


NORTH CAROLINA
DEPARTMENT OF STATE TREASURER



BRADFORD B. BRINER
STATE TREASURER OF NORTH CAROLINA

STATE AND LOCAL GOVERNMENT FINANCE DIVISION


LGC Update

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BRADFORD B. BRINER
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STATE AND LOCAL GOVERNMENT
FINANCE DIVISION

Agenda: Fiscal Management Section

- News from the Fiscal Management Section
 - Staff Changes
 - Audit Reviews
 - Sales Tax Distribution Withholding
- GASB 101 – The Practical Expedient Method
- Appearing Before the LGC for Debt Approval

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News from the Fiscal Management Section

Staff Changes

- Departures
 - Hope McCullough
 - Becky Garland
- Arrivals
 - Melissa Cundey
 - Mariamma Janneh
- Promotions
 - Shanell McBride

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News from the Fiscal Management Section

Audit Reviews

- New audit review submission process to begin with FY 25 statements
- Stats on prior year submissions

2024 Audits

- Total of 921 submitted as of June 4, 2025
 - 93 counties (93%)
 - 469 municipalities (84.96%)
 - 366 other types of units
- 277 Audit Review Communication (ARC) letters issued

2023 Audits

- Outstanding
 - 1 county
 - 34 municipalities

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Notice of Noncompliance and Appeals

- [G.S. 159-34\(e\) – \(h\) \(Session Law 2023-59\)](#)
- Requires Secretary of the LGC to issue Notice of Noncompliance to counties and municipalities whose audits are not submitted within 9 months of FYE (by March 31)
- Allows Secretary to notify Dept. of Revenue to withhold a portion of sales tax distributions if audits are not submitted within 12 months of FYE and the action is not appealed by the unit, or appeal is unsuccessful
- A unit that has not filed its audit report within 12 months of FYE (by June 30) is deemed to have given consent to sales tax withholding.

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Notice of Noncompliance and Appeals

- Notice of Noncompliance sent to primary mailing address of unit
 - Also emailed to all governing board members and finance officers for whom we have email addresses on file
 - In 2025, notices were mailed in yellow envelopes on yellow paper
- Unit **should take action** upon receipt of Notice of Noncompliance:
 - File missing audit report(s) to avoid potential sales tax withholding, **or**
 - If audit will not be submitted by June 30, file an appeal based upon:
 1. LGC Guidelines for Successful Appeal, **or**
 2. Other Good Cause with Evidence

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Notice of Noncompliance and Appeals

1. Appeal based on LGC Guidelines for Successful Appeal

- LGC issued [Revised Guidelines for Successful Appeal](#) November 12, 2024
- **Paragraph 1** – An appeal is deemed successful if the audit for which the notice was issued is the only audit not submitted.
 - For example: In 2025, the FY 2024 audit is the only audit not submitted.
- Unit must file an appeal to be deemed successful, otherwise action may be taken to withhold a portion of sales tax distribution.
 - Appeal includes providing explanation for the delay and plan/timeline for submission.
- **Appeals should be submitted via the online portal:**
[Late Audit Notifications – Responses and Appeals Form](#)

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Notice of Noncompliance and Appeals

2. Appeal based on “Other Good Cause with Evidence” must include:

- a) An explanation for delay in submission, addressing applicable [criteria contained in guidance](#) published by LGC staff, **and**
- b) A plan and timeline for submission of outstanding audits
- ❖ Unit must provide sufficient, ample detail describing why audits have not yet been submitted.
- ❖ Unit should also describe any actions taken to address or mitigate the issues.
 - See [Guidance Criteria for Drafting Appeals](#) for more information.
 - Appeals submitted via [Late Audit Notifications – Responses and Appeals Form](#)
- ❖ Unit will be scheduled to appear before the LGC to answer any questions about the appeal.

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Notice of Noncompliance and Appeals

- There is no automatic withholding of sales tax distributions.
- Action must be taken to initiate withholding.
- Units may appeal the action before and after it is initiated.
- LGC retains discretion to direct or delay withholding for units that fail to submit an appeal (or are nonresponsive to the Notice of Noncompliance) or whose appeal is unsuccessful.
 - See the LGC [Notice and Appeals](#) webpage for more information.
 - Contact LGCNotifications@nctreasurer.com with any questions.

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GASB 101 – The Practical Expedient Method

- Sick leave:
 - Largest change from existing standards
 - Potentially complex calculations
- Salary-related payments:
 - Included with compensated absences expenses and liabilities
 - Benefits differ between governments – percentages will vary between governments based on benefits.

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Step 1 – Determine Level On Which To Base Calculation

- Base level can be by:
 - Employee
 - Employee with similar job functions
 - By department
 - By function
 - By activity
 - All employees
- Analyzing historical experience for smaller groups involves more effort but is more accurate.

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Step 2 - Establish A Look-Back Period

- Typically 4-5 years
- Use the government's historical records.
- Results would need to be representative of a government's experience.
- The method used should be based on a government's actual experience.
- Professional judgement is required.

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Step 3 – Determine The Percentage For The Sick Leave Expected To Be Used Category

- Focus on sick leave used during employment.
- Determine the percentage of total hours deducted that is used for sick leave – this will be an average percentage for the look-back period.
- A flow assumption is not necessary when using this calculation method.

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Step 4 – Determine The Number Of Hours Of Sick Leave Outstanding In The Category Of Sick Leave Expected To Be Used

- Multiply the % in Step 3 by the total number of hours of sick leave at the end of the fiscal year.
- The result is the total number of sick leave hours that is expected to be used.
- The same percentage can be used for the entire government or different percentages can be calculated for departments and functions.

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Step 5 – Apply Salary Rates and Salary-related Leave Rates

- Use the average salaries for departments or functions, or for the entire government.
- Individual employee salaries can also be used.
- Add salary-related benefit percentages.
- Be careful – percentages may vary between governments based on the type of benefits offered. (e.g., some governments give 401(k) only to law enforcement)

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Step 6 –Flow Assumption Consideration

- Since the implementation of GASB 34, governments have been required to identify the current portion (or the amount due within one year) of the compensated absences liability.
- LIFO and FIFO flow assumptions are the most commonly used flow assumptions.
- The Practical Expedient Method does not require the use of a flow assumption.
 - Average number of hours used from look-back period x average salary + salary-related payments
 - Approved salary adjustments for the next fiscal year would not be included.

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Step 6 – Flow Assumption Consideration (cont.)

- If a flow assumption is used, we recommend that the same flow assumption be used from year to year.
- A change in the flow assumption would be a change in accounting principle.
- FIFO calculations are usually less complex than LIFO calculations.
- LIFO usually results in a lower liability than FIFO.
- Applying either flow assumption at an individual employee level results in the most accurate results (and requires the most work).
- Employees may be grouped, but results may be misleading if there is too much aggregation.
- Remember that expenses must be allocated at the functional level in the Statement of Activities.

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Step 7 – Develop Note Disclosures

- Summary of Significant Accounting Policies:
 - No disclosures required by GASB 101
 - Consider disclosing benefits offered and major provisions of benefits.
 - Consider disclosing calculation methodology and flow assumption.
- Changes in long-term debt note
 - Beginning balance, additions, deductions, ending balance
 - Additions and deductions may be netted.
 - Amount due within one year
 - No requirement to display vacation and sick leave separately

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Appearing Before the LGC for Debt Approval

Best Practices from Fiscal Management's Standpoint

- Have your most current audited financial statements submitted by the deadlines found on our [website](#).
- If you have Financial Performance Indicators of Concern (FPICs), then submit a detailed, thorough response on time (see sample responses on our website [here](#)).
- Be prepared to provide documentation that your plan of action to address findings and FPICs has been implemented, including your results to date.
- If your audit findings and/or FPICs are repeated from prior years, then be prepared to discuss how you are going to do things differently or better to resolve the issues, especially if you are on the UAL.
- Be prepared to address any direct questions from LGC members during the public meeting requesting debt approval.

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Questions?

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