NORTH CAROLINA
DEPARTMENT OF STATE TREASURER

STATE TREASURER OF NORTH CAROLINA
DALE R. FOLWELL, CPA

STATE AND LOCAL GOVERNMENT FINANCE DIVISION

2018 NCGFOA FALL CONFERENCE
LGC UPDATE

Preeta Nayak, Assistant Director
Fiscal Management Section
State and Local Government Finance Division

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AGENDA

- Announcements
- 2018 Audits
- Pensions and OPEB in NC
- Other New GASB Standards
- Legislative and Other Changes
- Best Practices

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ANNOUNCEMENTS

- Staff changes:
  - In Fiscal Management
    - Kelley May joined staff
- Currently recruiting for several positions

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ANNOUNCEMENTS

- 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
- Deadline for Pension Attest was October 1
- Eligibility AUPs (counties only) due to OSA by October 31

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ANNOUNCEMENTS

- LGC 203 due July 25
  - Use bank balances
  - Don't need a signature if you email
  - Choose between LGC 203 and 203EZ
  - Email to LGC0203@nctreasurer.com
- COLL 91 due July 25
  - Formerly known as INV 91
  - Email to sbu.collateral@nctreasurer.com
- See Memo 2018-14 for detailed instructions

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ANNOUNCEMENTS

- Late Audits
  - Continue to have issues with audits being late
    - Still missing one 2017 county audits, and several municipalities and other entities
  - In 2017 issues were shared across the board between auditors and units
  - 2018 expect to be worse due to increased work at county level and GASB 75 implementation issues
  - New Yellow Book standards, once implemented in 2020, may further deplete pool of auditors that work in government

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ANNOUNCEMENTS

- Policy Manual has been pulled from website because material is out of date
- Still working to make sure links all take you
  to placeholder page
- Working to extract individual documents
  to repost
- Drafting new versions of some of the sections

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ANNOUNCEMENTS

Gearing up for fall semester offerings of community college class

- Contact your local school if you want to see if offered
- Have created a printed reference document for students to take away from course at completion

Increased automation of processes for document submission to SLGF

Increase efficiency, reduce errors

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ANNOUNCEMENTS

- Preparing for LGC Meeting when you have received a unit letter
  - Before meeting, SLG staff will evaluate your response to unit letter
  - SLG staff may determine that a unit visit is needed
    - If staff visits, will focus on findings in audit and unit's financial challenges
    - Will also check on areas where SLG staff typically sees issues of concern
    - Need to verify that unit has addressed or is addressing weaknesses
    - Unit needs to attend meeting either in person or on phone; someone that can answer questions about financial operations, internal controls, and project being financed
  - LGC members asking very good questions about units' operations and internal control environments
  - Concern is focused on long-term sustainability not only of unit's financial position but also of a proper internal control environment

2018 AUDITS

Late Audits 2018

We are expecting a larger number of audit reports to be late than we've seen in past years

- Florence
- OPEB valuations
  - primary government
  - component units
- Increased work at county level

Grace period through December 1, 2018

Late letters will be decided on case-by-case basis

CONTRACT AND INVOICE PROCESSING

- Get 2018 contracts in ASAP
  - Make sure completed correctly; go back in the queue if we have to send them back
  - Counties – receipt and approval of the contract is trigger for Medicaid population to be made available to auditor
- Invoices
  - Indicate if interim or final
  - Be mindful of cap on interim amounts

COUNTY SINGLE AUDITS 2018

- Don't have all AUP engagement letters yet – send them in!
- Can progress bill on AUP
- Remember to submit completed AUP to OSA; submit invoices to SLGF
- Direct benefit payments will not go on county SEFSAs any longer
- Auditor very likely to test more programs to get to required coverage levels

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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
    - We expect to see finding if report is egregiously late due to issues with unit

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AUDIT FEE INFORMATION ON WEBSITE

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

CHANGES COMING FOR CHARTER SCHOOL REPORTING

- Beginning in FY **2019**, charter school financials will need to include the parent NFP
- 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

PENSIONS AND OPEB IN NC

ACCOUNTING REVIEW – STATEMENTS 68,73,& 75

	Modified Accrual	Full Accrual
Deferrals, all	N/A	Statement of Net Position
OPEB or Pension Asset or Liability	N/A	Statement of Net Position
Pension or OPEB expense	N/A	Actuarially calculated Statement of Activities
Contributions/benefit payments, all	OPEB expenditures	If made after measurement date, deferred outflows of resources

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ACTUARIAL SERVICES – LEOSSA, OPEB, ANY OTHER SINGLE EMPLOYER PENSIONS

- Contracts
  - Unit will contract with actuaries
  - Get on an actuary's calendar now
- Valuation required, except for
  - Units qualified to use alternative measurement method
  - Immateriality – written documentation from SLGF
- Experienced actuary

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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

WHERE TO FIND VARIOUS IMPLEMENTATIONS ILLUSTRATED

				Audit Report Components			
GASB Statement Illustrated	Sample Unit(s)	Benefit	Type of Plan	Exhibits	Notes to the Financial Statements	RSI	FYE(s) effective
GASB 73	Carolina County	LEOSSA	LEOSSA	X	X	X	6/30/2016 6/30/2017
	City of Dogwood	LEOSSA	LEOSSA	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

OPEB/LEOSSA UNFUNDED LIABILITIES

- Coming to LGC for debt approval
  - Commission receives a report of all units on the agenda, their OPEB UAAL, LEOSSA 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 LEOSSA 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 LEOSSA liabilities

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
- Deadline to request exemption was August 1, 2018 – not necessary if we have already approved exemption
  - Should be revisited periodically to ensure that circumstances don't change
- Those few units that neglected to have a study will be required to have one for 2018 unless we have approved you not having a study

GASB 73

If Cavanaugh Macdonald is your LEOSSA actuary a valuation will be done annually

- CM is not doing biennial valuations

Flexible with respect to time

- 1-2 weeks to turn report around
- Can contract with them at any time throughout the year for no additional cost
  - Exception: if unit skips a year, there may be additional costs

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GASBs 74 and 75

If Cavanaugh Macdonald is your OPEB actuary –

- They are working as fast as they can and have pulled in pension people to get reports out
- Units are encouraged to contact them if you have any questions
  - If you have a staff contact, please email that person directly
  - Team email is ncopeb@cavmacconsulting.com

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LEOSSA changes

Allows LEOs to retire with a reduced benefit at any age with 25 years of creditable service (at least 15 years as a LEO)

- LEOs younger than 50 can now retire

Separation buyouts are an option

- Employers are NOT required to offer this benefit

https://www.nctreasurer.com/ret/Active%20Employees/2018LEOlegislation.pdf

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MATERIALITY OF OPEB LIABILITY

- Our assumption is OPEB liability is material
- If you believe your 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

- Standards allow units with less than 100 members in the plan to use the alternative measurement method
- 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
- SLGF no longer has the alternative method worksheet available on the website; can hire firms to complete

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OTHER NEW GASB STANDARDS

- Memos in the works on the following:
  - GASB 83 – Certain Asset Retirement Obligations
  - GASB 84 – Fiduciary Activities
  - GASB 87 - Leases
  - GASB 88 - Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements

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OTHER NEW GASB STANDARDS

- GASB 87 – Leases
  - The less centralized your procurement process is the more difficult this standard will be to implement
  - Begin working on implementation now
    - Identifying all leases – will be a challenge for some
    - Evaluating all leases to determine if they will need to be booked in accordance with new guidance

LEGISLATIVE AND OTHER CHANGES

NEW REQUIREMENT FOR REPORTING BUILDING INSPECTION FEES AND RELATED EXPENDITURES

- S.L. 2018-5, Section XXI, page 162
- Fee revenue and expenditures to be reported on AFIR beginning with June 30, 2019
- Fees are those allowed under 153A-354 for counties or G.S. 160A-414 for municipalities.
- The language in both of these bills restricts the expenditure of the allowed fees to those expenditures incurred "for support of the administration and activities of the inspection department and for no other purpose".(G.S. 160A-414, identical language included in G.S. 153A-354).

MUNICIPALITIES CAN CONTRIBUTE TO SCHOOLS/FOUR MUNICIPALITIES AUTHORIZED TO OPEN CHARTER SCHOOLS

- Complicated!
- Schools will report funds from municipalities in a separate fund – not in Local Current Expense, and don't have to share with charters
- Municipalities can use any unrestricted monies to fund schools
- EXCEPT – property taxes must come from 2018 levy forward; cannot use funds derived from any levy prior to July 1, 2018

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MUNICIPALITIES CAN CONTRIBUTE TO SCHOOLS/FOUR MUNICIPALITIES AUTHORIZED TO OPEN CHARTER SCHOOLS

- Municipalities can donate to one school, the county LEA, and/or charters within their boundaries on per pupil or lump sum basis
- Can donate to schools that are attended by residents but outside their boundaries, but must be per pupil based donation
- Donations can be for operations or capital

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MUNICIPALITIES CAN CONTRIBUTE TO SCHOOLS/FOUR MUNICIPALITIES AUTHORIZED TO OPEN CHARTER SCHOOLS

- County can (but is not required to) reduce its funding to traditional public schools by the amount of funding provided by municipalities in the county BUT county has to reduce on ADM basis for all schools within the traditional public school system(s).
- Four municipalities authorized to open charter schools for the their residents
  - Town board will serve as charter school board
  - No determination at this time on how charter will be reported on financial statements but likely some type of component unit

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Continuing Disclosure Changes

Beginning February 2019, a material event disclosure will have to be made for other debt types, including IPs, privately placed bonds, lease purchases, State revolving loans, others

- Must be disclosed within the 10 day window for material events
- Applies to material items
- Not applied retroactively
- Consult your bond counsel for more information

BEST PRACTICES

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, estimate and encumber that amount

BEST PRACTICES

- Units please put more thought into responses to findings
  - Don’t hesitate to include details that enhance the response by more fully explaining it
  - Responses to findings generally are not detailed enough to serve as a unit letter response but can be a place to start

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BEST PRACTICES

- Requests for assistance
  - Always happy to listen to differences of opinion
  - No issues with callers seeking a second opinion and/or providing us more information that may change the outcome
  - Ask that you be upfront about who else you have talked to and what response you were given
  - Don’t ask auditor to overlook GAAP violations