivable	$ 31,363,546	$ 433,511

NOTE 6. CAPITAL ASSETS

Capital asset activity for the City for the fiscal year ended September 30, 2018 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Nondepreciable capital assets:				
Land	$ -	$ 1,511,115	$ -	$ 1,511,115
Total	-	1,511,115	-	1,511,115
Depreciable capital assets:				
Buildings	-	8,384,272	-	8,384,272
Vehicles	157,313	3,195,637	(205,120)	3,147,830
Furniture and fixtures	-	50,976	-	50,976
Machinery and equipment	138,901	298,457	-	437,358
Total	296,214	11,929,342	(205,120)	12,020,436
Less accumulated depreciation for:				
Buildings	-	(111,357)	-	(111,357)
Vehicles	-	(325,797)	23,512	(302,285)
Furniture and fixtures	-	(502)	-	(502)
Machinery and equipment	(4,630)	(22,127)	-	(26,757)
Total	(4,630)	(459,783)	23,512	(440,901)
Total capital assets being depreciated, net	291,584	11,469,559	(181,608)	11,579,535
Governmental activities capital assets, net	$ 291,584	$ 12,980,674	$ (181,608)	$ 13,090,650

Depreciation expense was charged to functions/programs of the City as follows:

Governmental activities:	
General government	$ 3,417
Public safety	299,732
Culture and recreation	108,660
Housing and development	47,974
	$ 459,783

NOTE 7. LONG-TERM DEBT

The following is a summary of long-term debt activity of the City for the year ended September 30, 2018:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities					
Compensated absences	$ -	$ 989,386	$ (48,005)	$ 941,381	$ 564,828
Pollution remediation	-	258,988	-	258,988	258,988
Total governmental activities long-term liabilities	$ -	$ 1,248,374	$ (48,005)	$ 1,200,369	$ 823,816

The City's compensated absences and pollution remediation liabilities will be liquidated by the General Fund.

NOTE 8. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of September 30, 2018 is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Nonmajor Governmental Funds	$ 461,739
Nonmajor Governmental Funds	General Fund	502,676
	Total	$ 964,415

The outstanding balances between funds result mainly from the time lag between the dates that transactions are recorded in the accounting system and payments between funds are made.

Interfund transfers:

Transfers In	Transfers Out	Amount
General Fund	Nonmajor Governmental Funds	$ 41,571
Nonmajor Governmental Funds	General Fund	1,042,234
	Total	$ 1,083,805

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them.

NOTE 9. HOTEL/MOTEL LODGING TAX

The City has levied an occupancy tax of 5% for the rent of a guest room at a hotel or motel in the City as authorized by the Official Code of Georgia Annotated (O.C.G.A.) §48-13-51(a)(3). For the year ended September 30, 2018, the City collected $93,044 in hotel/motel tax revenues. Of this amount, $41,571 or $44.7% was transferred to the General Fund and the remaining portion was not expended for hospitality and tourism as stipulated by O.C.G.A. §48-13-51(a)(3).

NOTE 10. SHORT-TERM BORROWINGS

The City utilized two short-term notes payable in the form of tax anticipation notes during the five months ended September 30, 2017. Pursuant to the agreement between the City and a local financial institution, the lender agreed to advance the City up to $12,000,000, in the form of a $9,000,000 and a $3,000,000 note secured by future tax revenues. Interest accrued on the $9 million note equal to 2.02 percent and interest accrued on the $3 million note equal to 2.09 percent. At the due date, December 29, 2017, the City was unable to pay off the note and issued a $12,000,000 tax anticipation note with a due date of December 29, 2018. Interest accrued on the $12 million note equal to 2.80 percent. Total short-term borrowings interest accrued for the year ended September 30, 2018 was $254,071.

The following is a summary of the City's short-term borrowings for the period ended September 30, 2018:

Beginning Balance	Additions	Reductions	Ending Balance
$ 3,000,000	$ -	$ (3,000,000)	$ -
8,809,920	-	(8,809,920)	-
-	12,000,000	-	12,000,000
$ 11,809,920	$ 12,000,000	$ (11,809,920)	$ 12,000,000

NOTE 11. COMMITMENTS AND CONTINGENT LIABILITIES

Litigation:

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of management and legal counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the City.

Contractual Commitments:

The City has entered into an intergovernmental agreement with Fulton County, Georgia for the provision of certain services to be provided to the City for a fee by Fulton County. The term of the agreement is for a period not to exceed twenty-four months (24), commencing May 1, 2017 and concluding, at the latest, at midnight on November 30, 2018. The City will be provided the following services; E911, Animal Control, Police, Fire, Planning and Zoning, Parks and Recreation, Business Occupation Tax, Road and Highway Maintenance, Stormwater, Utilities, Elections. Over time the City will take over these services from Fulton County. Currently, this intergovernmental agreement totals approximately $16.6 million, subject to annual negotiation and appropriation.

NOTE 12. JOINT VENTURE

Under Georgia law, the City, in conjunction with other cities around the Metropolitan Atlanta Georgia area, is a member of the Atlanta Regional Commission (ARC) and is required to pay annual dues thereto, which Fulton County has paid on behalf of the City of South Fulton. Membership in ARC is required by the Official Code of Georgia Annotated (OCGA) Section 50-8-34, which provides for the organization structure of ARC. ARC Board membership includes the chief elected official of each county and municipality of the area. OCGA 50-8-39.1 provides that the member governments are liable for any debts or obligations of the ARC. Separate financial statements may be obtained from ARC, 40 Courtland Street NE, Atlanta, Georgia 30303.

NOTE 13. RISK MANAGEMENT

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The City participates in the Georgia Interlocal Risk Management Agency Fund, a public entity risk pool currently operating as a common risk management and insurance program for member local governments.

As part of the risk pool, the City is obligated to pay all contributions and assessments as prescribed by the pool, to cooperate with the pool's agents and attorneys, to follow loss reduction procedures established by the funds, and to report as promptly as possible, and in accordance with any coverage descriptions issued, all incidents which could result in the funds being required to pay any claim of loss. The City is also to allow the pool's agents and attorneys to represent the City in investigation, settlement discussions, and all levels of litigation arising out of any claim made against the City within the scope of loss protection furnished by the funds.

The funds are to defend and protect the members of the funds against liability or loss as prescribed in the member government contract and in accordance with the workers' compensation law of Georgia. The funds are to pay all costs taxed against members in any legal proceeding defended by the members, all interest accruing after entry of judgment, and all expenses incurred for investigation, negotiation or defense.

The City carries commercial insurance for these risks of losses. There have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the past two years.

NOTE 14. Pollution Remediation

During fiscal year ended September 30, 2018, the City purchased a building at 5165 Welcome All Road, College Park, GA to be used as a fire station. Upon inspection, it was discovered the building contained significant amounts of mold and asbestos. In September 2018, the City entered into a contract with Parker Young Construction for mold remediation services. The total contract price for the remediation services is $258,988. This is recorded as a liability on the statement of net position.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SOUTH FULTON, GEORGIA

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues:				
Property taxes	$ 15,657,799	$ 16,573,000	$ 14,683,998	$ (1,889,002)
Title ad valorem taxes	2,000,000	700,000	854,804	154,804
Sales taxes	21,688,222	24,646,300	24,650,013	3,713
Franchise taxes	3,000,000	1,760,980	1,760,981	1
Business taxes	3,500,000	1,915,000	1,946,092	31,092
Insurance taxes	3,880,000	-	4,809	4,809
Other taxes	10,423,218	136,000	2,762	(133,238)
Alcoholic beverage excise taxes	1,700,000	250,534	301,332	50,798
Transfer tax	390,000	272,690	277,621	4,931
Licenses and permits	1,099,060	1,822,561	1,822,564	3
Fines and forfeitures	794,775	278,348	278,348	-
Charges for services	947,852	623,920	606,420	(17,500)
Intergovernmental	-	2,915,272	2,915,273	1
Interest income	-	300	232	(68)
Miscellaneous revenues	-	65,000	83,603	18,603
Total revenues	65,080,926	51,959,905	50,188,852	(1,771,053)
Expenditures:				
Current:				
General government:				
Legislative	246,380	301,145	299,029	2,116
Mayor	148,797	154,844	149,358	5,486
City clerk	698,825	626,620	615,420	11,200
City manager	511,732	481,976	476,164	5,812
Financial	13,988,185	731,505	729,964	1,541
Law	500,000	583,673	581,613	2,060
Human resources	409,569	346,356	344,369	1,987
Licensing	117,654	172,398	172,454	(56)
Communications	261,204	106,274	103,307	2,967
IT and GIS	716,565	801,407	793,019	8,388
Purchasing	-	80,000	74,538	5,462
Total general government	17,598,911	4,386,198	4,339,235	46,963
Judicial:	779,755	623,840	612,473	11,367
Public safety:				
Police	17,556,320	13,940,271	13,845,413	94,858
Animal control	987,804	888,076	887,952	124
Fire services	14,358,513	14,755,600	14,691,070	64,530
E-911 services	-	-	1,712,484	(1,712,484)
Total public safety	32,902,637	29,583,947	31,136,919	(1,552,972)
Public works:	5,851,725	7,291,085	7,339,476	(48,391)
Culture and recreation:	4,755,326	4,866,228	4,862,923	3,305

(continued)

CITY OF SOUTH FULTON, GEORGIA

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018

	Original Budget	Final Budget	Actual	Variance With Final Budget
Housing and development:				
Planning and zoning	2,128,278	1,851,576	1,849,964	1,612
Code enforcement	865,211	853,331	851,360	1,971
Economic development	199,084	39,939	34,153	5,786
Total housing and development	3,192,573	2,744,846	2,735,477	3,583
Debt service:				
Interest	341,661	341,661	322,566	19,095
Total debt service	341,661	341,661	322,566	19,095
Total expenditures	65,422,588	49,837,805	51,349,069	(1,517,050)
Excess (deficiency) of revenues over (under) expenditures	(341,662)	2,122,100	(1,160,217)	(3,282,317)
Other financing sources (uses)				
Proceeds from sale of capital asset	-	9,950	9,937	(13)
Proceeds from issuance of TAN	-	12,000,000	-	(12,000,000)
Transfers in	-	-	41,571	41,571
Transfers out	-	-	(1,042,234)	(1,042,234)
Total other financing sources (uses)	-	12,009,950	(990,726)	(13,000,676)
Net change in fund balance	(341,662)	14,132,050	(2,150,943)	(16,288,779)
Fund balance, beginning of fiscal year	(6,539,875)	(6,539,875)	(6,539,875)	-
Fund balance, end of fiscal year	$ (6,881,537)	$ 7,592,175	$ (8,690,818)	$ (16,288,779)

Note: See footnotes 1 and 3 of the basic financial statements for budgetary policies.

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

Special revenue funds are used to account for specific revenues that are legally restricted or committed to expenditures for particular purposes.

Multiple Grant Fund – This fund accounts for the restricted revenue streams resulting from various capital and operating grants awarded to the City.

Hotel/Motel Fund – This fund accounts for the collection of the restricted portion of hotel/motel taxes as required by the Official Code of Georgia Annotated (OCGA) §48-13-51.

Capital Projects Funds

Capital projects funds are used to account for financial resources for the acquisition, construction, and improvements of the City's capital assets.

Capital Grant Fund – This fund is used to account for expenditures related to the construction, acquisition, and/or installation of the City's capital assets paid with capital grants.

Capital Projects Fund – This fund is used to account for expenditures related to the construction, acquisition, and/or installation of the City's capital assets.

CITY OF SOUTH FULTON, GEORGIA

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2018

ASSETS	Special Revenue Funds: Multiple Grant Fund	Special Revenue Funds: Hotel/Motel Tax Fund	Capital Project Funds: Capital Grant Fund	Capital Project Funds: Capital Project Fund	Total Nonmajor Governmental Funds
Cash	$ 10,600	$ 67,591	$ -	$ -	$ 78,191
Accounts receivable	-	12,744	-	-	12,744
Due from other governments	420,767	-	-	-	420,767
Due from other funds	-	12,709	-	489,967	502,676
Prepaid items	-	-	347,034	695,200	1,042,234
Total assets	$ 431,367	$ 93,044	$ 347,034	$ 1,185,167	$ 2,056,612
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
LIABILITIES					
Due to other funds	$ 420,168	$ 41,571	$ -	$ -	$ 461,739
Total liabilities	420,168	41,571	-	-	461,739
DEFERRED INFLOWS OF RESOURCES					
Unavailable - intergovernmental	420,767	-	-	-	420,767
Total deferred inflows of resources	420,767	-	-	-	420,767
FUND BALANCES (DEFICIT)					
Restricted for hospitality and tourism	-	51,473	-	-	51,473
Nonspendable - prepaid items	-	-	347,034	695,200	1,042,234
Assigned for capital projects	-	-	-	489,967	489,967
Unassigned	(409,568)	-	-	-	(409,568)
Total fund balances (deficit)	(409,568)	51,473	347,034	1,185,167	1,174,106
Total liabilities, deferred inflows or resources, and fund balances	$ 431,367	$ 93,044	$ 347,034	$ 1,185,167	$ 2,056,612

CITY OF SOUTH FULTON, GEORGIA

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018

	Special Revenue Funds		Capital Project Funds		
	Multiple Grant Fund	Hotel/Motel Tax Fund	Capital Grant Fund	Capital Project Fund	Total Nonmajor Governmental Funds
REVENUES					
Hotel/motel taxes	$ -	$ 93,044	$ -	$ -	$ 93,044
Intergovernmental	207,017	-	-	-	207,017
Contributions and donations	10,600	-	-	-	10,600
Miscellaneous revenue	-	-	-	489,967	489,967
Total revenues	217,617	93,044	-	489,967	800,628
EXPENDITURES					
Current:					
Public safety	627,185	-	-	-	627,185
Total expenditures	627,185	-	-	-	627,185
Excess (deficiency) of revenues over (under) expenditures	(409,568)	93,044	-	489,967	173,443
OTHER FINANCING SOURCES (USES):					
Transfers in	-	-	347,034	695,200	1,042,234
Transfers out	-	(41,571)	-	-	(41,571)
Total other financing sources (uses)	-	(41,571)	347,034	695,200	1,000,663
Net change in fund balances	(409,568)	51,473	347,034	1,185,167	1,174,106
FUND BALANCES, beginning of year	-	-	-	-	-
FUND BALANCES (DEFICIT), end of year	$ (409,568)	$ 51,473	$ 347,034	$ 1,185,167	$ 1,174,106

CITY OF SOUTH FULTON, GEORGIA

MULTIPLE GRANT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (GAAP BASIS)
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Budget			Variance With
	Original	Final	Actual	Final Budget
Revenues:				
Intergovernmental	$ 637,785	$ 637,785	$ 207,017	**$** (430,768)
Contributions and donations	-	-	10,600	10,600
Total revenues	637,785	637,785	217,617	(420,168)
Expenditures:				
Public safety	627,185	627,185	627,185	-
Total expenditures	627,185	627,185	627,185	-
Net change in fund balances	10,600	10,600	(409,568)	(420,168)
Fund balances, beginning of year	-	-	-	-
Fund balances (deficit), end of year	$ 10,600	$ 10,600	$ (409,568)	$ (420,168)

CITY OF SOUTH FULTON, GEORGIA

HOTEL/MOTEL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (GAAP BASIS)
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Budget			Variance With
	Original	Final	Actual	Final Budget
Revenues:				
Hotel/motel taxes	$ 214,315	$ 214,315	$ 93,044	$ (121,271)
Total revenues	214,315	214,315	93,044	(121,271)
Expenditures:				
Tourism	28,000	28,000	-	28,000
Total expenditures	28,000	28,000	-	28,000
Excess of revenues over expenditures	186,315	186,315	93,044	(93,271)
Other financing uses:				
Transfers out	(100,589)	(100,589)	(41,571)	59,018
Total other financing uses	(100,589)	(100,589)	(41,571)	59,018
Net change in fund balances	85,726	85,726	51,473	(34,253)
Fund balances, beginning of year	-	-	-	-
Fund balances, end of year	$ 85,726	$ 85,726	$ 51,473	$ (34,253)

COMPLIANCE SECTION

MAULDIN & JENKINS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Honorable Mayor and Members
of the City Council of the
City of South Fulton, Georgia

We have audited, in accordance with the 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, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the City of South Fulton, Georgia (the "City") as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 24, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses, as items 2018-001, 2018-002, 2018-003 and 2018-004, that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its 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. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and is described in the accompanying schedule of findings and responses as item 2018-003.

City's Responses to the Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mauldin & Jenkins, LLC

Atlanta, Georgia
June 24, 2019

CITY OF SOUTH FULTON, GEORGIA

SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018

SECTION I
SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:
Material weakness(es) identified? __X__ yes ____ no

Significant deficiency(ies) identified? _____ yes __X__ none reported

Noncompliance material to financial statements noted? __X__ yes _____ no

Federal Awards

There was not an audit of major federal awards programs for the year ended September 30, 2018 due to the City not expending federal awards in excess of $750,000.

CITY OF SOUTH FULTON, GEORGIA

SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018

SECTION II
FINANCIAL STATEMENT FINDINGS AND RESPONSES

2018-001 Segregation of Duties and General Controls

Criteria: Segregation of employees' duties is a common practice in an effective internal control structure. Segregation of duties is when specific employee functions related to important accounting areas are separated among different individuals to significantly reduce the risk that any one individual could intentionally or unintentionally misappropriate assets. Policies should be in place requiring the segregation of certain duties.

Condition: The limited number of employees involved in the various offices and the resulting overlapping of duties causes segregation of duties to be difficult.

Context/Cause: During the course of our testwork, we noted different areas at the City in which the segregation of duties could be improved as described below:

- During our disbursement testing, we noted any department head can create a purchase order and approve the purchase without involvement from any other individual. This is a serious segregation of duties issue as there is no mandatory oversight over any of the purchases made by department heads. We recommend the City update its purchasing policy to require all purchase requests submitted by department heads be approved by the City Manager, Mayor, or CFO to ensure all purchases are for City needs and appropriate City use.
- During our payroll walkthrough, we noted the payroll change form we reviewed was not signed by the CFO, which is required by the City's policy. Furthermore, we noted a supervisor/department head can designate someone to approve a pay rate change. This is a serious issue as someone could approve their own pay rate change.

Effects: Without some segregation of duties within these functions, there is increased exposure that someone could intentionally or unintentionally misappropriate assets of the City. Additionally, without additional internal controls related to financial reporting, errors could occur and not be detected.

Recommendation: We recommend that the City review its processes and determine where it can effectively segregate duties to alleviate the segregation of duties issues as described above and strengthen internal controls.

Auditee's Response: The City Manager has been advised of this lapse in mandatory oversight regarding purchases and expenditures incurred by department heads. The Finance office will amend its purchasing policy to require all purchase requests submitted by department heads will be approved by the City Manager, Chief Financial Officer, Councilmember, or Mayor in alignment with the reporting hierarchy of the organizational chart. Additionally, the City will implement controls that require that the payroll administrator assures that any changes to payroll disbursements or rate changes have the appropriate approval of the CFO or his/her designee.

CITY OF SOUTH FULTON, GEORGIA

SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018

SECTION II
FINANCIAL STATEMENT FINDINGS AND RESPONSES (CONTINUED)

2018-002 Capital Asset Reporting

Criteria: Internal controls should be in place to ensure that all capital asset amounts reported within the financial statements are accurate, in accordance with generally accepted accounting principles, and represent assets that are owned by the City.

Condition: Internal controls did not prevent or detect material misstatements in the reporting of the City's capital assets.

Context/Cause: During our testing of capital asset balances, we noted the following issues:

- The beginning balance of City's equipment did not agree to the prior year's audited financial statements, due to approximately $6,800 of equipment being incorrectly included in the beginning balance although the equipment was acquired in the current fiscal year;
- During the City's second year, the City has taken on more services from Fulton County (the "County") and through this process also received material amounts of capital assets from the County. When there are material capital assets which are transferred from the County to the City during the incorporation period, those assets should be brought on the City's general ledger at the estimated net book value reported by the County at the time of the transition. The City initially recorded those assets at the legal title transfer value rather than the estimated value from the County and an adjustment of approximately $7,941,000 was required to increase the capital asset balances on the City's general ledger;
- Per the City's capitalization policy, assets whose acquisition price were less than $5,000 are expensed. Per our initial review of the capital asset subsidiary ledger, there were approximately $205,000 of assets being capitalized which did not meet the City's capitalization policy, an adjustment was made to reduce the related capital assets;
- During testing of the City's calculated depreciation expense, we noted a formula error in the City's capital asset subsidiary ledger as maintained in Excel. As a result, an adjustment of approximately $261,000 was required to correct depreciation expense for the year ended September 30, 2018;
- During our testing of the City's capital asset subsidiary ledger, the City was improperly capitalizing the cost of infrastructure projects which were paid to the County during the year ended September 30, 2018. Per the City's intergovernmental agreement with the County, the County will maintain all infrastructure assets within the City until November 2018, and as such, an adjustment of approximately $1,042,000 was required to remove the capital assets which are not owned or maintained by the City as of September 30, 2018;
- During testing of the subsidiary ledger for the capital assets, we noted a formula error in calculating the total amount of additions, to which the additions were being understated by $180,000; and
- During testing of the City's vehicles which were brought over from the County, the original estimated donated value of the vehicles was overstated by approximately $271,000.

Effects/Possible Effects: The City's capital asset activity required several, material adjustments and required several revisions to the detail subsidiary listing. In total, there were approximately $9,906,800 of total adjustments to properly report the capital assets of the City, as of September 30, 2018.

CITY OF SOUTH FULTON, GEORGIA

SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018

SECTION II
FINANCIAL STATEMENT FINDINGS AND RESPONSES (CONTINUED)

2018-002 Capital Asset Reporting *(Continued)*

Recommendation: We recommend the City carefully review its capital asset detail and related items (including depreciation expense) to ensure that all capital assets and components thereof, are properly recorded and depreciated during the year and at year-end in accordance with generally accepted accounting principles.

Auditee's Response: As of the time of the audit the City had not yet incorporated its Capital Assets into its Financial Accounting System (MCSJ). The assets were being maintained in an excel spreadsheet until several matters related to cost and value could be finalized. The City has since procured the Fixed Asset Module and will incorporate its Capital Assets into its Financial Accounting System.

Carrying Values: Fulton County did not initially provide the carrying values for the assets sold in transition. Thus, the City recorded these assets at the cash price paid. During the audit the City was advised that the assets must be recorded at the estimated net book value reported by Fulton County. Following several requests to the County some information was received. The City then updated the values of the assets which resulted in the increase to the capital asset balance.

The City chose to capitalize some expenses that it believed contributed to the value of the life of the asset even if the cost was less than the threshold for capitalization (e.g.) the cost of some parts for vehicles, and equipment. However, based on the auditor's guidance the City will no longer capitalize these assets.

All infrastructure within the boundaries of the City became the property of the City at the date of incorporation. However, the County maintained operations until the service was transferred to the City. Per Article 27 sec 27.5 the County will negotiate a separate fee for capital projects. The amount referenced was a negotiated fee for infrastructure improvements with some roadways.

CITY OF SOUTH FULTON, GEORGIA

SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018

SECTION II
FINANCIAL STATEMENT FINDINGS AND RESPONSES (CONTINUED)

2018-003 Hotel/Motel Revenues and Expenditures

Criteria: Internal controls should be in place to ensure that revenues collected from hotel/motel taxes are expended in the year they are levied in accordance with Georgia Code 48-13-51.

Condition: Material noncompliance was detected during the testing of hotel/motel tax revenue compliance requirements.

Context/Cause: During our testing of the City's hotel/motel taxes, we noted the City was incorrectly reporting expenditures and related liabilities of approximately $51,500. These expenditures were not incurred as of September 30, 2018 but were required to be expended during the current fiscal year when the revenues were received. As such, an adjustment was required to reduce the expenditures and show restricted fund balance for the unexpected revenues.

Effects: The City's Hotel/Motel revenues for the year ended September 30, 2018 were not expended within fiscal year 2018 which required adjustments of approximately $51,500 to correct the reporting of the current year's Hotel/Motel Tax fund. As a result of the City' operations in the year ended September 30, 2018, the City was not able to fully expend the hotel/motel taxes in accordance with OCGA 48-13-51.

Recommendation: We recommend the City monitor the Hotel/Motel tax revenues collected throughout the year to ensure they are being expended properly and within the year they are collected in order to stay in compliance.

Auditee's Response: The City Council has not yet directed staff on what Tourism Promotion activities it wishes to appropriate funds for, therefore there was no expenditure during the year. Staff will work with Policymakers in identifying qualified programs to prevent a recurrence of this issue.

CITY OF SOUTH FULTON, GEORGIA

SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018

SECTION II
FINANCIAL STATEMENT FINDINGS AND RESPONSES (CONTINUED)

2018-004 Revenues and Related Receivables

Criteria: Internal controls should be in place to ensure that amounts reported as receivables and revenues are appropriate and properly valued in accordance with generally accepted accounting principles.

Condition: Misstatements were detected in the reporting of the City's revenues and related receivables.

Context/Cause: During our testing of the City's revenues, we noted the following activities which required audit adjustments to correct the reporting:

- The City did not record one month's receivable and related revenues for the title ad valorem tax and motor vehicle taxes collected by the County Tax Commissioner on behalf of the City. These revenues were collected subsequent to the end of the fiscal year and were considered available to the City under the revenue recognition policy. An adjustment of approximately $87,000 was required to correctly report revenues and receivables.
- The City did not properly record property tax receivables, allowances, deferred inflows of resources, and revenues and an adjusting entry of approximately $1,308,000 was required to correct this.
- An entry was required to move approximately $207,000 of SAFER grant revenues from the General Fund to the Multiple Grant Fund where the expenditures were reported.

Effects: The City's revenues for the year ended September 30, 2018 were not materially stated, and required adjustments of approximately $1,602,000 to correct the reporting of the current year's revenues and receivables, and deferred inflows of resources.

Recommendation: We recommend the City carefully review all revenues to ensure they are reported in the proper reporting period and in accordance with generally accepted accounting principles.

Auditee's Response: Fulton County still receives Motor Vehicle Revenue on the City's behalf. The funds are netted against any payments made by the County on the City's behalf and remitted on a quarterly basis during transition. The revenues referenced were not received by the City until February 2019.

The County has deducted funds from the receipt of property tax revenues it has collected on the City's behalf. The City is disputing these deductions with the County. On the auditor's guidance the City has recognized a contra revenue amount for the disputed tax