GAAP ACCOUNTING AND BUDGETARY ACCOUNTING FOR CASH FLOW LOANS, DEQ EMERGENCY BRIDGE LOANS, AND SUBSEQUENT FEMA REIMBURSEMENT GRANTS

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AMENDED LOAN AGREEMENTS FOR DST CASH FLOW LOANS

- DST is offering to amend Cash Flow Loan Agreements ***if requested to do so by the borrowing entity.***
- To request an amendment, contact the Treasurer's Office
- Your board must adopt a resolution to request the amendment
- Send that documentation and whatever other document that DST requests to them before June 30 to avoid recording the loan as a fund liability in your governmental funds.
- ***Amendment changes due date of loan to 5 years or June 30, 2030, whichever comes first, with no interim payment requirements and no requirement that any and all FEMA reimbursements and/or insurance proceeds be submitted as repayment upon receipt.***
- ***This amendment removes governmental fund liabilities for the cash flow loan that are required under the original loan agreement.***

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POSSIBLE APPROACHES FOR BUDGETING AND ACCOUNTING FOR CASH FLOW LOANS AND SUBSEQUENT FEMA REIMBURSEMENT GRANTS:

General Fund and Capital Projects Funds Approach:

- Record the receipt of the cash flow loan, and all governmental non-capital disaster recovery expenditures in the General Fund.
- Record the receipt of the DEQ Emergency Bridge Loan in the Enterprise Capital Project Fund. Record all capital disaster recovery expenditures in the appropriate Capital Project Fund, including utility related expenditures in the Enterprise Capital Project Fund.
- Record the capital-related FEMA Reimbursement Grant funds in the appropriate Capital Project Funds.
- Repay the cash flow loan from the General Fund and repay the DEQ loan from the Enterprise Fund.

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POSSIBLE APPROACHES FOR BUDGETING AND ACCOUNTING FOR CASH FLOW LOANS AND SUBSEQUENT FEMA REIMBURSEMENT GRANTS:

Grant Project Fund and Capital Projects Funds Approach:

- Record the receipt of the cash flow loan, all governmental non-capital disaster recovery expenditures, and all related FEMA Reimbursement Grant proceeds in the Grant Project Fund.
- Record all governmental (non-enterprise) capital outlay expenditures in the General Capital Projects Fund and all related FEMA Reimbursement Grant proceeds in the General Capital Projects fund.
- Record the receipt of the DEQ Emergency Bridge Loan in the Enterprise Capital Project Fund. Record all enterprise capital disaster recovery expenditures in the Enterprise Capital Project Fund, along with all related FEMA Reimbursement Grant proceeds.
- Repay the cash flow loan from the Grant Project Fund and repay the DEQ loan from the Enterprise Fund, transferring the appropriate amount of FEMA Reimbursement Grant proceeds from the Enterprise Capital Project fund to the Enterprise Operating Fund.

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ACCOUNTING FOR CASH FLOW LOANS, DEQ EMERGENCY BRIDGE LOANS, AND FEMA REIMBURSEMENT GRANT PROCEEDS

UNDER AN AMENDED LOAN AGREEMENT:

- Cash Flow Loans will be treated like any other long-term debt. The fund balance sheets for governmental funds will not reflect a liability for the loan(s).

UNDER THE ORIGINAL LOAN AGREEMENT:

- Units must be aware that the accounting and financial reporting for the cash flow loan will reduce the total fund balance and fund balance available in the General Fund after the loan has been received and the cash has been expended. This is because the loan must be reported as a fund liability. To avoid this negative impact to the General Fund, units can choose instead to budget and expend the loan proceeds through a Grant Project Fund (GPF), which is a special revenue fund, utilizing a Grant Project Ordinance (GPO) for budgeting.

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ACCOUNTING FOR CASH FLOW LOANS, DEQ EMERGENCY BRIDGE LOANS, AND FEMA REIMBURSEMENT GRANT PROCEEDS

- Please keep in mind that **for GAAP reporting purposes, capital items cannot be accounted for in a special revenue fund.**

- Please also keep in mind that you need to consider the possibility of an asset impairment for some of your damaged capital assets (GASB Statement 42)

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ACCOUNTING FOR CASH FLOW LOANS, DEQ EMERGENCY BRIDGE LOANS, AND FEMA REIMBURSEMENT GRANT PROCEEDS

What does asset impairment mean?

- A capital asset generally should be considered impaired if both of these things are true
  - the decline in service utility of the capital asset is large in magnitude, and
  - the event or change in circumstance is outside the normal life cycle of the capital asset.
- Impaired capital assets that will no longer be used by the government should be reported at the lower of carrying value or fair value.
- Impairment losses on capital assets that will continue to be used by the government should be measured using the method that best reflects the diminished service utility of the capital asset.
  - Impairment of physically damaged capital assets generally should be measured using a restoration cost approach, using the estimated cost to restore the capital asset to identify the portion of the historical cost of the capital asset that should be written off.
  - Impairment of capital assets that are subject to a change in manner or duration of use generally should be measured using a service units approach, comparing service units before and after the damage, or using deflated depreciated replacement cost, an approach that quantifies the cost of the service currently being provided by the capital asset and converts that cost to historical cost.

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CHANGING YOUR APPROACH

- It is not too late to change from one approach to another. If you originally budgeted and accounted for the cash flow loan and your FEMA related expenditures to date through the General Fund, you can choose to move those items to a Grant Project Fund.
- Board action is required to establish the GPF and to adopt the related GPO. You also would need to amend the General Fund budget.
- **<u>If you decide to make this change, or to move transactions to or from other funds, we strongly recommend you do that before the end of this fiscal year – by June 30, 2025.</u>** This will eliminate any additional discussion and disclosure of an accounting change that will be required (thanks to GASB Statement 100).

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BUDGETING CASH FLOW LOANS USING THE GENERAL FUND APPROACH

The town or county should budget for the following, through an amendment to its current year annual budget ordinance:

- the receipt of the cash flow loan funds,
- the appropriation of the cash flow loan funds,
- any repayment of the loan funds in the current year (not needed if you amended your loan agreement),
- the appropriations for the disaster recovery expenditures it expects to spend during the current fiscal year not including those being covered by the cash flow loan,
- the amount it reasonably expects to receive in FEMA reimbursements in the **current fiscal year only**.

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BUDGETING CASH FLOW LOANS USING THE GRANT PROJECT FUND APPROACH

The city or county will need to establish the Grant Project Fund (GPF) through board action and adopt the fund's multi-year budget. This budget should include:

- the receipt of the cash flow loan funds,
- the appropriation of the cash flow loan funds,
- the repayment of cash flow loan funds across all years,
- the appropriations for the non-capital disaster recovery expenditures it expects to spend over the life of the disaster recovery period,
- the amount it reasonably expects to receive in FEMA reimbursements across all years (not including reimbursements for capital expenditures, which will be recorded in the various capital project funds).

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BUDGETING DEQ EMERGENCY BRIDGE LOANS USING THE ENTERPRISE CAPITAL PROJECT FUND

The city or county will need to budget any DEQ Emergency Bridge Loan proceeds in an Enterprise Capital Projects Fund. This is the only appropriate approach with this funding source. This budget should include:

- the receipt of the emergency loan funds,
- the appropriation of the emergency loan funds,
- the repayment of emergency loan funds,
- the amount it reasonably expects to receive in FEMA Reimbursement Grant proceeds across all years as a result of these expenditures.

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GAAP ACCOUNTING FOR DST CASH FLOW LOANS AND REIMBURSEMENTS – ORIGINAL LOAN AGREEMENT ONLY – GOVERNMENTAL FUNDS ONLY

- DST Cash Flow Loans are governmental fund liabilities until repaid or until such time when the borrowing entity determines with certainty that it will not receive any further cash resources related to recovery from the sources identified in the loan agreement as being sources of repayment.
- DST Cash Flow loan agreement specifically states that "Notwithstanding the Repayment Terms as stated on Page 1 of this Agreement, if RECIPIENT receives funding support from the federal government for expenditures covered under the FEMA Public Assistance Worksheets used as the basis for this Agreement, RECIPIENT shall repay NCDST the equivalent amount of loan proceeds within five (5) business days of receipt of the federal funding support". It also goes on to state that "If RECIPIENT obtains alternative funds pursuant to subdivision (ii) of this subsection g., RECIPIENT shall promptly remit such funds to NCDST", with subdivision (ii) referring to funds received from insurance, other federal aid, and private donations.
- We find it highly unlikely that our local governments will not receive sufficient funding from these combined sources in a relatively short period of time. Some entities have already received emergency disaster recovery funds from FEMA, and Governor Stein announced last week that an additional $48 million had just been released from FEMA.

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GAAP ACCOUNTING FOR LOANS AND REIMBURSEMENTS – ENTERPRISE FUNDS ONLY

- In your enterprise funds, there is no question that the DST Cash Flow Loans and the DEQ Emergency Loans are fund liabilities.
- Under the terms of the DST Cash Flow Loan - **original loan agreement only** - the only determination to be made is the classification as current vs. long-term. We believe, using the same logic as applied to the governmental fund discussion under the original loan agreement, that these should be current liabilities unless the borrower knows with certainty that it will not receive any further cash resources that would need to be paid to DST. Under the amended loan agreement, we believe these loans should be classified as long-term liabilities until the year that repayment is due.
- For DEQ loans, the only determination to be made is the classification as current vs. long-term. We believe that these should be current liabilities unless the borrower knows with certainty that it will not receive any cash resources that would need to be repaid to DEQ in the budget year.
- **PLEASE NOTE: THE ENTRIES IN THE TWO SCENARIOS DETAILED IN THE MEMO ARE FOR ILLUSTRATIVE PURPOSES ONLY AND NOT INDICATIVE OF THE EXPECTED TIMING OF FEMA OR OTHER REIMBURSEMENTS THAT WILL TRIGGER CASH FLOW LOAN REPAYMENT UNDER THE ORIGINAL LOAN AGREEMENT OR REPAYMENT OF THE DEQ LOAN.**

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FINANCIAL REPORTING IMPACT FOR THE 2025 FISCAL YEAR

- The financial impact of Hurricane Helene qualifies as an extraordinary event under current GAAP for the fiscal year ended December 31, 2024, March 31, or June 30, 2025
- Extraordinary events are reported just before the changes in equity on the government-wide statement of activities
  - Reported following other financing sources and uses on governmental operating statements
  - Reported following non-operating revenues and expenses on the proprietary fund operating statements

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NEW: Statutory Compliance Checklist

- Collaboration between SOG and LGC
- Guide to local governments on common statutory requirements
  - Finance officer bonding, bank reconciliations, preaudits, budget amendments, cash management and investments, etc.
- Guide for auditors on compliance testing
- Voluntary for now
- May be mandated in the future

- Use NEW LG Finance Policy Manual to help flesh out details and for compliance resources, available on ncfinanceconnect.com

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ARPA

- Still waiting on close-out instructions (may be awhile)
- Keep all documentation and continue to report (annually or quarterly, depending on how much $ you received)
- May be additional policies and compliance requirements if you received State ARPA funds
- Respond quickly to any inquiries from US Treasury
- Reach out if you need help!

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