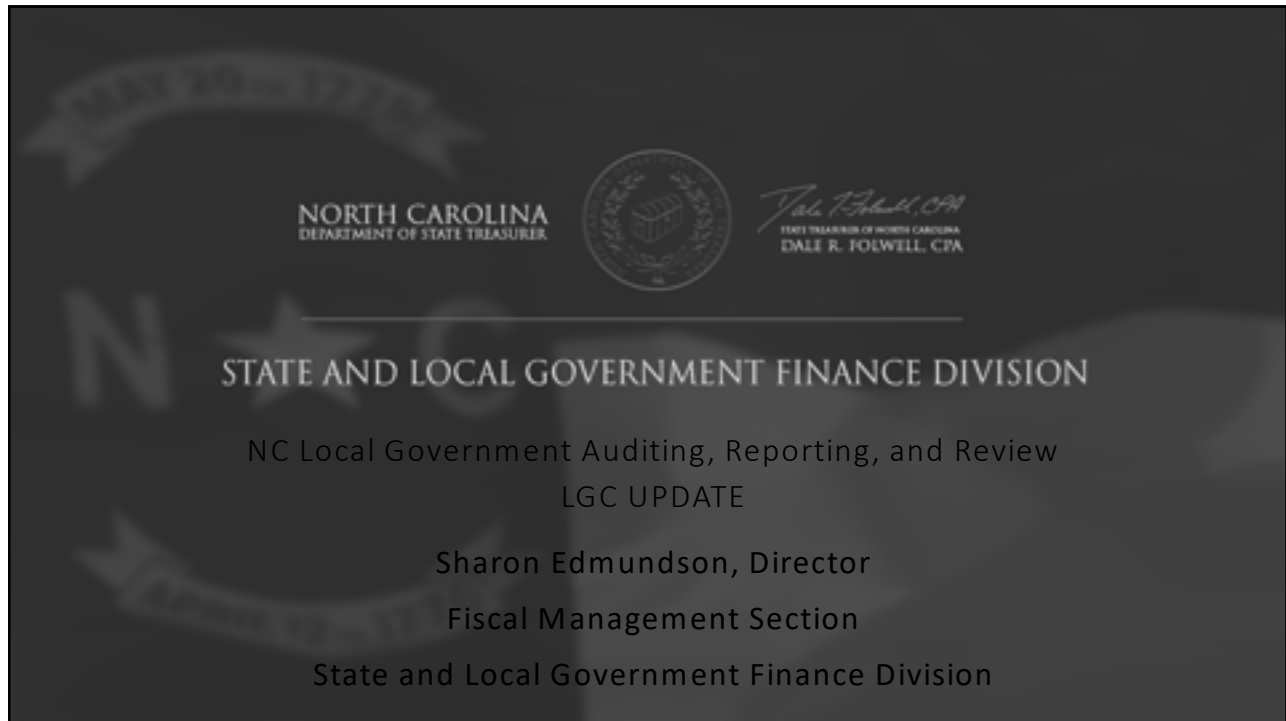
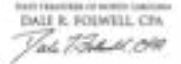






NORTH CAROLINA
DEPARTMENT OF STATE TREASURER

State and Local Government Finance Division



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

AGENDA

- Announcements
- 2018 Audits including County AUPs and Areas of Focus
- Funding OPEB/LEOSSA Liabilities
- Data Hosting and Auditor Independence
- Change in Charter School Reporting
- Pre-Audit
- Best Practices
- New Reporting Model Project



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Dale Powell, CPA

ANNOUNCEMENTS

- Staff changes:
 - In Fiscal Management
 - Manasa Cooper, Jeremy Mebane, Melinda Andrews have departed
 - April Ammons, Michael Milam, and Susan McCullen joined staff
 - In Debt Management
 - Felicia Cherry-Pate and Adria Cunningham joined administrative staff
 - Debbie Tomasko joined SLG as Director of Business Operations



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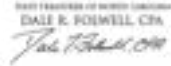
ANNOUNCEMENTS

- Treasurer's Conference
 - Tuesday, June 26 at SOG
 - David Bean – featured speaker
 - Norma Houston – procurement session
 - Registration is open
- 2018 Audit Deadlines for LGC Agendas:
 - 10/17 for 11/6/18 LGC Meeting
 - 11/14 for 12/4/18 LGC Meeting
 - 12/19/18 for 1/9/19 LGC Meeting





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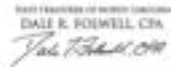
ANNOUNCEMENTS

Treasurer's Academy

- Select group of recent accounting graduates
- Rigorous 1 year program with exposure to a variety of real-world work experience
- At end of program, step into standard level position in appropriate division of Department
- Program offers full-time employment with benefits – not an internship or contract employment



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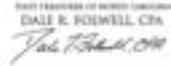


ANNOUNCEMENTS

- Late Audits
 - Continue to have issues with audits being late
 - Still missing 3 2017 county audits, 40 municipalities, 10 other types
 - In 2017 issues were shared across the board between auditors and units
 - 2018 expect to be worse due to increased work at county level
 - New Yellowbook standards, once implemented in 2019, may further deplete pool of auditors that work in government



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COUNTY SINGLE AUDITS 2018

- AUP for eligibility testing for Medicaid, to be completed as a separate engagement from annual audit
- Should eliminate issue of OSA waiting for county audits to be submitted to support State's single audit; don't expect this to help with issue of county audits being completed more promptly
- County auditors will need to test more programs to reach required Single Audit thresholds because direct benefit payments will not be included in those calculations; will improve coverage
- Expect that to translate into higher audit costs



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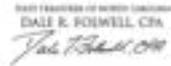


COUNTY SINGLE AUDITS 2018

- Auditors will submit AUP directly to OSA – should have already received instruction memo
- Will submit copy of engagement letter and invoices to SLG – should have received instruction email from SLG as well
 - Can progress bill up to 75% of fee
- OSA will notify auditor and client when AUP is accepted, will cc SLG
- SLG will approve final invoice upon receipt of OSA email or receipt of final invoice, whichever happens last
- Auditors will not submit copy of AUP to SLG



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COUNTY SINGLE AUDITS 2018

- Interim samples available now, auditors will be given access once audit contracts are submitted to SLGFD and approved
- Final samples will be available no later than 8/31/18
- Confirmations will be available by late August
- State compliance supplements posted



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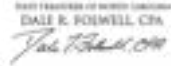


AREAS OF FOCUS 2018 AUDITS

- Plan to continue abbreviated GAAP reviews for 2018 with some notable exceptions:
 - GASB 74/75, GASB 73 to a lesser extent
 - Will always review opinions closely
 - Transfers, due tos/froms, interfund loans, any other interfund activity
 - Notes needs to explain
 - Area of interest at the GA
- Continue to check for notes that are consistent with circumstances



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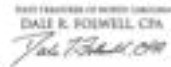
AUDIT FEE INFORMATION

Fee spreadsheet

- Updated each year with total actual invoiced fees and name of firm
- Reflects four years of data
- Reformatted in 2018 so it is much easier to sort
- In 2019, will make all contracts variable, interim invoice cap will be 75% of prior year actual invoiced fees

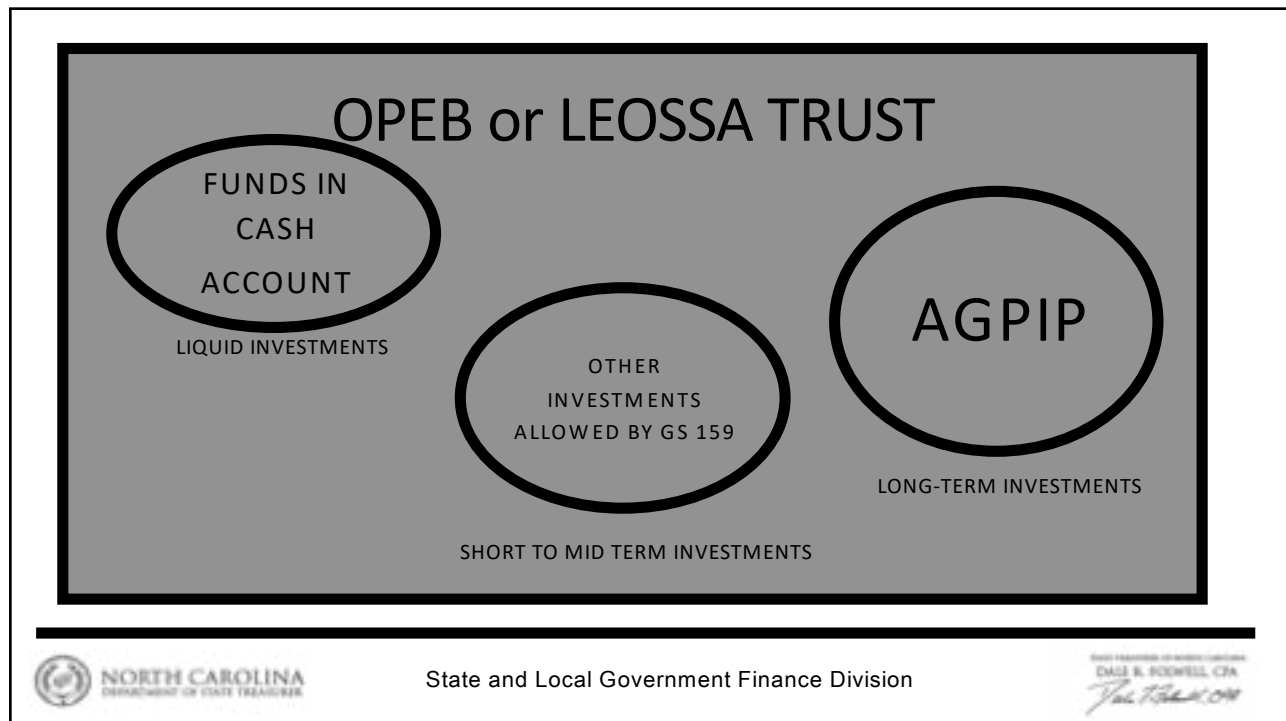


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FUNDING OPEB/LEOSSA LIABILITIES

- Funding can take different forms
 - AGPIP is only long term funding option; funds invested here need to stay put
 - Also can put funds in anything allowable under G.S. 159, can reside inside your OPEB or LEOSSA trust
- Funding these liabilities in a trust is optional!



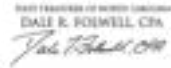
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FUNDING OPEB/LEOSSA LIABILITIES

- Get lots of questions about using a cash account with an OPEB or LEOSSA trust
 - Most units investing for the long term, don't need a cash account
 - If you do, have some things to consider
 - Most conservative approach – bank account in name of the trust
 - If unit operates a bona-fide central depository, keeps books up to date including the reconciliation of the depository, and is comfortable that cash that belongs to the trust will never be used for unauthorized purpose, may be able to have trust participate in central depository
 - Trustees need to be comfortable with this arrangement



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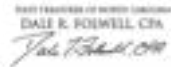


GASB 68

- Sample selected, notifications sent out last week; due date for attests is Oct 12, 2018
- List of units selected is on website along with memo from OSA and additional instruction memo from SLG
- Still have some units and auditors that are confused on how to make GASB 68 entries
- New tables and JE template are on the website

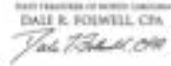


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GASB 73

- Most units got the message and had actuarial study done or contacted us with request for reprieve due to obvious immateriality
- Now that study is done, auditors talk with clients and determine if need to continue to have them done; we are assuming that units will
- Units that wish to claim immateriality and exemption from further actuarial studies need to contact us by August 1, 2018 – not necessary if we have already approved exemption
- Some units neglected to have a study and will be required to have one for 2018 – the above does not apply to you



GASB 73

- Total LEOSSA pension liability (no assets in trust) or Net LEOSSA pension liability (total liability net of assets in trust) is recorded on government-wide financial statements
- If any of the LEOSSA pension liability is allocated to proprietary funds, that appears on the Funds Statement of Net Position
- JE Template is on the website



GASB 74

- GASB 74 – June 30, 2017 – units that have funds in GASB qualifying trust for OPEB; standard on reporting for the plan



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REPORTING OPEB ACTIVITY UNDER GASB 74

- Most units that have a trust, and have implemented GASB 74, don't use assets in the trust to actually pay benefits – holding assets for the long term to meet liabilities down the road
- Plan has to report all OPEB activity, even if not paid by assets being held by the trust
- GASB 74, Paragraphs 28 through 32
- CIG 2017, Chapter 8, questions 114.1, 115.1, 115.2, 118.1

	Payment arrangement	General Fund		Trust Fund	
		DR	CR	DR	CR
1)	General Fund pays retiree directly	Expenditure - benefit payment	Cash	Deductions - benefit payment	Additions - Employer contributions
2)	General Fund "transfers" money to Trust Fund and payments are paid from Trust Fund funds	Expenditure - contributions to Trust Fund	Cash	Cash	Additions - Employer contributions
				Deductions - benefit	Cash



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GASB 74 & 75

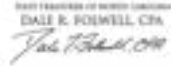
- Coming to LGC for debt approval
 - Commission receives a report of all units on the agenda, their OPEB UAAL, LEOSA TPL or NPL, any assets set aside in trust to fund either of those liabilities, and their percentage share of LGERS or TSERS liability
 - Units should be prepared to answer questions about how they are planning to address OPEB and/or LEOSA liabilities and if they have considered funding them if they do not have some assets set aside in trust
 - If asking for approval for refunding debt, will be asked to consider setting aside at least some of savings from refunding to fund OPEB and/or LEOSA liabilities

WHERE TO FIND VARIOUS STATEMENTS ILLUSTRATED

GASB Statement Illustrated	Sample Unit(s)	Benefit	Type of Plan	Audit Report Components			FYE(s) effective
				Exhibits	Notes to the Financial Statements	RSI	
GASB 73	Carolina County	LEOSA	LEOSA	X	X	X	6/30/2016 6/30/2017
	City of Dogwood	LEOSA	LEOSA	X	X	X	6/30/2017
GASB 74	Carolina County	OPEB	Single-employer healthcare plan	X	X	X	6/30/2017
GASB 75	Carolina County	OPEB	Single-employer healthcare plan	X	X	X	06/30/2018
	City of Dogwood	OPEB	Single-employer healthcare plan	X	X	X	06/30/2018
	Carolina County BOE	OPEB	State Health Plan	X	X	X	06/30/2018



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MATERIALITY OF OPEB LIABILITY

- Our assumption is OPEB liability is material
- If you believe you have a client whose liability is immaterial, you must contact us for a waiver for implementation
 - Unique circumstances under which it is possible for this liability to be immaterial
 - Document request in writing via email
 - We will respond likewise and document in our review files
 - Unit/auditor will be responsible for re-evaluating annually unless circumstances are such that liability will not increase

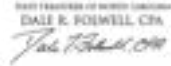


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ALTERNATIVE METHOD OF MEASUREMENT

- GASB 75 allows units with less than 100 members in the plan to use the alternative measurement method
- SLGF no longer has the alternative method worksheet available on the website; can hire firms to complete
- As under previous OPEB reporting standards, SLGF is only allowing the use of the alternative method by units that offer only implicit rate subsidy OPEB plans



TIMELINE FOR ACTUARIAL STUDIES

- Valuation can be no older than 30 months and 1 day from date of financial report
 - June 30, 2018 financials, **oldest** date acceptable is December 31, 2015
 - Use update procedures to roll valuation data to the measurement date
 - If there are significant changes between valuation date and measurement date, consider getting new valuation
- Measurement date can be no more than 12 months prior to the date of the financial report
 - June 30, 2018 financials, measurement date can be **no earlier than June 30, 2017**

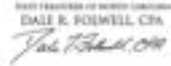


DATA HOSTING AND AUDITOR INDEPENDENCE

- AICPA Professional Ethics Executive Committee adopted new interpretation, Hosting Services, which appears in AICPA Code of Professional Conduct
- "...hosting services can impair independence when a CPA takes responsibility for maintain internal control over an attest client's data or records" [*Journal of Accountancy*, September, 2017]
- Committee's opinion that if auditor is performing these services, s/he is taking responsibility for internal control over the client's information
- What does this mean to you as an auditor?



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DATA HOSTING AND AUDITOR INDEPENDENCE

Independence can be impaired if:

- You/your firm is sole host of client's financial or nonfinancial information system
 - Example: CPA/firm assumes responsibility for housing client's website on servers leased or owned by the CPA/firm
- CPA/firm is custodian for client's data such that client's data is incomplete and accessible only through the CPA/firm
 - Example: Client outsources to CPA/firm the storage and safekeeping of its accounting records, including its depreciation schedules; CPA/firm is maintaining those records on its server



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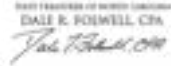


DATA HOSTING AND AUDITOR INDEPENDENCE

- CPA/firm is providing business continuity or disaster recovery services to client
 - Example: CPA/firm signs an engagement letter with client to provide disaster recovery services for client's data and records
 - Example: CPA/firm agree to maintain the original hard copies of client's lease agreements at the firm's facilities. Note: would also apply to electronic copies if CPA/firm are assuming management responsibilities



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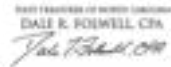
DATA HOSTING AND AUDITOR INDEPENDENCE

Some of examples of what does **not** impair independence:

- CPA collects records to perform annual audit; once engagement is complete, CPA maintains copies of what is needed to support work, and returns all original records to client.
- Both CPA and client maintain separate licenses of bookkeeping software and access software on their own servers, or via a cloud-based provider. CPA accesses books to perform duties with assistance from client, client reviews and takes responsibility for all decision-making affecting the financial statements



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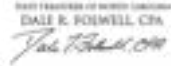


DATA HOSTING AND AUDITOR INDEPENDENCE

- CPA prepares depreciation schedules for client using firm's software. CPA gives client a copy of schedule and all underlying information, such as depreciation methods, useful life, cost, etc. so clients records are complete
- Effective date of this interpretation is September 1, 2018



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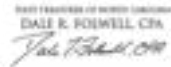


CHANGE IN CHARTER SCHOOL REPORTING

- Beginning for FY 2019, charter school financials will need to include the NFP of which they are a part
- For NFPs that hold more than one school charter, each school will be reported as a separate fund.
- For 2018, we will publish illustratives of both, including more robust note disclosures on the NFP and the relationship between the charter school(s) and any associated foundations
- Will also be focusing on correct reporting of foundations that should be presented as blended CUs



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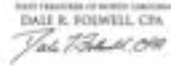
PRE-AUDIT

- The number one issue we see across the state with pre-audit is that units are not encumbering their contracts
 - Even if they are multi-year, encumber current year, encumber each year going forward
 - Even if they are hourly rate contracts, encumber that amount





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PRE-AUDIT

- Pre-audit rules for electronic transactions are final at last
 - Exemption from attaching pre-audit certificate to electronic transactions
 - Board adopted policy allowing unit to enter in to electronic transactions
 - Policy adopted by board or by finance officer (if given that authority by board) regarding the pre-audit of electronic transactions that
 - There is budget authorizing the expenditure
 - Sufficient budget remains to cover the expenditure
 - The transaction is encumbered
 - Unit shall provide training to appropriate staff

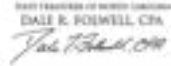


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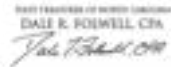
PRE-AUDIT

- Unit shall report quarterly at a minimum to board including a year-to-date budget to actual report including encumbrances and remaining budget
- Unit must have an encumbrance system either electronic or manual
- Adherence to these rules **exempts unit from affixing the pre-audit certificate** to transactions made with
 - Credit cards
 - P-cards
 - Fuel cards
- Does **Not** exempt unit from performing the pre-audit



BEST PRACTICES

- Make sure clients review audited financials before they are sent to SLGFD
 - Clients should never sign management representation letter without reviewing statements
 - Client is responsible for providing response to findings
- Auditors do not ask to remove original documents from unit offices; units, do not allow auditors to take hard copies of sensitive documents from unit offices



BEST PRACTICES

- Preparing for annual audit should always include pre-audit meeting, usually in spring, that includes a timeline that both client and auditor agree on and a PBC list of items the client is responsible for
- Client should disclose to auditor in pre-audit meeting if any debt issuances are planned in the coming months that may impact the need for the audit by a certain date, or of any other known circumstances that may impact the scheduled completion of the audit
- Auditor should likewise disclose to client any known circumstances that may impact the timeliness of audit

THE NEW REPORTING MODEL PROJECT INVITATION TO COMMENT



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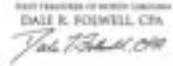


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BACKGROUND

- Issued in December 2016
- Preliminary Views anticipated in July 2018
- Exposure Draft anticipated in April 2020
- Final standard anticipated in November 2021



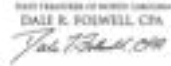
KEY CONSIDERATIONS IN THE ITC

- MD&A
- Government-wide statement formats and cash flow possibilities
- Major fund reporting for debt service funds?
- Governmental fund financial statements
 - Measurement focus/basis of accounting
 - Formats?



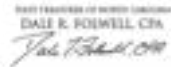
KEY CONSIDERATIONS (cont.)

- Proprietary fund “operating” focus
- Fiduciary funds still in the basic financial statements
- Budgetary information relegated totally to RSI?
- Other options to reduce complexity



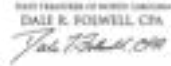
KEY CONSIDERATIONS (cont.)

- Governmental Funds – focus of ITC document
- 3 MFBAs;
 - Near-term financial resources recognition approach
 - Short-term (working capital) financial resources recognition approach
 - Long-term financial resources recognition approach
- Statement format
- Cash flow statement



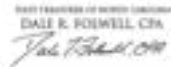
NEAR-TERM APPROACH

- Nearest approach to the approach in the governmental funds, but it ceases to be modified accrual
- To varying degrees, the fund's characteristics would change
- Revenues *possibly* could become “inflows of resources; Expenditures could become “outflows of resources”



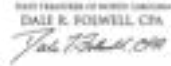
NEAR-TERM APPROACH(cont.)

- Inflows are those acquired in the current period or within an availability period (similar to now – 60-90 days)
- Specific availability guidance *may* be addressed later
- Assets are those that are some form of liquidity
- Liabilities are those payable at year-end but to be liquidated shortly thereafter



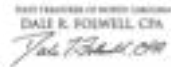
NEAR-TERM APPROACH (cont.)

- No prepaids and inventory reported
- Interest payable recognized if due shortly after year end (BIG CHANGE)
- Other liabilities due shortly after year end



SHORT-TERM APPROACH

- A step in the wrong direction...closer and closer to accrual accounting
- Focuses on the current fiscal year *and* related transactions that occur in the *subsequent* year
- Basically, availability becomes one year and the term “current liability” means the same as it does in the proprietary funds (i.e., one year)

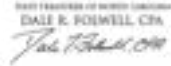


SHORT-TERM APPROACH (cont.)

- Prepaid assets and inventory remain
- *All* liabilities due within one year (including principal and interest)
- General availability period of one year
- Cash flow statement would be needed



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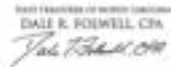


LONG-TERM APPROACH

- Just think private sector with just a few exceptions
 - No reporting of capital assets
 - No reporting of principal portion of long-term *capital-related* debt
 - No depreciation
- Would need statements of cash flow

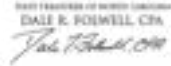


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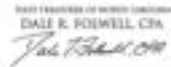
CURRENT STATUS OF REPORTING MODEL ITC DELIBERATIONS

- Long-term approach rejected outright
- Near-term and short-term were individually rejected
- Hybrid approach of the two (near and short) has emerged



CURRENT STATUS (cont.)

- Hybrid considerations
 - Referred to as *short-term financial resources*
 - One year availability period
 - Accrued interest due in one year will be recognized
 - TANS/RANs reported as liabilities
 - Exclude recognition of the current portion of long-term assets and liabilities

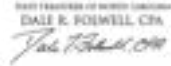


ADDITIONAL PROJECTS IN THE PIPELINE

- Accounting for interest cost (i.e., interest capitalization)
- Revenue and expense recognition
- Financial reporting model improvements



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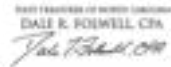


INTEREST CAPITALIZATION

- Exposure draft – *Accounting for Interest Cost during the Period of Construction*
- Issued November 2017
- Final standard anticipated June-July 2018



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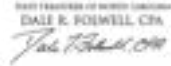


INTEREST CAPITALIZATIONS (cont.)

- Interest cost will simply be expensed in the period incurred
- Interest will *not be* capitalized prospectively
- Effective for fiscal periods beginning after 12/15/18 (FYE 6/30/20 in North Carolina) – earlier application encouraged



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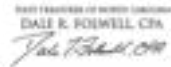


REVENUE AND EXPENSE RECOGNITION

- Invitation to Comment issued January 2018
- Preliminary Views anticipated May/June 2020
- Exposure Draft anticipated December 2021
- Final standard Spring 2023



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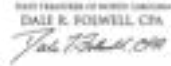


KEY CONSIDERATIONS IN THE ITC

- Exchange/nonexchange model
- Performance obligation/no performance obligation model
- Alternative model



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EXCHANGE/NON-EXCHANGE MODEL

- Exchange transaction?
 - Recognize revenue and expense on an earnings recognition approach
 - Government controls a resource or incurs an obligation, AND
 - Event not applicable to a future period
- Nonexchange transaction?
 - Recognize based on GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*
 - Derived tax revenues
 - Imposed nonexchange revenues
 - Government-mandated and voluntary nonexchange transactions



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PERFORMANCE OBLIGATION/NO PERFORMANCE OBLIGATION MODEL

- Performance obligation defined:
 - A promise in a binding arrangement between a government and another party to provide distinct goods or services to a specific beneficiary
 - A binding arrangements includes contracts, grant agreements, enabling legislation, etc.
 - Recognize revenue when there is a transfer of goods and services to a beneficiary for consideration expected to be received
 - Recognize expense when there is a receipt of goods or services from another party in return for consideration committed to be paid



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Dale Powell, CPA

PERFORMANCE OBLIGATIONS DETERMINANTS

- Determine consideration
- Allocate consideration to performance obligation
- Recognize revenue/expense as each performance obligation is fulfilled



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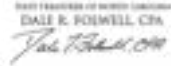
DALE E. POWELL, CPA
Dale Powell, CPA

NO PERFORMANCE OBLIGATION

- Recognize based on GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*



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ALTERNATIVE MODELS

- Exchange transaction?
 - Follow the performance obligation approach
- Nonexchange transaction?
 - Recognize based on GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*



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