

LGC UPDATE
NCGFOA Summer Conference
July 15, 2008

LGC Update

- Topics of Interest
 - Announcements
 - New Auditing Standards for 2008
 - OPEB and State Treasurer's Trust
 - Investment and Secondary Market Issues
 - Current Issues

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LGC Update

- Announcements
 - New Staff, New Assignments
 - Becky Dzingeski, Contracts
 - George Harris, statistical reports, AFIRS, website updates
 - Ken Wease promoted to Senior Accountant
 - Alexia Forte promoted to Staff Accountant
 - 203s Reassigned

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LGC Update

- LGC Database Update
 - Will be sending a summary of unit data to each unit
 - In hard copy
 - If changes are needed, make changes on hard copy and fax back to LGC
 - No response means everything correct

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LGC Update

- New Auditing Standards
 - SAS 112
 - Expect to use a more narrow interpretation on SAS 112 for 2008
 - Units with limited staff should expect to have at least a significant deficiency
 - Units with prior period adjustments recommended by the auditor should expect to have at least a significant deficiency

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LGC Update

- New Auditing Standards
 - SAS 112 (cont.)
 - Findings do not necessarily require that changes be made
 - Take steps to mitigate findings
 - May decide not cost effective to eliminate findings

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LGC Update

- New Auditing Standards (cont.)
 - Risk Suite
 - More in-depth understanding of the entity and its environment, including its internal control, to identify the risks of material misstatement in the financial statements and what the entity is doing to mitigate them.
 - More rigorous assessment of the risks of material misstatement of the financial statements based on that understanding.

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LGC Update

- New Auditing Standards (cont.)
 - Units should already be feeling the effects of implementation
 - More documentation
 - More control testing
 - Higher fees

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LGC Update

- OPEB Investments and State Treasurer's OPEB Fund
 - Depository agreement between each unit and trustee/State Treasurer's Office
 - Statutes created the Fund as an irrevocable trust; if a unit of government does not have any additional OPEB investments then no additional trust agreement required

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LGC Update

- OPEB Investments and State Treasurer's OPEB Fund (cont.)
 - Participating units will have to open a STIF (Short Term Investment Fund) account with DST, forms available on our website
 - Funds will move in and out of Trust through STIF

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LGC Update

- OPEB Investments and State Treasurer's OPEB Fund (cont.)
 - Restrictions:
 - Two withdrawals a year
 - Investments move to long-term funds on first day of month only
 - May put funds in STIF at any time during month
 - Must give notice of intent to invest 5 business days prior to first of month

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LGC Update

- OPEB Investments and State Treasurer's OPEB Fund (cont.)
 - Certification by unit that funds withdrawn are only for OPEB benefits
 - DST is not administering benefit plans
 - Initial minimum deposit is \$100,000
 - Provisions for emergencies

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LGC Update

- OPEB Investments and State Treasurer's OPEB Fund (cont.)
 - Quarterly statements
 - Two units participating at June 30, 2008
 - Expect more to join in 08-09

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LGC Update

Funds From Unit – Received Throughout Month, July through May



DST – Unit's STIF Account – Upon Receipt



Treasurer's OPEB Fund – 1st of Following Month if DST was given 5 business days notice of intent to deposit OR if funds on deposit by 5th business day before end of month. Funds are in Trust Fund at this point

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LGC Update

Funds From Unit – Received By 5th Business Day Before End of Month (Or Notice of Intent to Deposit), June Only



DST – Unit's STIF Account – Upon Receipt



ON JUNE 30, All Units' Funds Roll to OPEB STIF Fund – Funds are In Trust At This Point



Treasurer's OPEB Fund – 1st of Following Month

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LGC Update

- OPEB Investments and State Treasurer's OPEB Fund (cont.)
 - Memorandums #1101, 1102 and 1103
 - #1101 Alternative Method Worksheet
 - #1102 Sample Resolution for Local Board
 - #1103 State Treasurer's OPEB Fund

LGC Update

- OPEB Investments and State Treasurer's OPEB Fund (cont.)
 - Note disclosures and sample financial statements in memo form
 - Will include sample entries for local government to make
 - Update Dogwood and Carolina County next year

LGC Update

- OPEB and Alternative Method Workbook
 - Workbook now available on website
 - For units with less than 100 *members* in OPEB plan
 - Auditor can assist with use of workbook but cannot make any management decisions associated with use of workbook

LGC Update

- OPEB – Next Steps
 - Phase I units made initial funding decisions last year and likely revisited those during budget process for 08-09
 - Unless unit has expanded investment authority, must comply with G.S. 159-30 or invest in State Treasurer's OPEB Fund
 - Implement in June 30, 2008 financials
 - All component units must implement as well

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LGC Update

- OPEB – Next Steps
 - Phase II units have likely made funding decisions as part of budget process for 08-09
 - Implement in financial reports for June 30, 2009
 - Unless unit has expanded investment authority, must comply with G.S. 159-30 or invest in State Treasurer's OPEB Fund

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LGC Update

- OPEB – Next Steps (cont.)
 - Phase III units should be obtaining actuarial studies now if not yet complete
 - Funding decisions made as part of budget process for 09-10
 - Implement in financial reports for June 30, 2010
 - Encourage all units with OPEB to have an initial actuarial study

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LGC Update

- LEO Fund
 - Statutes allowed DST to offer investment fund for LEOSA
 - Not yet open
 - Cannot use OPEB Fund for these funds
 - Will be open by 6/30/09

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- Secondary Market/Material Event Disclosures
 - Original sale of debt, underwriter obtained insurance
 - Subsequent to sale, insurer's rating declines
 - Unit should file Material Events Notice

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LGC Update

- Secondary Market/Material Events Disclosures (cont.)
 - Filed in same manner as secondary market disclosures – electronically through DisclosureUSA or via hardcopy delivery to each NRMSIRs
 - Consult with bond counsel

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LGC Update

- NCSEAA Investments
 - NC State Education Assistance Authority
 - Auction rate bonds with 15 to 30 year maturities
 - Historically interest rate reset every 28 days
 - At that time could be redeemed at par
 - Until February 2008 when auctions began to fail
 - Suddenly became illiquid with no secondary market
 - Will require additional disclosures at June 30 for 30 or more units who hold these investments
 - Taxable bonds of \$700 million to be called in July
 - No solid news on tax exempt bonds – *we don't think there are many units with these but we have no facts – hearsay is that some will be called soon*

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NCSEAA Investments held at 6/30

	Deposit & Investment Note	Subsequent Event Note	MD&A
Material \$ - taxable notes	X	X	
Material \$ - tax exempt notes	X	N/A <i>unless called before issuance</i>	X
Not material either class	Interest rate risk should have been included all along	--- Don't worry about it ---	

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LGC Update

- NCSEAA Investments held at 6/30
 - Deposit & Investment Example:

The North Carolina (N.C.) State Agency instruments in the portfolio have final stated maturities ranging from 2015 to 2036; however, historically they could be redeemed at par and the interest rate reset every 28 days making the effective maturity date the next reset date, until February 2008 when the auctions began failing. At that time the instruments became illiquid and there was no secondary market.

Can be included in Interest rate risk section or following chart of securities ...

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- NCSEAA Investments held at 6/30 (cont.)

- Subsequent Event Example:

The North Carolina State Education Assistance Agency instruments in the portfolio having final stated maturities ranging from 2015 to 2036; have been called effective July xx, 2008 resolving the matter of illiquid investments for the County/City.

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- NCSEAA Investments held at 6/30

- MD&A Disclosures: If material tax-exempt notes are held by the unit additional disclosures must be included

- Clarify that there are restrictions on the use of assets (illiquid) not apparent on the face of the financial statements

- Coming year section: Mention any information regarding refinancing or expected calls

LGC Update

- Current Issues:

- Internal Controls over Travel

- Recent news

- Investment Policy Review

- Current market

- 2008 Contracts

- Late contract letters out soon

LGC Update

- Current Issues (cont.)
 - 2008 Contracts
 - New clause in 2008 contract to clarify authority of LGC and OSA to review audits and related workpapers
 - Audits contracted using the 2007 contract form are subject to this same authority
 - If there is an engagement letter must attach to the contract

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LGC Update

- Current Issues (cont.)
 - Unit letters are sent on the statements **as presented** and will not be retracted
 - *Please remember that unit letters and responses go to the Commission for all debt approvals*
 - *Unit letter responses should come from the unit not auditor*
 - Make sure budgets are presented at the level of budgetary control

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- Current Issues (cont.)
 - 911 Funds
 - Administration of all 911 funds now under a single 911 Board
 - Monthly allocations will be made by the 911 Board to PSAPs (primary public safety answering points)
 - Service providers remit directly to 911 Board by the end of the month following month collected

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LGC Update

- Current Issues (cont.)
 - 911 Funds (cont.)
 - PSAP funds may be used
 - Lease, purchase, maintenance of emergency telephone equipment
 - In-state training of 911 personnel regarding maintenance and operation of 911 system
 - Charges associated with 911 service

LGC Update

- Current Issues (cont.)
 - 911 Funds (cont.)
 - PSAP funds **must** be deposited in Special Revenue Fund – Emergency Telephone System Fund (ETSF)
 - All investment earnings stay with the Fund
 - ETSF must be **annually budgeted**
 - HB 1755

LGC Update

- Current Issues (cont.)
 - County requirement to collect DMV 3% interest and remit to State under HB 1779
 - Note disclosure or schedule was accepted for 6/30/06 and sometimes in 2007
 - **Must be in an agency fund for 2007-2008**
 -  Can be a line item within the Fines & Forfeiture Fund
 - Objective is to avoid an audit by DOT
 - Powell bill expenditures in a Special Revenue Fund must be consolidated with the General Fund for reporting purposes

LGC Update

- Current Issues (cont.)
 - Risk Management Note – include a statement on
 - Flood insurance & Finance officer bonding
 - Stewardship note should include action plan
 - Debt disclosures should include all relevant details of the issue particularly if USDA or State Revolving Loan
 - Interfund balances and transfers note should include the nature of these transactions
 - Continue to see fund balance appropriated in project budgets where there is no fund balance available

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