

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



Agenda:

- Announcements
- Changes to the 2020 Audit Review Process
- Changes to the 2021 Audit Process – Units and Auditors
- Statutory Changes to NCGS 159
- GAAP Update – Recently issued memos relating to Fiduciary Activities and Leases
- GASB Projects



Announcements:

- Staff Changes
 - Retirements: Greg Gaskins and Biff McGilvray retired on December 1, 2020
 - Dora Fazzini is retiring on January 1, 2021
 - New assignments:
 - Deputy Treasurer – Sharon Edmundson
 - Director, Fiscal Management – Susan McCullen
 - Director, State Debt and NCCFFA – Lewis Andrews
 - Several new positions and vacancies we are trying to fill.



Announcements:

- Audit deadlines – will not need an amended contract if submitted by January 31, 2021
- If you want LGC approval for debt, still need your 2020 audit unless debt is refunding only.
- Debt application deadline and audit deadline for each LGC meeting is on our website at [Audit and Application Due Dates](#)



Announcements:

- LOGOTIN Project is still ongoing. The Team has made good progress. More to come in the winter and early spring.
 - System needs identified and being refined.
 - Chart of Accounts still in development.
- COVID-19 report required by S.L. 2020-03 is due on or before February 15, 2021.
 - Template will be available the first week of December.
 - Report to General Assembly by March 15.



2020 Audit Review Process:

- 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” are “self-reported” beginning with 2020 audit.



2020 Audit Review Process:

- Finance Officers must verify that data provided on form agrees with audited financial statements.
- Any corrections of financial statements that are completed will require finance officer resubmit unit data.
- Additional information on rows 202 – 209 of “Unit Data from Audit Worksheet” captures information on finance officer appointment and NCGS 159 compliance.



2021 Audit Filing and Reporting:

- Significant changes made through the administrative rule process with amendments to two Rules and adoption of a new Rule.
- 20 NCAC 03 .0502 amended to accommodate new requirement in .0508.
- 20 NCAC 03 .0505 amended to allow staff to treat all contracts as variable rate contracts, and 75% interim billings are now limited to 75% of total bills submitted in the prior year.
- 20 NCAC 03 .0508 – new Rule.



2021 Audit Filing and Reporting:

20 NCAC 03 .0508 – New Rule:

Beginning with audits as of FYE June 30, 2021, three new steps:

1. When data input form is submitted, there will be an automatically generated response that will provide Financial Performance Indicators; any indicators that fall outside of expected parameters will be identified as Financial Performance “Indicators of Concern”
2. Auditor is required to make a presentation to the client’s board in a public meeting that includes a review of all material weaknesses, significant deficiencies, other findings of note, and, if applicable, Financial Performance “Indicators of Concern”



2021 Audit Filing and Reporting:

- 20 NCAC 03 .0508 – New Rule (continued):
 3. After auditor has made presentation, the unit of government must develop a response that reasonably addresses all material weaknesses, significant deficiencies, other findings, and Financial Performance Indicators of Concern.

Response should:

- include specific, detailed steps on how the unit intends to correct or mitigate each item.
- be signed by a majority of the Board members and submitted to the LGC staff within 60 days of the auditors' presentation.



2021 Audit Filing and Reporting:

- Auditor's presentation:
 - Must be in a public meeting within 45 days of the date the audit is submitted to the LGC.
- Must address:
 - The status of prior years' findings;
 - The values of the Financial Performance Indicators; and
 - Must direct the government's board to develop and submit a response to findings and indicators of concern within 60 days of presentation.



2021 Audit Filing and Reporting:

- New audit contract that includes these changes is on our website at [Contracts](#)
- We are requiring use of new contract immediately but reporting changes are excluded for years prior to June 30, 2021 in paragraph 28 of contract.
- All changes effective beginning with June 30, 2021 audits.



Statutory Changes to NCGS 159:

- 2019 changes addressed qualifications of individuals serving as finance officers and clarified that finance officers are authorized to hire outside help with record-keeping responsibilities.
- Also gave the LGC the authority to compel units of government that have received a unit letter or have an internal control finding in the most recent audit to hire outside help.
- LGC has taken action with several units that are two or more years behind on audits.



GASBs 84 and 97 – Fiduciary Guidance:

- Memo 2020-04 published [here](#) in September. Effective for the FYE June 30, 2021.
- Memo uses the flowchart we reworked to review GASB Statements 84 and 97.
- Appendix 1 highlights the common NC reporting changes to our 2021 illustrative statements.



GASBs 84 and 97 – Fiduciary Guidance:

- Fines and Forfeitures, DSS Client Accounts, and Deeds of Trust do not meet definition of fiduciary funds. We will report as special revenue funds. Budgetary Impact is being discussed.
- Jail Inmate Pay is fiduciary in nature and should be reported in a custodial fund.



GASBs 84 and 97 – Fiduciary Guidance:

- OPEB Trust Funds (AGPIP Trust Funds) - Units with funds in AGPIP held by the State will have a blended component unit (CU). With no governing board, the Primary Government (PG) performs those duties that a board would typically perform. By definition, the CU is treated as one in which the PG appoints a voting majority.
- Cemetery Funds – Reporting is dependent upon how the fund is legally set up. Cemetery Trust Fund would be reported as fiduciary. Revenue amounts that are restricted to maintain the cemetery grounds may be reported in Cemetery Permanent files. Review the legal circumstances associate with cemetery assets with your attorney.



Preparation for Fiduciary Reporting Changes:

- Compare the legal structure of organizations within your reporting entity to our flowchart to determine how you will report them in the June 30, 2021 audit.
- Educate your manager and governing board about the reporting and budgeting changes for Fines and Forfeitures, Representative Payee (Counties only), and Deeds of Trust (Counties only).



Preparation for Fiduciary Reporting Changes:

- Develop estimates for those budgeting changes for the 2022 fiscal year based on averages or trends over the past years.
- Consider financial applications, general ledger accounts, and modifications that will be required for reporting required additions and deductions, inflows and outflows needed for financial statements.
- Review Implementation Guide No. 2019-2, *Fiduciary Activities*, and GASB Statement 97 which are now available on the GASB website.



GASB 87 – Lease: Definition

GASB Statement No. 87 defines a lease as “a contract that conveys control of the *“right to use”* another entity’s nonfinancial asset for a period of time in an exchange or exchange-like transaction”. The underlying assumption of the statement is that a lease is really a *financing transaction*.



GASB 87 – Leases

- Memo # 2021-05 issued December 1, 2020. Part 1 of our lease guidance is on our website [here](#).
- Part 1 relates mostly to policy and planning issues. Part 2 will address presentation and disclosure in our various illustrative statements.
- Effective for FY beginning July 1, 2021 for those with a June 30 year end.



GASB 87 – Leases

- Eliminates capital and operating lease criteria.
- Lease contracts convey the “right to use”, not the underlying asset to a lessee.
- Lessor receives payment in exchange for a lessee’s “right to use” Nonfinancial asset covered in lease is **not** removed from lessee’s books.
- Lease term is critical in determining the value of a lease.



GASB 87 – Leases!! Now what do I do?

- All current lease agreements will NOT be reported as leases under GASB 87. Some agreements we don't now define as leases will be reported as leases under GASB 87.
- Begin working with departments to get copies of all your agreements.
- Use GFOA sample lease accounting resources if you are a member to determine what information you will need to record and disclose under GASB 87. If you are not a member, your external auditor may have information they can provide you.



GASB 87 – Leases!! Now what do I do?

- 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. They may need to rework details/language in their contracts and/or their monthly billing.
- 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 – Leases!! Now what do I do?

- 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 – Other Items

- Will need to determine lease terms and discount rates
- Materiality
 - Capital assets
 - Liabilities
- Non-lease components – maintenance, taxes, insurance, CAM, services, etc.
- Guaranteed Energy Savings Contracts



GASB 87 – Other Items (cont.)

- Lease modifications are complex – materiality determination
- 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



GASB Projects:

PROJECT	STATUS	COMMENTS DUE	FINAL DOCUMENT
Update on Implementation Guidance	ED	2/15/2021	2 ND Q 2021
Financial Reporting Model	ED	2/26/2021	2 ND Q 2022
Recognition of Elements of Financial Statements	ED	2/26/2021	2 ND Q 2022
Revenue and Expense Recognition	PV	2/26/2021	ED 2 ND Q 2023



GASB Projects:

Update to Implementation Guidance

- Number of questions on fiduciary activities and leases
- A few questions on existing guidance
- Questions come from technical inquiries that GASB gets
- Various implementation dates based on when a standard is or was effective



GASB Projects:

Financial Reporting Model

- Changing to a theory-based model
- Encompasses review of MD&A, government-wide statements, major funds, governmental/proprietary/fiduciary funds, and budgetary considerations



GASB Projects:

Governmental Fund Reporting

- Moving to a short-term financial resources measurement focus and accrual basis of accounting in lieu of modified accrual
- Short-term is generally one year
- Report inflows and outflows related to purchase and disposal of capital assets and issuance and payment of long-term debt separately from other activities in governmental funds



GASB Projects:

Proprietary Fund Reporting

- No change in measurement focus or basis of accounting
- Will report non-operating revenues and expenses somewhat differently
- Non-capital subsidies (transfers) will be on a separate line



GASB Projects:

Budgetary Reporting

- All RSI with no option to include in basic financial statements
- No longer subject to auditors' opinion
- Will report variances between original and final budget and variance between final budget and actual
- Analysis of significant variances will be in the notes to the financials



GASB Projects:

Potential Implementation Timeline

- Two-tier phased-in approach with thresholds determined by FYE 6/30/23 (NC) – first fiscal year after 6/15/22
 - \$75 million or more in revenue for governmental and enterprise funds
 - Implement FYE 6/30/25
 - \$75 million or less in revenue for governmental and enterprise funds
 - Implement FYE 6/30/26



GASB Projects:

Revenue and Expense Recognition

- Primarily focuses on measurement focus/basis of accounting for government-wide and enterprise funds
- Three components:
 - Categorization
 - Recognition
 - Measurement



GASB Projects:

- Moves away from the exchange/non-exchange determination
- Recognize transactions based on determination of Category A or Category B transactions
 - Category A will be those with a performance obligation
 - Category B will be one of the following five: (1) derived revenue, (2) imposed revenue, (3) contractual binding arrangement, (4) general aid to governments, and (5) shared revenue



GASB Projects:

GASB is offering several free webinars on the Revenue and Expense Recognition project – free CPE too!

<https://gasb.org/jsp/GASB/Page/GASBSectionPage&cid=1176158838207>



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