

NORTH CAROLINA
DEPARTMENT OF STATE TREASURER



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STATE AND LOCAL GOVERNMENT FINANCE DIVISION

LGC Update

Sharon Edmundson, Deputy Treasurer

Susan McCullen, Director, Fiscal Management



**GASB
did
what?**



Agenda:

- Announcements
- Viable Utilities Reserve Legislation
- American Recovery Plan (ARP)
- Changes to the 2021 Audit Process – Units and Auditors
- Proposed Statutory Changes to NC General Statutes
- Leases: Beginning the Implementation Process
- GASB Comments: New Financial Reporting Model Exposure Draft



Announcements:

- Staff changes:
 - Retirements: Greg Gaskins and Biff McGilvray retired on December 1, 2020
 - Dora Fazzini retired on January 1, 2021
- Promotions:
 - Deputy Treasurer – Sharon Edmundson
 - Director, Fiscal Management – Susan McCullen
 - Director, State Debt and NCCFFA – Lewis Andrews



Announcements:

- More retirements:
 - Alisia Smith retired on February 28, 2021
 - Phillip Anderson is retiring on April 30, 2021
- Several new positions and vacancies we are trying to fill.



Announcements:

- Upcoming Training
 - Statement 87
 - Two partial day virtual training on Statement 87
 - May 18 and 20 from 10-12
 - Register on SOG site: <https://www.sog.unc.edu/courses/leases-%E2%80%93-implementing-gasb-statement-no-87>
 - 2021 State Treasurer's Conference
 - Virtual training on a variety of topics of interest
 - June 22 and 24 from 8:30-12:30
 - Registration not yet open



Announcements:

- Be sure to sign up for our [blog](#) to keep up with all the announcements and updated guidance



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The Balance Sheet



The Balance Sheet

The Balance Sheet is the blog of the Local Government Commission staff. Click below to sign up to receive email alerts when new blog posts are released.

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[COVID-19 Resources](#) →



Announcements:

- Late audits, findings, and enforcement of GS 159
 - Late audits continue to be an issue; as of 3/26 missing 76 municipalities and 15 counties
 - Several units have CDBG funds frozen due to lack of current audit
 - Late audits and repeat internal control findings negatively impact ability to borrow; LGC placing more emphasis on compliance with deadlines



Announcements:

- Enforcement of GS 159
 - Three options
 - Compel unit to hire help to catch up books and audits
 - Assume control of just utility fund
 - Assume control of all finances of entity
 - Currently in control of finances of 5 entities with a 6th likely on the horizon
 - Several others could be next
 - Accountability agreements
 - Board engagement



Viable Utility Reserve

- SL 2020-79 created the Viable Utility Reserve (VUR) program
- Intended to promote action to make utility systems viable in the long-term, and not to provide only short-term fixes
- Requires LGC and SWIA (State Water Infrastructure Authority) to work together to develop solutions
- Aligns with *North Carolina's Statewide Water and Wastewater Infrastructure Master Plan: The Road to Viability* published by DEQ in 2017



Viable Utility Reserve:

- VUR initially funded with \$9mm appropriation
- Funds can be used for any:
 - Public water or wastewater infrastructure that will provide regional service;
 - Rehabilitation of existing public water or wastewater infrastructure;
 - Decentralization of existing public water or wastewater into smaller viable parts;
 - Funding for rate, asset inventory and assessment, and/or merger or regionalization option studies;
 - Other feasible funding options that which result in reliable water or wastewater services; and
 - Emergency grants that cover operating deficits as defined in the statute.



Viable Utility Reserve:

- LGC and State Water Infrastructure Authority (SWIA) developed and adopted assessment criteria and distressed unit identification criteria.
- Only units that have been definitively labeled distressed are ones that we are managing; Cliffside Sanitary District, Eureka, Kingstown, and Robersonville.
- SWIA will potentially vote on remaining proposed units at their April 2021 meeting.
- Units on proposed “distressed” list have been contacted.
- Consideration will be given to unit responses and input for SWIA vote.



Viable Utility Reserve:

- What does it mean to be designated as “distressed”?
 - Not intended to be punitive.
 - Statutes require certain steps to be taken if unit has not already done so
 - Current complete rate study
 - Asset inventory and assessment completed
 - Training
 - Developing short-and long-term action plans to ensure viability
 - Will not as a rule prevent borrowing.
 - VUR Distressed unit status will likely provide extra “points” in future grant applications (being discussed).
 - No automatic qualifications for grants.



Reporting Clarification:

- SLGFD staff and LGC/SWIA are looking more at trends in customer accounts receivables
- To enable comparisons year over year, your AR should not include amounts collected on your behalf by another government (Due from other government) or Grants Receivable (Due from X)
- Finding a number of issues where AR is overstated with uncollectable accounts



American Rescue Plan Funds:

- Local governments have a generational opportunity with funding
- State is working to leverage its dollars with locals to ensure best and highest use of funds
- Locals encouraged to hold off spending until more guidance is available; no short-term time crunch
- Many specific pots of money for things such as schools, rental, mortgage, and utility assistance, transportation, etc.



American Rescue Plan Funds:

Four main allowable uses of funds (per *Key Provisions of the American Rescue Plan Act* on the NCLM website):

- to respond to the public health emergency with respect to the Coronavirus Disease 2019 (COVID-19) or its negative economic impacts, including assistance to households, small businesses, and nonprofits, or aid to impacted industries such as tourism, travel, and hospitality;
- to respond to workers performing essential work during the COVID-19 public health emergency by providing premium pay to eligible workers of the metropolitan city, non-entitlement unit of local government, or county that are performing such essential work, or by providing grants to eligible employers that have eligible workers who perform essential work;



American Rescue Plan Funds:

- for the provision of government services to the extent of the reduction in revenue of such metropolitan city, non-entitlement unit of local government, or county government due to the COVID-19 public emergency relative to revenues collected in the most recent full fiscal year of the metropolitan city, non-entitlement unit of local government, or county prior to the emergency; or
- to make necessary investments in water, sewer, or broadband infrastructure.

No funds can be used to deposit into pension funds or to offset revenue resulting from a tax cut.



Recall 2020 Audit Review Process Changes:

- Significant changes in 2020 reporting.
- New in 2020: Risk-based approach to audit reviews. Enhanced information requested on Transmittal Document that auditors submit.
- No routine GAAP reviews.
- Revised Data Input Process. Amounts on “Unit Data from Audit Worksheet” were “self-reported” beginning with 2020 audit.



Additional 2020 Audit Review Process Changes:

- Finance Officers verified that data provided on data input form agreed with audited financial statements.
- Corrections of financial statements required the finance officer to resubmit and reverify unit data.
- Additional information on rows 202 – 209 of “Unit Data from Audit Worksheet” captured information on finance officer appointment and NCGS 159 compliance.



2021 Audit Process:

- First, SLGFD will not initiate communications about concerns or findings. The end of an era!
- On Transmittal Document (TD) completed by your auditor, data pulled in when downloaded from our website highlights “Financial Performance Indicators of Concern” (FPICs) that are outside our acceptable parameters.
- One or more FPICs, significant deficiencies or material weaknesses, or other findings will require the unit to prepare and submit a response to the LGC regarding the outcome of their audit.



2021 Audit Process:

- Auditors are now required by our rule changes to present the audit report to the governing board or an audit committee within 45 days of submitting to the LGC.
- If required, the Finance Officer will provide the Board a draft Response letter at the same Board meeting.
- Within 60 days of the board meeting in which the financial statements and the proposed response was presented, the detailed audit response should be filed with the LGC. Response should be signed by entire board, Finance Officer and Manager.



2021 Audit Process: Draft Financial Performance Indicators of Concern (FPICs)

- GF FBA without Powell Bill + Debt Service Fund balance.
- Budgeted tax levy for the General Fund if 3% or greater is uncollected.
- Estimated tax revaluation shows a decrease of 3% or greater from previous tax revaluation. 🚩
- DEQ, Court Mandates or similar action exceeds 3% of General Fund budget.
- Did the Unit of Government significantly overspend their legally adopted final budget ordinance for major funds? – Auditor Question
- Unit on Unit Assistance List.
- GF deficit.
- Late Audit Report.



2021 Audit Process: Draft FPICs (Continued)

- WS/Electric – Quick Ratio less than one.
- WS/Electric – Unrestricted Cash balances/Expenditures less depreciation.
- WS Operating Income less depreciation – does rate cover the operating expenses
- Violations of bond covenants exist – Auditor Question



2021 Audit Filing and Reporting:

- The audit contract that includes these changes is on our website at [Contracts](#)
- All changes are effective beginning with June 30, 2021 audits.
- Prior years audits may use the previous process in 2021 or the revised 2021 process. Beginning in 2022, all audits, regardless of year, will use revised process.



Statutory Changes Proposed to NCGS 159:

- Changes related to GASB 84 Fiduciary reporting guidance:
 - NCGS 159-8, 159-13, 159-14, 159-26, and 159-28 (b) – Trust and agency fund exemption from budgeting revised to “Trust and custodial.”
 - New section added as NCGS 159-13(a)(4) – Representative Payee Funds received by counties under the Social Security Agency’s Representative Payee Funds are exempted from budgeting.
- Preaudit changes allows for use of an automated system:
 - NCGS 159-28 (a3) and (a4) – New statutory authority that defines the characteristics of an automated computer system’s budgetary controls at a high level. Units can use the automated to meet the requirements of preaudit in 159-28 (a1) if the finance officer files an annual certification with the Secretary of the Commission.



Statutory Changes proposed to NCGS 159:

- Changes related to Chapter enforcement:
 - NCGS 159-181 (c) – New language that authorizes the Commission to waive missing years' audits provided that the use of all grant and borrowed funds is successfully documented to the satisfaction of grantors and lenders with the goal of making those entities whole.
 - If the Commission waives annual audit requirements, then the Commission shall consider recommending to the General Assembly or other organizing body the revocation of the charter or the dissolution of the unit of local government.



Other Statutory Changes proposed to NCGS:

- Changes related to public-private partnership construction contracts:
 - NCGS 143-128.1C - New language was added to Section (b) requiring the approval by the Commission for the portion of a development contract that will need to be financed in whole or in part by the local government to be approved prior to the execution of the development contracts.



GASB 87 – Additional Words about Implementation

- Review all your agreements per new reporting and disclosure requirements to determine what data you are missing. Start contacting your vendors NOW for missing data. There will be missing or confusing information you will need to clarify in their contracts and/or their monthly billing so you can capture GASB 87 data.
- Do you have any agreements that include multiple components, such as a lease for IT servers that also includes routine maintenance, that you will need to allocate among lease and non-lease components?



GASB 87 – Additional Words about Implementation

- Review your debt documents. Do you use capital/operating lease terms anywhere in bond covenants calculations?
- Determine how you will maintain this information going forward to capture modifications in terms, terminations, or new agreements.
- Service agreements are leases. If all of related payments are variable, treat per paragraph 22 of GASB 87.



GASB 87 – Additional Words about Implementation

- Will need to determine lease terms and discount rates. Review your population of agreements to get started on this.
- Materiality – consider lease impact on both to determine.
 - Capital assets
 - Liabilities
- Non-lease components – maintenance, taxes, insurance, capital area maintenance (CAM) services, etc.
- Guaranteed Energy Savings Contracts – Are payments 100% variable or is there a fixed component?



GASB 87 – Additional Words about Implementation

- GASB 87 does not apply to nonexchange transactions.
- Governmental Fund accounting:
 - Similar entries to current GAAP for capital leases
 - Remember budgetary implications
- Significant changes in economic resources accounting for current operating leases. Balance sheet implications that have not existed prior to GASB 87.
- Sign up for the May SOG/LGC training sessions if you have not already!!



GASB Reporting Model Exposure Draft

- Short-term Financial Resources Measurement Focus
 - We are concerned that contract modifications will affect short-term vs. long-term classification. Easily manipulated
 - Administrative burden of individual transaction analysis.
- For practical purposes, we advised that the effective dates for the Reporting Model and related Revenue and Expense Recognition Changes be aligned.



GASB Reporting Model Exposure Draft

- Budgetary information will be presented as Required Supplementary Information (RSI). There is no option to include in basic statements as we currently do in NC.
 - RSI is not subject to the auditor's opinion.
 - Analysis of significant variances will be in the notes to RSI.
 - We are concerned about a reduction in auditor testing for budgetary issues.
 - Budgetary issues are often a key indicator of sound financial management.



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