

NORTH CAROLINA  
DEPARTMENT OF STATE TREASURER



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STATE AND LOCAL GOVERNMENT FINANCE DIVISION

# LGC Update

Susan McCullen, Director  
Fiscal Management Section



# Agenda:

- Announcements
- GASB 84 and 87: Tools and Memos on the LGC Website
- Viable Utilities Reserve (VUR)
- American Recovery Plan Act (ARPA)
- Legislative Updates



# Announcements:

- Staff Changes:
  - Retirements: Greg Gaskins, Biff McGilvray, Dora Fazzini, Alisia Smith, and Phillip Anderson retired.
  - Promotions and Changes:
    - Deputy Treasurer – Sharon Edmundson
    - Director, Fiscal Management – Susan McCullen
    - Director, State Debt and NCCFFA – Lewis Andrews



## By the Numbers:

- The LGC is currently managing finances of 6 units – 5 municipalities and 1 sanitary district.
- 2 additional units are operating under fiscal accountability agreements. More of these to come.
- Unit assistance list - updated for 2020 audited financial statements
  - 132 municipalities, 72 because of missing audits, 9 with severe GF financial issues, 17 with severe WS financial issues.
  - 17 counties, 10 with missing audits, 1 with severe GF financial issues.
  - 9 utility districts, 4 with missing audits and 2 with severe financial issues.



## GASBs 84 – Fiduciary Guidance:

- Memo 2020-04 published [here](#) in September 2020. Effective for the fiscal years ending June 30, 2021. Effective **NOW**.
- Memo uses the compressed flowchart reworked from GASB Statement 84.
- Appendix 1. of memo highlights the common NC reporting changes that we will implement in the 2021 illustrative statements.



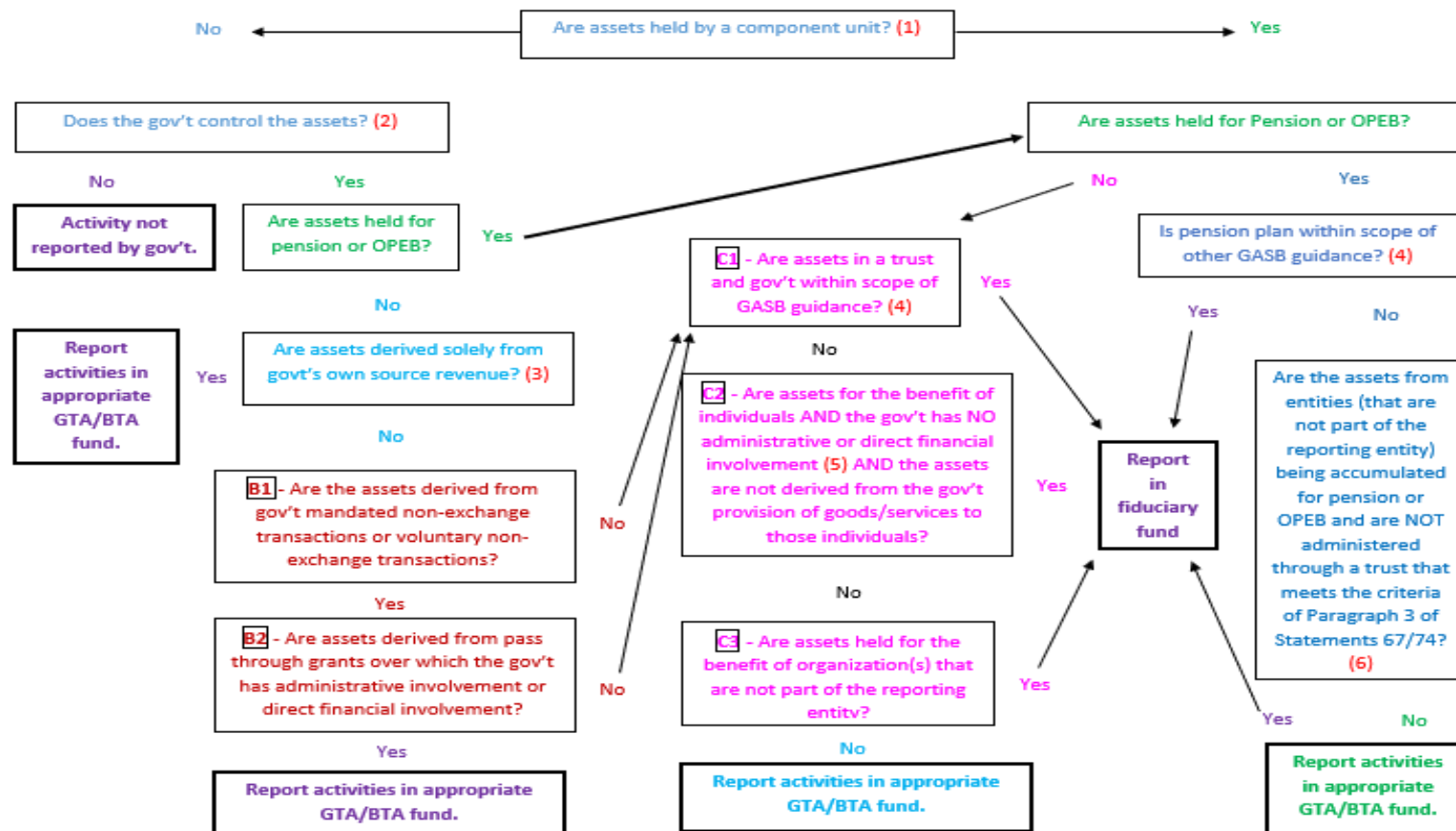
# Preparation for Fiduciary Reporting Changes:

- 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).
- Illustrative Statements are being proofed now and should be posted on our website in a couple of weeks.



# Appendix 2 : Use Flowchart for Decisioning

Appendix 2: When Should an Entity Report an Activity in a Fiduciary Fund in Accordance with GASB Statement No 84?





## GASB 87 – Lease 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 related payments are variable, treat per paragraph 22 of GASB 87. Variable expenses are NOT included in lease liability or asset.



## 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. Harder than you think it is.
- Consider the lease impact on both assets and liabilities separately to determine the lease materiality.
- Non-lease components – maintenance, taxes, insurance, capital area maintenance (CAM) services, etc.
- GASB 87 does not apply to nonexchange transactions.



## GASB 87 – Additional Words about Implementation:

- 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.



# GASB 87 Lease Templates – Overview:

- Two Excel workbooks will be posted on our website: a Lessor workbook and Lessee workbook.
- The workbooks may assist with GASB 87 implementation and first year entries for FY 2022.
- The workbooks will NOT substitute for your reading and understanding GASB 87.
- We will update workbooks in FY 2023 for 2<sup>nd</sup> year entries.
- There will not be any additional changes to the workbooks after FY 2023 unless GASB revises guidance.
- Excel files complete GASB 87 lease calculations after the user completes a questionnaire relating to a specific lease.
- An Excel workbook is to be completed for each lease or agreement. One-to-one relationship.
- Lease guidance is located at [LGC Lease Guidance](#).



# Things to do before using the template:

- Determine which of your unit's agreements meet the definition of a lease under GASB 87.
- Determine the lease term for GASB 87 reporting – include reasonably certain extensions, exclude reasonably certain termination options
- Determine the amount of the lease related payment – exclude maintenance, CAM, insurance, taxes, usage components, etc. See **Example 1** on the next slide.
- Determine the lease discount rate – interest rate stated in lease, internal rate of return, or incremental borrowing rate.
- For capital leases in place prior to the first year of GASB 87 implementation, have prior year reported figures related to the lease available – such as debt payable for capital lease, and capital lease fixed asset balances.



# Example 1 – Copier lease terms with usage charge included with monthly payment:

See attached Schedule A

See attached Billing Schedule

## TERM AND PAYMENT INFORMATION

63 Payments\* of \$ 221.54

*If you are exempt from sales tax, attach your certificate.*

*\*plus applicab.*

The payment ("Payment") period is monthly unless otherwise indicated.

Payment includes 1500 B&W pages per month

Overages billed monthly at \$ .0165 per B&W page\*

Payment includes 200 Color pages per month

Overages billed monthly at \$ .0935 per Color page\*

By Initialing here, you agree that maintenance and supplies are not included in this Agreement and Paragraph 13 shall not apply to this Agreement.



## Example 1 – continued:

- **This illustration is provided for informational purposes only.** Your auditor will determine materiality and can assist you in deciding which agreements are material for your unit. We are NOT requiring individual copiers be reported under this guidance.
- From the previous slide, the monthly lease payment of \$221.54 includes 1500 black and white pages and 200 color pages. We estimated the amount of the monthly payment attributable to this usage.
- Overage charges apply when usage exceeds 1500 black and white pages at \$0.0165/page or 200 color pages at \$0.0935.
- Use these rates to estimate the usage charge included in the monthly payment. See next slide for calculation.



## Example 1 – Calculation of Lease Related Payments:

Monthly payment			221.54	C
Estimated monthly usage included in payment:				
B&W overage rate per sheet	0.0165			
Base B&W sheets included in payment	1,500			
B&W usage estimate	24.75	A		
Color overage rate per sheet	0.0935			
Base color sheets included in payment	200			
Color usage estimate	18.70	B		
Total usage estimate	43.45	A + B	43.45	D
Monthly equipment lease payment			178.09	C - D





# How to use the templates:

- Select the correct template, Lessee or Lessor, Depending on your organization's role in the lease.
- Answer all questions in the lease questionnaire located on the "Info" tab.
- Answer the questions in order as the questions are interactive. See Example 2 in the following slides.
- Complete the payment schedules on the "Lessee/Lessor Calculations" tab. See Examples 3 and 4 on the following tabs.
- Review the resulting journal entries.



## Example 2 – Lease Questionnaire for Copier Operating Lease:

Lease Questionnaire					
1	Lease Description (ie. "Office Lease", "Equipment Lease", etc.)			Savin/Ricoh C2500 Copier	<< Enter brief description of lease
2	What is your fiscal year end?			6/30/2022	<< Select from dropdown list
3	Beginning Lease Date			2/11/2021	<< Enter beginning lease date
4	Was the lease in place prior to the first year of GASB 87 implementation?			Y	<< Formula driven by prior responses
5	Prior fiscal year end for lease restatement under GASB 87			6/30/2021	<< Formula driven by prior responses
6	Ending Lease Date			5/10/2026	<< Enter ending lease date
7	First Lease Payment Due Date on/after 2/11/2021			3/10/2021	<< Enter the first lease payment due date after the date indicated
8	Last Lease Payment Due Date			5/10/2026	<< Enter the last lease payment due date in the lease term
9	What is the lease payment frequency (monthly, quarterly, annually)?			Monthly	<< Select from dropdown list
10	Are there any lease prepayments to be applied to future months?			N	<< Select from dropdown list
11	NA				<< Leave Blank
12	Are there additional delivery and installation costs associated with the leased asset?			N	<< Select from dropdown list
13	NA				<< Leave Blank
14	Was a lease incentive received at or before the commencement of the lease?			N	<< Select from dropdown list
15	NA				<< Leave Blank
16	What is the annual discount rate for the lease at 7/1/2021			46.2%	<< Use the annual discount rate stated in lease if available, otherwise use the internal rate of return for the lease. If the internal rate of return cannot be determined, use the organization's annual incremental borrowing rate (See GASB 62 paragraphs 183-184)
17	Prior to GASB 87, is this lease an operating or capital lease?			Operating	<< Select from dropdown list



## Example 2 – Lease Questionnaire, Continued:

Complete the prior FYE financial information for the lease (ENTER CREDIT AMOUNTS AS NEGATIVE AMOUNTS):									
18	NA							-	<< Leave Blank
19	NA							-	<< Leave Blank
20	NA							-	<< Leave Blank

Note that all of the questions in the second section of the questionnaire appear as “NA”. Questions #18-20 above are “NA” in our example because they relate only to capital leases. Because there are typically no balances associated with operating leases, only rent expenditures/outflows, no prior year information is needed.



## Example 3 – Payment Schedule – Expected Payments:

Expected/Base Lease Payments and Lease Liability								
	Payment Date	INPUT Expected Scheduled Payment Amount net of any Lease Incentive (include asset component, do not include usage/other components)	Warnings	PV	Beg of Month Principal	Interest	Principal (Reduction)Inc rease	End of Month Principal
1	3/10/2021	178.09		171.48	4,196.21	161.62	(16.47)	4,179.74
2	4/10/2021	178.09		165.12	4,179.74	160.99	(17.10)	4,162.64
3	5/10/2021	178.09		159.00	4,162.64	160.33	(17.76)	4,144.88
4	6/10/2021	178.09		153.10	4,144.88	159.65	(18.44)	4,126.44
5	7/10/2021	178.09		147.43	4,126.44	158.94	(19.15)	4,107.28
6	8/10/2021	178.09		141.96	4,107.28	158.20	(19.89)	4,087.39

The payment dates automatically populate based upon answers provided in the questionnaire. The lease related payment is then entered in the adjacent column for all months of the lease (63 months for this lease). Be sure to input just the lease related payment. See Example 1. **Also, net any known lease incentives from the payment amount in this column.**



## Example 4 – Payment schedule – actual payments:

	Payment Date	INPUT Actual Scheduled Payment Amount net of Lease Incentive	Input Errors	Difference Between Actual and Expected Rent	INPUT Add'l Usage/ Insurance/Other Payments for Lease (those deemed not unreasonable) net of any Contingent and Variable Lease Incentives	Total Actual Payment	Adjustment to Lease Expense
1	3/10/2021	178.09		-	43.45	221.54	43.45
2	4/10/2021	178.09		-	43.45	221.54	43.45
3	5/10/2021	178.09		-	43.45	221.54	43.45
4	6/10/2021	178.09		-	43.45	221.54	43.45
5	7/10/2021	178.09		-	43.45	221.54	43.45

Input the actual scheduled lease payment, net of known lease incentives, in the first circled column and the actual usage payment in the second red highlighted column. If we had overage usage, property tax, insurance, a maintenance component, or contingent/variable lease incentives, these costs would also go in the second red column. See Example 1 for the calculation of the usage component.



# How to use the templates, continued:

- After the questionnaire and payment schedules are complete, then template provides:
  - a lease liability/receivable calculation and an amortization table;
  - a lease asset/deferred inflow calculation and amortization table; and
  - resulting journal entries.
- All calculations should be reviewed for reasonableness. Make sure you understand your work and related output.



## Helpful Tips:

- Select the correct template. The lessor and lessee templates look similar, but the output is very different.
- To avoid unnecessary work or journal entry calculation errors, complete the questionnaire in order. Answer question 1 first, then 2, then 3, etc.
- If you include prepayments in questions #10-11 or lease incentives in questions #14-15, do not also include them in the payment schedules on the calculation tab.
- Review the journal entries and adjust as necessary. The template does not factor in every circumstance, such as insurance payments covering multiple periods, missed lease payments, etc.



## Helpful tips, continued:

- Use your capital asset system to track capital asset transactions and related depreciation calculations.
- Depreciation schedules provided in the template are for illustrative purposes and are not an adequate substitute for the unit's capital asset system.
- If you are reporting multiple leases under GASB 87, you will be creating a separate template for each. Start each one from a blank template versus overwriting a completed one.
- Refer to GASB 87, GASB 87 Implementation Guide, and SLGFD lease memos, Part 1 and Part 2 when using the templates.





# Viability Reserve:

- SL 2020-79 created the Viability Reserve (VUR) program.
- Provides funding to build a path toward viable utility systems using long-term solutions for distressed water and wastewater units in NC.
- Viable systems function as long-term, self-sufficient businesses. They establish organizational excellence and provide appropriate levels of infrastructure, maintenance and reinvestment for now and in the future.
- Requires that LGC and SWIA (State Water Infrastructure Authority) 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 \$9m 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.



## Viability Utility Reserve:

- LGC and State Water Infrastructure Authority (SWIA) developed and adopted assessment criteria and distressed unit identification criteria in calendar year 2020.
- Criteria for identification as distressed include:
  - Units under LGC Fiscal control per NCGS 159-181; or
  - Units with annual audits that are two years behind; or
  - Units with Assessment Criteria scores equal to exceeding 8 for one service or 9 for two (Wastewater and/or Drinking water Services); or
  - Other information that indicates distressed status.
- 94 local governments are designated as “distressed” per the developed criteria. 18 others are under further review to determine “distressed” status.



# Viable Utility Reserve:

- “Distressed” is **NOT** intended to be punitive; the word is from the statute.
- Statute also requires certain steps to be taken and funds these as well:
  - Current, complete rate study,
  - Asset inventory and assessment completed,
  - Training for public officials, and
  - Develop both a short-term and a long-term solution that ensures viability
  - VUR Distressed unit status will likely provide extra “points” in future grant applications (being discussed).
- No automatic qualifications for grants.
- “Distressed” status does not **generally** prevent LGC approval for borrowing.



# ARPA Funding: \$1.9 Trillion in COVID - 19 Relief:

- North Carolina was allocated \$5.7 billion of ARPA funding.
- Counties and 26 metropolitan cities allocated \$2B and \$668M, respectively, directly from US Treasury.
- Non-entitlement units (municipalities) allocated \$705M through the State.
- Special purpose governments not allocated but may receive funds from the State allocation.
- Funds delivered in two tranches, first in 2021, second in 2022.

# Where should these funds go?

- No need to open a separate bank account **IF** you can track revenues and related expenditures 100% with your accounting system.
- If you can't accomplish with your accounting system, then use a separate bank account.





# What is the Accounting Guidance for ARPA?

- Do **not** comingle/combine ARPA funds with CVR/CARES money!
- Account for funds in a Special Revenue Grant Fund or a Capital Project/Reserve Fund.
  - Do **not** put ARPA monies into the General Fund; the funding can't be used to build reserves, and
  - Posting in GF makes it difficult to demonstrate that you did not use funds to build reserves,
  - Will skew operating results in General Fund.



# Reporting on Financial Statements:

- Per guidance, ARPA funds are granted based on eligibility requirements.
  - ARPA funds are not considered revenues until properly obligated and appropriated.
- Unspent funds at year-end will be recorded as a liability (not as a deferral).





## Treatment of Investment Earnings:

- Payments are **not** subject to the Cash Management Improvement Act.
  - Place funds in interest-bearing accounts,
  - Interest earnings are not restricted to same uses as ARPA and don't need to be remitted to the US Treasury.
- Based on clarification from UST investment earnings are **not** restricted to same use as funding.
  - HOWEVER, per State law, you should allocate earnings to same fund that earned them.
  - Can commingle funds in a central depository.
  - Investment earnings can be used for any allowable government purpose.



# Audit Requirements for ARPA funds:

- ARPA funds will be subject to Yellow Book and/or federal Single Audit requirements.
- Remember that thresholds relate to expenditures, not receipts.
  - Yellow Book audit is required when combined federal and/or state funded expenditures total \$100,000 or more,
  - Federal Single Audit is required when federal expenditures total \$750,000 or more.



# Audit Requirements for ARPA funds:

- Yellow Book requirements may be problematic for small governments that do not normally fall under Yellow Book standards.
- Auditors are limited with the non-audit services they can provide with a Yellow Book audit.
- Talk to your independent auditor to determine what changes might need to be made to accommodate reporting requirements.
- If your audit requirements expand for 2021, then your audit fees will increase for 2021.



# Budgeting for ARPA Funds

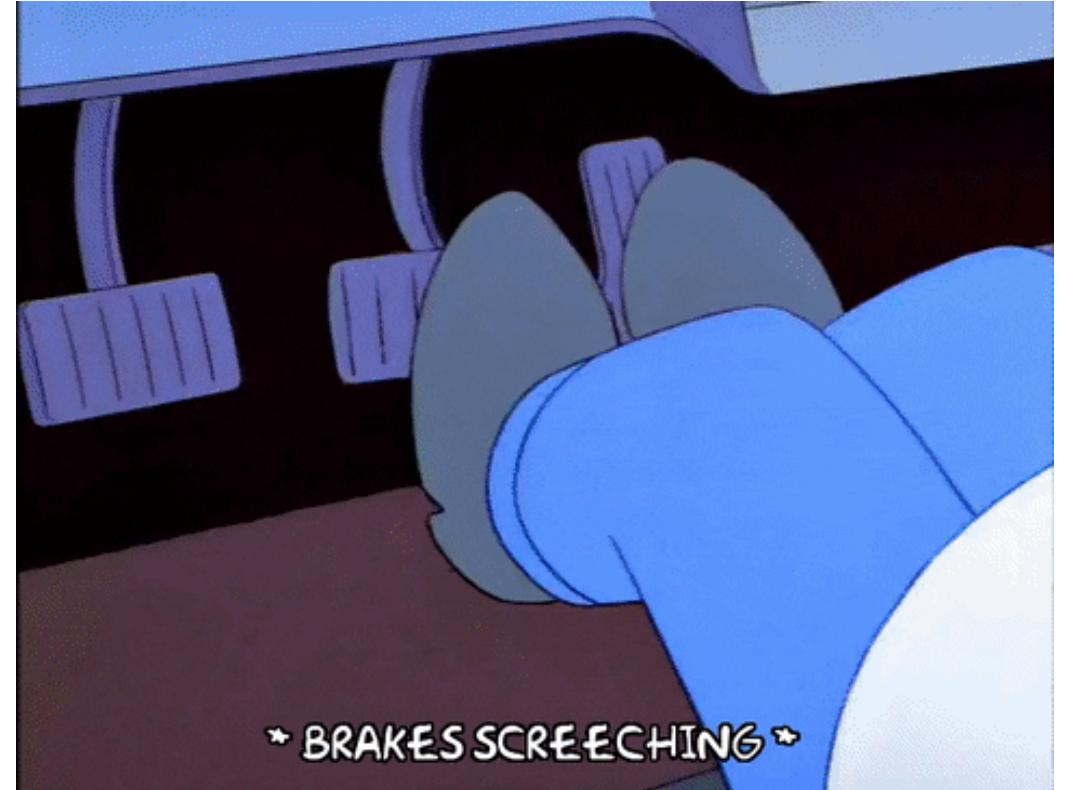
- ARPA funds **must be appropriated before they are obligated.**
- Consider budgeting funds in a Grant Ordinance, allowed by G.S. 159-13.2.
- Establish a grant that covers both capital and operating funding for the life of the grant.
- Consider budgeting in a capital project fund if intend to use for that purpose.
- Be careful about putting funds in a capital reserve fund.
- All units that are receiving ARPA funds must ensure that the funds are included a budget in the year(s) they will be obligated.



What should you  
do?

WAIT!

BE PATIENT and  
THOUGHTFUL!





# What Should You Do?

- ARPA funds represent an opportunity for substantial change.
- Prioritize the best **ALLOWED** use for your community.
- Leverage State dollars when possible.



## ARPA Funding – Acceptable Uses:

- ARPA funds must be incurred by December 31, 2024 and expended by December 31, 2026.
- Same definition of “incurred” as “financial obligation” in 2 CFR § 200.1
- Assistance Listing Number (“ALN”), formerly known as CFDA Number, 21.027



# ARPA Funding Information

- Detailed compliance guidance found here:
- <https://home.treasury.gov/system/files/136/SLFRF-Compliance-and-Reporting-Guidance.pdf>
- UST Compliance webpage is here:
- <https://home.treasury.gov/policy-issues/coronavirus/assistance-for-state-local-and-tribal-governments/state-and-local-fiscal-recovery-funds/recipient-compliance-and-reporting-responsibilities>
- ARPA FAQs, updated regularly, here:
- <https://home.treasury.gov/system/files/136/SLFRPFAQ.pdf>





# RESOURCES

- SLGFD - [COVID-19 Resource Page](#)
- NCLM - [ARPA site](#)
- NCPRO – [NC Pandemic Recovery Office](#)
- NCACC – [COVID Resource site](#)
- School of Government – [Coates Canons blog](#)
- Regional COG



## Legislation Update:

### H175 – DST Technical Corrections

- Changes throughout 159 to update language from “agency funds” to “custodial funds” (to reflect changes implemented via GASB 84)
- Passed House, in Senate. No action since 5/12/21.

### H163 – Treasurer Administrative Changes

- Changes re: P3 construction contracts (143-128.1C),
- **New language permits automated pre-audit system (159-28),**
- New language allows waiver of annual audit for units under financial control of LGC (159-181(c)), and
- New language removes charter schools from LGC oversight (115C-218.30).
- Governor signed into law on 6/28/21.



## Legislation Update (continued):

### S265 - Bond Information Transparency

- New and updated language requires new disclosures for bond authorizations (159-52, 159-55, 159-56, 159-58),
- New language allows intercept of sales tax distributions for counties and municipalities, placing funds in escrow to cover the cost of missing audits that are more than 8 months late,
- New language requires interim event reporting (159-33.2), and
- Changes to LGC approval of contracts for UAL units (159-148).
- Passed Senate, in House
- No action taken since 5/13/21.



# Legislation Update (continued):

## S473 – Enhance Local Government Transparency

- Allows LGC to be involved in a local government's audit if OSA conducts investigative audit with findings (159-34).
- Passed Senate, in the House as of 6/30/21

## S314 – Local Gov Commission Assistance Toolkit

- Changes implementation timeline for changes in sales tax distribution method (105-472(b)).
- Changes re: petitions for municipal incorporation (LGC statement required) (120-163(c)).
- Requires manager training (for both counties and municipalities) for certain units that are exhibiting fiscal distress.
- New language providing transitions for unsustainable cities (New article in 160A)
- Requires specific hours for Register of Deeds (ROD) offices.
- Passed House and Senate. Addition of ROD item forced bill back to the Rules Committee in the Senate. Last action was 6/24/21.



## CONTACT INFORMATION:

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