



NORTH CAROLINA  
DEPARTMENT OF STATE TREASURER



*Dale R. Folwell, CPA*  
STATE TREASURER OF NORTH CAROLINA  
DALE R. FOLWELL, CPA

---

STATE AND LOCAL GOVERNMENT FINANCE DIVISION  
Reporting Changes, Red Flags, and Unit  
Assistance

Susan McCullen, Director, Fiscal Management

1



NORTH CAROLINA  
DEPARTMENT OF STATE TREASURER

State and Local Government Finance Division



STATE TREASURER OF NORTH CAROLINA  
DALE R. FOLWELL, CPA  
*Dale R. Folwell, CPA*

---

**Agenda:**

- Reporting Changes: Fiduciary and Lease Highlights
- Red Flags indicating problems within local governments
- Unit Assistance Process – UAL process and 2022 Budget reviews
- Proposed legislative changes

2



## GASBs 84 and 97 – Fiduciary Guidance:

- Memo 2020-04 published [here](#) in September 2020. Effective for the fiscal years ending June 30, 2021.
- 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.

3



## 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).

4



# Preparation for Fiduciary Reporting Changes:

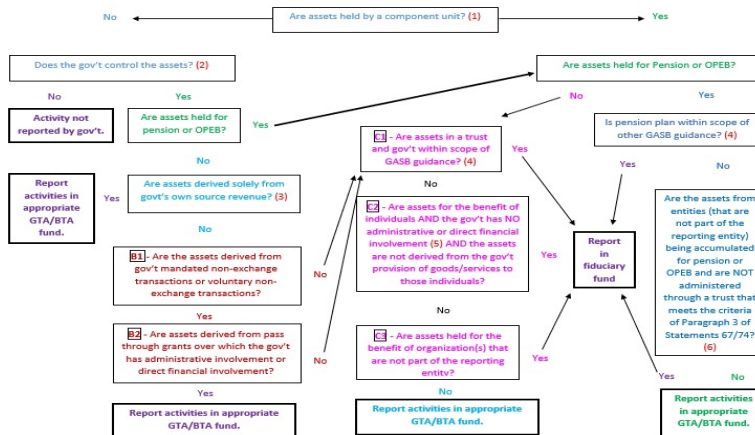
- Develop estimates for budgeting fiduciary reporting changes for FYE 2022 fiscal year based on averages or trends over the prior years.
- Consider financial applications, general ledger accounts, or reporting changes that will be required for reporting required additions and deductions, inflows and outflows needed for financial statements.

5



# 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?



6



## City of Dogwood Impact:

- 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 associated with cemetery assets with your attorney.
- Fines and Forfeitures do not meet definition of fiduciary funds. We will report as special revenue funds. General Fund is also acceptable.

7



## Carolina County Impacts:

- Fines and Forfeitures, DSS Client Accounts, and Deeds of Trust do not meet definition of fiduciary funds. We will report as special revenue funds, but the General Fund is acceptable.
- Budgetary Impact for DSS Client Accounts has been submitted to NC General Assembly as a budgeting exception. Otherwise, these must be budgeted.
- Jail Inmate Pay is fiduciary in nature and should be reported in a custodial fund. May be immaterial.
- Municipal Tax Collections are reported in a custodial fund. Related fees should be accounted for as revenue in the General Fund.

8



## Carolina County Impacts: (continued)

- 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.

9



## GASB 87 Lease Templates – Overview:

- Two Excel workbooks will be posted on our website.
- 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.

10



## 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.

11



## 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.

12



## 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.

13



## 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.

14

 NORTH CAROLINA  
DEPARTMENT OF STATE TREASURER

State and Local Government Finance Division


STATE TREASURER OF NORTH CAROLINA  
DALE R. FOLWELL, CPA  
*Dale R. Folwell, CPA*

---

## Red Flags: Indicators of Problems Ahead

- Unengaged or untrained governing boards,
- Culture of conflicts of interest,
- Understaffed finance departments,
- Out-dated or nonexistent financial systems,
- Minimal training for staff and governing board,

15

 NORTH CAROLINA  
DEPARTMENT OF STATE TREASURER

State and Local Government Finance Division

STATE TREASURER OF NORTH CAROLINA  
DALE R. FOLWELL, CPA  
*Dale R. Folwell, CPA*

---

## Red Flags: Indicators of Problems Ahead (cont.)

- Poor budgeting practices, appropriating excessive fund balance or incurring pervasive over-expenditures,
- Delayed monthly and annual reporting,
- Delayed bank and subsidiary system reconciliations or other weak internal controls, and
- Missing key policies, such as fund balance policy.

16





## Local Government Unit Assistance Status

- Two dedicated Coach Team members since 2017
- Municipalities:
  - 132 of 553 (24%) are listed on most recent Unit Assistance List (UAL).
  - 14 are for Internal control issues, 9 for General Fund financial concerns, 17 for Water and Sewer financial concerns and 20 for various other reasons.
  - **72** towns have not provided the audit for FYE 2020. Several are multi-years behind.
- Counties:
  - **17** of 100 (17%) are on most recent UAL.
  - 4 are for Internal control issues, 1 for General Fund, 10 have not provided the FYE 2020 audit and 2 for various other reasons.

17



## Local governments managed by LGC

- LGC is currently managing six local governments' finances; five municipalities and one sanitary district.
- Two municipal fiscal accountability agreements (new tool).
- Over the past two years, we sent 11 other units various warning letters and notifications.
- Including Coach Team, 50% of LGC staff is now almost completely dedicated to unit assistance. Myself included.

18



## Why the explosion of local governments needing assistance?

- Economics of rural/urban divide make managing small and medium-sized governmental budgets difficult. Nationwide issue.
- Reluctance of Boards to cut expenditures they have traditionally funded. Living “Beyond their means”
- Declines in tax valuations result in declining property tax revenues.
- Reluctance of Boards to raise taxes and/or user fees.
- Residents may lack capacity to absorb increased rates.
- Decaying water/sewer infrastructure.
- Struggle to hire and retain qualified staff.
- Problems are bigger than LGC.


19



## Keeping Units away from the “Cliff”

- FYE 2022 Proposed Budget Review – Another new tool
  - LGC staff developed a checklist of most critical budgetary issues, including excessive appropriation of fund balance, reasonable revenue estimates, revenues and expenditures consistent with prior year’s actuals, and proper calculation of property taxes.
- 111 governmental unit budget ordinances and budget/actual reports were requested. We received and reviewed 106 of them.
- We suggested numerous changes that led to more conservative budgeting practices.

20



**NORTH CAROLINA**  
DEPARTMENT OF STATE TREASURER

State and Local Government Finance Division


STATE TREASURER OF NORTH CAROLINA  
DALE R. FOLWELL, CPA  
*Dale R. Folwell, CPA*

---

## Keeping Units away from the “Cliff” (cont.)

- We will use our existing data and information from budget reviews to prioritize units that need the most assistance,
- Requesting additional staff resources from the General Assembly, and
- Monitor, Monitor, Monitor!

21



**NORTH CAROLINA**  
DEPARTMENT OF STATE TREASURER

State and Local Government Finance Division

STATE TREASURER OF NORTH CAROLINA  
DALE R. FOLWELL, CPA  
*Dale R. Folwell, CPA*

---

## Legislation Update If any become law, we will advise.

**Bills that affect the LGC and local governments**

**H175 – DST Technical Corrections**

- Changes throughout 159 to update language from “agency funds” to “custodial funds”
  - Reflects changes required by GASB Statement 84, which made agency funds obsolete.

**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))
- New language removes charter schools from LGC oversight (115C-218.30)

22

22



## Legislation Updates (continued)

### Bills that affect the LGC and local governments

#### S265 - Bond Information Transparency

- New and updated language requires new disclosures for bond authorizations (159-52, 159-55, 159-56, 159-58);
- New language that allows for the escrow of a portion of sales tax distributions to cover audit costs for counties and municipalities that have not filed annual audit 12 months after fiscal year end (159-34);
- New language requires interim event reporting (159-33.2) as defined by the LGC; and
- Changes to LGC approval of contracts for UAL units (159-148)

#### S473 – Enhance Local Government Transparency

- Allows LGC to select independent auditor for unit if OSA conducts investigative audit with findings (159-34)

23

23




## Legislation Updates (continued)

### Bills that affect the LGC and local governments

- S314 – Local Gov Commission Assistance Toolkit  
Changes re: notice requirements for changes in sales tax distribution method (105-472(b))  
Changes re: petitions for municipal incorporation (LGC statement required) (120-163(c))  
New language requiring manager training (counties and municipalities) for certain units (153A-82 and 160A-148)  
New language providing transitions for unsustainable cities (New article in 160A)

24

24

 NORTH CAROLINA  
DEPARTMENT OF STATE TREASURER

State and Local Government Finance Division

STATE TREASURER OF NORTH CAROLINA  
DALE R. FOLWELL, CPA  
*Dale R. Folwell, CPA*

---

## CONTACT INFORMATION :

- SLGFD phone number 919-814-4300
- Email:
  - [Susan.Mccullen@nctreasurer.com](mailto:Susan.Mccullen@nctreasurer.com)

25

 NORTH CAROLINA  
DEPARTMENT OF STATE TREASURER



*Dale R. Folwell, CPA*  
STATE TREASURER OF NORTH CAROLINA  
DALE R. FOLWELL, CPA

---

## STATE AND LOCAL GOVERNMENT FINANCE DIVISION

### Reporting Changes, Red Flags, and Unit Assistance

Susan McCullen, Director, Fiscal Management

26