



NORTH CAROLINA  
DEPARTMENT OF STATE TREASURER



*Dale R. Folwell, CPA*  
STATE TREASURER OF NORTH CAROLINA  
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STATE AND LOCAL GOVERNMENT FINANCE DIVISION

# LGC UPDATE

June 21, 2022

Susan McCullen

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NORTH CAROLINA  
DEPARTMENT OF STATE TREASURER

State and Local Government Finance Division



STATE TREASURER OF NORTH CAROLINA  
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## Agenda:

- LGC Operations
- 2022 Auditing Report Opinion Changes
- GASB 87: Memos and Illustrative Statements
- Dual Appointment Approvals: A Reminder
- Legislative Summary

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## LGC Operations:

- Delayed audit reports continue to be a constant problem.
- As of the date of this presentation, 60 out of 552 municipality audits and 6 out of 100 county audits have not been submitted to the LGC.
- Why the continued delays?
  - Both local governments and CPA firms facing unprecedented staffing turnover/vacancies.
  - Numerous CPA firms are no longer doing governmental audits in NC.
  - Governmental year-end work and audit work is labor intensive.
  - System implementations and data conversions are a constant issue.

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## Units under the Financial Control of LGC:

- The LGC is currently managing finances of **eight** units – seven municipalities and a sanitary district.
- Units managed under NCGS 159-181(c) are:
  - East Laurinburg
  - Eureka
  - Cliffside Sanitary District
  - Robersonville
  - Pikeville
  - Kingstown
  - Spring Lake
  - Spencer Mountain

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## Unit Assistance List:

- Currently being finalized as of May 9, 2022, based on 2021 audited financial statement data.
  - 164 municipalities, 81 for missing 2021 audits, 23 for GF financial issues, 38 for WS financial issues. Many municipalities have internal control issues, including habitually late audits.
  - 12 counties, 7 for missing 2021 audits, 4 for GF financial issues, and 2 for WS financial issues. Almost all the counties on the UAL have internal control issues.
  - 6 utility districts, 5 for missing 2021 audits and 1 with financial and internal control issues.
  - Numbers on this slide differ slightly from numbers on slide 3 because of the timing of data.

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## Financial Performance Indicators of Concern (FPICs):

- Many units and their auditors missed the 2021 change from our issuing unit letters to response letters.
- Performance indicators Print tab is for your auditor to use to present to the governing board, if they choose.
- If the auditor uses a different presentation, they must present any indicators of concern to the governing board.
- Sample FPIC and potential response paragraphs are [here](#) on our website.

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## The Myth of 8% Fund Balance Available (FBA):

- There is no NC statute or LGC policy that requires an 8% of FBA.
- 8% FBA is likely inadequate for most property tax levying units.
- Instead, develop a brief fund balance policy that is consistent with your peers that provide similar services.
- See our [memo](#) webpage for annual reporting on peer groups and averages.

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## Revised Auditing Standards SASs 134-140:

- SAS No. 134 is the nucleus of the new reporting standards with a fresh new auditor's report that:
  - Repositions the report sections to lead with the opinion and basis of opinion in the first two sections;
  - Enhances the management's responsibility section;
  - Changes the auditor's report format when the opinion is modified; and
  - Changes the report presentation when either an emphasis-of-matter or other-matter paragraph is included.

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## Revised Auditor's Report (cont.):

- Auditor's responsibility section has been expanded.
- Added a paragraph regarding the auditor's responsibilities to communicate certain matters to those charged with governance, including the scope and timing of the audit, significant audit findings, and certain internal control related matters.
- New reports are aligned with generally accepted auditing standards (GAAS) and with standards issued by the International Auditing and Assurance Standards Board (IAASB) and the Public Company Accounting Oversight Board (PCAOB).

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## Pre-SAS No. 134 vs. Post-SAS No. 134 Reports:

Order	Pre-SAS 134 Sections	SAS 134 Sections (reworded headings)
1st	Introductory paragraph	Opinion
2nd	Management's Responsibility for the Financial Statements	Basis of Opinion
3rd	Auditor's Responsibility	Responsibilities of Management for the Financial Statements
4th	Opinion	Auditor's Responsibility for the Audit of the Financial Statements

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## Revised Compliance Report:

- The Single Audit reports, “Reports on Compliance for Each Major Federal Program and Internal Control Over Compliance”, have revised formats and contents.
- The sections order is similar to the revised Auditor’s Opinions and incorporates similar wording required by SAS No. 134 in the “Basis for Opinion on Each Major Program” section and “Auditor’s Responsibilities for the Audit of Compliance” section.
- Management’s responsibility for internal control is included in the “Responsibilities of Management’s for Compliance section.”
- The AICPA’s illustrative samples for Yellow Book have not changed from previous years.

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## Where to find Audit Opinion Updates:

- Updated post SAS 134 financial and single audit samples will be posted on our website [here](#) over the next few weeks.
- We also post a sample financial opinion on the illustrative statement webpage with each sample unit type. You can find all those samples at [Financial Statement Resources | NC Treasurer](#).
- 2022 updates will be posted there early in July. Work on both illustrative financial statements and SAS 134 opinion updates is substantially complete.
- Look for our blogs notifying you that 2022 illustrative statements and opinions updates are posted on our website.
- Sign up for blogs at [SLG Blog \(icpage.net\)](#) if you do not already receive these.

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## GASB 87 Lease Templates – Overview:

- Two Excel workbooks are posted on our website: a Lessor workbook and Lessee workbook.
- The workbooks may assist units 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.
- Lease guidance is located at [LGC Lease Guidance](#) on website.

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## Things to do before using the template:

- Determine which of your unit's agreements meet the definition of a lease under GASB 87.
- Determine the lease term for GASB 87 reporting – include reasonably certain extensions, exclude reasonably certain termination options
- Determine the amount of the lease related payment – exclude maintenance, CAM, insurance, taxes, usage components, etc.
- Determine the lease discount rate – interest rate stated in lease, internal rate of return, or incremental borrowing rate.
- For capital leases in place prior to the first year of GASB 87 implementation, have prior year reported figures related to the lease available – such as debt payable for capital lease, and capital lease fixed asset balances.

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## 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.
- Complete the payment schedules on the "Lessee/Lessor Calculations" tab.
- Review the resulting journal entries.

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## 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.

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## Now, a Word about Lease Materiality:

- Consider both the capitalization threshold and the lease liability/lease receivable when determining the significance (materiality).
- The lease liability/receivable may be significant for a given lease, but not the capitalization threshold. In this case, lease accounting would need to be followed.
- The capitalization limit may be significant for a given lease, but not the lease liability/lease receivable. In this case, lease accounting would need to be followed.
- Only when all financial statement impacts are immaterial is the transaction(s) immaterial. You will have to complete GASB 87 calculations for your auditor.
- Ref: Government Finance Review, December 2021

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## Lease Implementation in City of Dogwood:

- Assumed implementation of GASB 87 in City of Dogwood includes two leases; an office equipment lease and a vehicle lease.
- We used our GASB 87 templates already on the website to create entries for these two sample leases.
- We developed stand-alone changes for City of Dogwood Illustrative Financial Statements for the FYE 6/30/2022. Note disclosures related to leases are also provided.
- These stand-alone documents have been posted [here](#).
- Implementation slides that follow assume that GASB 87 calculations and journal entries addressed in [Memorandum 2021-09 - GASB Statement 87 - Leases - Part 2](#) are all complete.

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**Statement of Net Position:**

One new line from the lessee leases – Right to Use Lease Assets, net of Amortization

Lease Liability balances (current portion \$8,380, due in more than one year \$20,291) are included in respective Long-Term Liability accounts

City of Dogwood, North Carolina  
Statement of Net Position  
June 30, 2022

ASSETS	Primary Government			City of Dogwood ABC Board
	Governmental Activities	Business-type Activities	Total	
<b>Current assets:</b>				
Cash and cash equivalents	\$ 539,411	\$ 140,540	\$ 679,951	\$ 77,038
Taxes receivables (net)	63,235	-	63,235	-
Accrued interest receivable on taxes	12,949	-	12,949	-
Accounts receivable (net)	9,959	314,979	324,938	-
Lease receivable	10,552	-	10,552	-
Due from other governments	97,300	-	97,300	-
Due from component units	3,700	-	3,700	-
Internal balances	30,100	(30,100)	-	-
Inventories	3,945	205,659	209,604	89,692
Prepaid items	-	7,195	7,195	3,361
Restricted cash and cash equivalents	67,895	3,731,180	3,799,075	-
Total current assets	820,147	2,369,433	3,189,580	170,091
<b>Non-current assets:</b>				
Lease receivable - non-current	42,630	-	42,630	-
Right to use leased assets, net of amortization	28,231	-	28,231	-
Capital assets (Note 4):				
Land, non-depreciable improvements, and construction in progress	869,770	3,067,949	3,937,719	-
Other capital assets, net of depreciation	3,479,544	10,489,728	13,969,272	87,375
Total capital assets	4,349,314	13,557,677	17,906,991	87,375
Total non-current assets	4,420,183	13,557,677	17,977,860	87,375
Total assets	5,249,330	15,927,110	21,176,440	257,466
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Pension deferrals	366,897	225,661	592,558	3,800
OREB deferrals	39,106	25,532	64,638	-
Charge on refunding	-	157,614	157,614	-
Total deferred outflows of resources	406,003	408,807	814,810	3,800

**LIABILITIES**

Current liabilities:				
Accounts payable	128,774	264,967	393,741	42,720
Accrued interest payable	2,269	-	2,269	-
Due to primary government	-	-	-	3,700
Due to other governments	6,625	-	6,625	18,251
Current portion of long-term liabilities	86,129	1,179,361	1,265,490	4,560
Payable from restricted assets	-	188,592	188,592	-
Total current liabilities	203,797	1,632,920	1,836,717	69,231
Long-term liabilities:				
Due in more than one year	1,732,057	4,181,852	5,913,909	5,071
Total liabilities	1,935,854	5,814,772	7,750,626	74,302
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Prepaid taxes	15,502	-	15,502	-
Leases	53,002	-	53,002	-
Pension deferrals	12,455	5,415	17,870	2,889
OREB deferrals	3,668	2,395	6,063	-
Total deferred inflows of resources	84,627	7,810	92,437	2,889
<b>NET POSITION</b>				
Net investment in capital assets	4,092,481	10,675,265	14,767,746	87,375
Restricted for:				
Cemetery Perpetual Care	25,056	-	25,056	-
Stabilization by State Statute	133,379	-	133,379	-
Economic Development	53,912	-	53,912	-
Other functions	13,794	-	13,794	96,700
Pursuant to loan requirements	-	109,725	109,725	-
Unrestricted	(853,771)	(271,655)	(1,125,426)	-
Total net position	\$ 3,624,661	\$ 10,513,335	\$ 14,140,196	\$ 184,075



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- Lease Asset amortization expense of \$6,610 is included as an expense in the functional area of the lease. Both leases are budgeted and reported in the General government functional area.
- Interest expense on the lease liability of \$1,389 is included within Interest on long-term debt.

City of Dogwood, North Carolina  
Statement of Activities  
For the Year Ended June 30, 2022

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			City of Dogwood ABC Board
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
<b>Primary government:</b>								
<b>Governmental Activities:</b>								
General government	\$ 634,038	\$ 36,692	\$ -	\$ -	\$ (597,346)	\$ -	\$ (597,346)	\$ -
Public safety	1,361,254	13,160	917,878	-	(430,216)	-	(430,216)	-
Transportation	515,880	-	132,457	-	(383,423)	-	(383,423)	-
Economic and physical development	117,218	-	88,402	26,598	(2,218)	-	(2,218)	-
Environmental protection	280,111	-	3,000	-	(277,111)	-	(277,111)	-
Cultural and recreation	78,989	26,843	412	205,000	153,266	-	153,266	-
Interest on long-term debt	7,532	-	-	-	(7,532)	-	(7,532)	-
Total governmental activities (See Note 1)	2,995,022	76,695	1,142,149	231,598	(1,544,580)	-	(1,544,580)	-
<b>Business-type activities:</b>								
Water and sewer	1,255,812	1,543,654	630	127,948	-	416,420	416,420	-
Electric	2,844,649	2,821,645	11,524	-	-	(11,480)	(11,480)	-
Total business-type activities	4,100,461	4,365,299	12,154	127,948	-	404,940	404,940	-
Total primary government	\$ 7,095,483	\$ 4,441,994	\$ 1,154,303	\$ 359,546	(1,544,580)	404,940	(1,139,640)	-

Exhibit 2



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- No changes in the modified accrual Balance Sheet to illustrate. The Right to Use Assets and Lease Liabilities are not included in the fund balance sheet.
- Because the lessee balances are not presented in the Balance Sheet, they are a reconciling item between the net position of governmental activities and the amounts reported for governmental activities on Exhibit 1. The Lease Liability amounts are included within Long-Term Debt.

City of Dogwood Balance Sheet Governmental Funds June 30, 2022		Exhibit 3 (cont)	
Amounts reported for governmental activities in the Statement of Net Position (Exhibit 1) are different because			
Total Fund Balance, Governmental Funds	\$	572,843	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			
Gross capital assets at historical cost	\$	7,817,894	
Accumulated depreciation	(3,468,580)		
Less Internal Service Funds' beginning net capital assets included as net position below (include the addition to accumulated depreciation less capital outlays during the year)	(24,670)	4,324,844	
<b>Right to use leased assets used in governmental activities are not financial resources and therefore are not reported in the funds.</b>			
Right to use assets at historical cost	\$	34,840	
Accumulated amortization	(6,610)	28,230	
Deferred outflows of resources related to pensions are not reported in the funds		363,042	
Deferred outflows of resources related to OPEB are not reported in the funds		39,106	
Other long-term assets (accrued interest receivable from taxes) are not available to pay for current-period expenditures and therefore are in flows of resources in the funds.		12,949	
Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The assets and liabilities of certain internal service funds are included in governmental activities in the statement of net position.		51,400	
Consolidation adjustment for internal balances between the Internal Service Fund and the Governmental Funds	(300)	51,100	
Earned revenues considered deferred inflows of resources in fund statements.			
57,180			
Long-term liabilities used in governmental activities are not financial uses and therefore are not reported in the funds			
Gross long-term debt less Internal Service Funds beginning	\$	(192,858)	
Long-term debt included as net position below (includes the addition of long-term debt and principal payments during the year.)	(263,034)		
Net pension liability	(396,133)		
Total pension liability	(219,382)		
OPEB liability	(724,379)	(1,795,787)	
Deferred inflows of resources related to pensions are not reported in the funds		(12,455)	
Deferred inflows of resources related to OPEB are not reported in the funds		(3,668)	
Other long-term liabilities (accrued interest) are not due and payable in the current period and therefore are not reported in the funds.		(2,133)	
Net position of governmental activities	\$	3,634,851	




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- A capital outlay for the right to use assets is classified as an expenditure in the proper fund and functional area in the year of inception. The outlay amount is the same as the amount capitalized as a right to use lease asset in the Statement of Net Position. Dogwood's leases are within the General Government function of the General Fund; therefore, we added \$34,840 to the capital outlay within the General Government function highlighted at the right.
- The principal and interest portions of the lease payments during the year are included within Debt service – Principal and Debt service – Interest, respectively.
- The addition of lease liabilities during the year, \$34,840, is included as an Other Financing Source.

City of Dogwood  
Statement of Revenues, Expenditures, and Changes in Fund Balance  
Governmental Funds  
June 30, 2022

Exhibit 4

	Major Funds			Total Non-Major Funds	Total Governmental Funds
	General Fund	Emergency Telephone System	Parking and Recreation		
<b>REVENUES</b>					
Ad valorem taxes	\$ 829,577	\$ -	\$ -	\$ -	\$ 829,577
Other taxes and licenses	24,127	-	-	-	24,127
Unrestricted intergovernmental	918,908	-	-	-	918,908
Restricted intergovernmental	266,334	785,000	200,000	115,000	1,366,334
Permits and fees	42,347	-	-	-	42,347
Sales and services	25,147	-	-	8,771	33,918
Investment earnings	23,956	-	5,000	412	29,368
Miscellaneous	581	-	-	-	581
Total revenues	2,130,977	785,000	205,000	124,183	3,245,160
<b>EXPENDITURES</b>					
Current:					
General government	987,303	-	-	2,095	989,398
Public safety	565,716	785,038	-	-	1,350,754
Transportation	392,840	-	-	-	392,840
Economic and physical development	-	-	-	115,000	115,000
Environmental protection	257,918	-	-	-	257,918
Culture and recreation	91,260	-	-	-	91,260
Debt service:					
Principal	16,169	-	-	-	16,169
Interest and other charges	6,890	-	-	-	6,890
Capital outlay	-	-	590,000	-	590,000
Total expenditures	2,318,096	785,038	590,000	117,095	3,810,229
Excess (deficiency) of revenues over expenditures	(187,119)	(38)	(385,000)	7,088	(665,069)
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers from other funds	10,813	-	208,400	-	219,213
Transfers to other funds	(305,800)	-	-	-	(305,800)
Sales of capital assets	5,000	-	-	-	5,000
Insurance recovery	325,000	-	-	-	325,000
Installment purchase obligations issued	-	-	200,000	-	200,000
<b>Lease liabilities issued</b>	<b>34,840</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>34,840</b>
Total other financing sources (uses)	69,853	-	408,400	-	478,253
Net change in fund balance	(117,266)	(38)	23,400	7,088	(86,816)
Fund balances, beginning	631,661	5,453	-	22,263	659,377
Change in reserve for inventories	-	92	-	-	92
Fund balances, ending	\$ 514,477	\$ 5,415	\$ 23,400	\$ 29,351	\$ 572,643

 <p><b>NORTH CAROLINA</b> DEPARTMENT OF STATE TREASURER</p>	<p><b>State and Local Government Finance Division</b></p>	<p>STATE TREASURER OF NORTH CAROLINA <b>DALE R. FOLWELL, CPA</b> <i>Dale R. Folwell, CPA</i></p>																																																																																								
<ul style="list-style-type: none"> <li>Two reconciling items were presented for the current year's lease activities.</li> <li>The Right to use leased asset additions is offset by amortization expense. The net book value of the Right to use intangible assets is a reconciling difference between the Net changes in fund balances and the Total changes in the net position of governmental activities.</li> <li>Then, lease liabilities issued, reduced by current year debt principal payments, are included in the long-term debt items.</li> </ul>	<p style="text-align: right;"><b>Exhibit 4</b> (cont)</p> <p style="text-align: center;"><b>City of Dogwood</b> <b>Statement of Revenues, Expenditures, and Changes in Fund Balance</b> <b>Governmental Funds</b> <b>June 30, 2022</b></p> <p>Amounts reported for governmental activities in the statement of activities are different because:</p> <table border="0" style="width: 100%;"> <tr> <td style="width: 60%;">Net changes in fund balances - total governmental funds</td> <td style="width: 10%; text-align: right;">\$</td> <td style="width: 10%; text-align: right;">(86,816)</td> <td style="width: 10%;"></td> </tr> <tr> <td>Change in fund balance due to change in reserve for inventory</td> <td></td> <td style="text-align: right;">82</td> <td></td> </tr> <tr> <td colspan="4">Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period</td> </tr> <tr> <td>Capital outlay expenditures which were capitalized</td> <td style="text-align: right;">\$</td> <td style="text-align: right;">1,095,939</td> <td></td> </tr> <tr> <td>Depreciation expense for governmental assets</td> <td></td> <td style="text-align: right;">(236,743)</td> <td></td> </tr> <tr> <td>Asset impairment loss</td> <td></td> <td style="text-align: right;">(268,745)</td> <td style="text-align: right;">590,451</td> </tr> <tr> <td>Right to use leased asset capital outlay expenditures which were capitalized</td> <td></td> <td style="text-align: right;">34,840</td> <td></td> </tr> <tr> <td>Amortization expense for intangible assets</td> <td></td> <td style="text-align: right;">(6,610)</td> <td style="text-align: right;">28,230</td> </tr> <tr> <td>Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities</td> <td></td> <td></td> <td style="text-align: right;">91,900</td> </tr> <tr> <td>Benefit payments paid and administrative expense for the LEOSA are not included on the Statement of Activities</td> <td></td> <td></td> <td style="text-align: right;">17,024</td> </tr> <tr> <td>OPEB benefit payments and administrative costs made in the current fiscal year are not included on the Statement of Activities</td> <td></td> <td></td> <td style="text-align: right;">26,715</td> </tr> </table>	Net changes in fund balances - total governmental funds	\$	(86,816)		Change in fund balance due to change in reserve for inventory		82		Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period				Capital outlay expenditures which were capitalized	\$	1,095,939		Depreciation expense for governmental assets		(236,743)		Asset impairment loss		(268,745)	590,451	Right to use leased asset capital outlay expenditures which were capitalized		34,840		Amortization expense for intangible assets		(6,610)	28,230	Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities			91,900	Benefit payments paid and administrative expense for the LEOSA are not included on the Statement of Activities			17,024	OPEB benefit payments and administrative costs made in the current fiscal year are not included on the Statement of Activities			26,715	<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p> <table border="0" style="width: 100%;"> <tr> <td style="width: 60%;">Amount of donated assets</td> <td style="width: 10%; text-align: right;">12,000</td> <td style="width: 10%;"></td> <td style="width: 10%;"></td> </tr> <tr> <td>Change in unavailable revenue for tax revenues</td> <td style="text-align: right;">(1,318)</td> <td></td> <td style="text-align: right;">10,682</td> </tr> </table> <p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items</p> <table border="0" style="width: 100%;"> <tr> <td style="width: 60%;">New long-term debt issued</td> <td style="width: 10%; text-align: right;">(234,840)</td> <td style="width: 10%;"></td> <td style="width: 10%;"></td> </tr> <tr> <td>Principal payments on long-term debt</td> <td style="text-align: right;">16,169</td> <td></td> <td></td> </tr> <tr> <td>Increase in accrued interest payable</td> <td style="text-align: right;">(641)</td> <td></td> <td style="text-align: right;">(219,312)</td> </tr> </table> <p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p> <table border="0" style="width: 100%;"> <tr> <td style="width: 60%;">Compensated absences</td> <td style="width: 10%; text-align: right;">(30,593)</td> <td style="width: 10%;"></td> <td style="width: 10%;"></td> </tr> <tr> <td>Pension expense</td> <td style="text-align: right;">(139,024)</td> <td></td> <td></td> </tr> <tr> <td>OPEB plan expense</td> <td style="text-align: right;">(49,715)</td> <td></td> <td style="text-align: right;">(219,332)</td> </tr> </table> <p>Consolidation adjustment for the Internal Service Fund and the Governmental Funds</p> <table border="0" style="width: 100%;"> <tr> <td style="width: 60%;">Net revenue of internal service fund</td> <td style="width: 10%; text-align: right;">(703)</td> <td style="width: 10%;"></td> <td style="width: 10%;"></td> </tr> <tr> <td>Portion of revenue allocated to business-type activities</td> <td style="text-align: right;">(300)</td> <td></td> <td style="text-align: right;">(1,003)</td> </tr> </table> <p>Total changes in net position of governmental activities</p> <table border="0" style="width: 100%;"> <tr> <td style="width: 60%;"></td> <td style="width: 10%; text-align: right;">\$</td> <td style="width: 10%; text-align: right;">238,620</td> <td style="width: 10%;"></td> </tr> </table>	Amount of donated assets	12,000			Change in unavailable revenue for tax revenues	(1,318)		10,682	New long-term debt issued	(234,840)			Principal payments on long-term debt	16,169			Increase in accrued interest payable	(641)		(219,312)	Compensated absences	(30,593)			Pension expense	(139,024)			OPEB plan expense	(49,715)		(219,332)	Net revenue of internal service fund	(703)			Portion of revenue allocated to business-type activities	(300)		(1,003)		\$	238,620	
Net changes in fund balances - total governmental funds	\$	(86,816)																																																																																								
Change in fund balance due to change in reserve for inventory		82																																																																																								
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 <p><b>NORTH CAROLINA</b> DEPARTMENT OF STATE TREASURER</p>	<p><b>State and Local Government Finance Division</b></p>	<p>STATE TREASURER OF NORTH CAROLINA <b>DALE R. FOLWELL, CPA</b> <i>Dale R. Folwell, CPA</i></p>
<ul style="list-style-type: none"> <li>Disclose a description of accounting policies for Right to Use Lease Assets</li> </ul>	<p style="text-align: center;"><b>Right to Use Lease Asset</b></p> <p>The City has recorded right to use lease assets as a result of implementing GASB 87, Leases. The right to use assets are initially measured at an amount equal to the initial measurement of the related lease liability plus any lease payments made prior to the lease term, less lease incentives, and plus ancillary charges necessary to place the lease into service. The right to use assets are amortized on a straight-line basis over the life of the related lease.</p>	



- Add a section for Right to Use Lease Asset, including a detailed schedule presenting the cost and amortization balance of each asset and in total.

**Right to Use Lease Assets**

The City has recorded two right to use lease assets. The assets are right to use assets for leased equipment and leased vehicles. The related leases are discussed in the Leases subsection of the Liabilities section of this note. The right to use lease assets are amortized on a straight-line basis over the terms of the related leases.

Right to use asset activity for the Primary Government for the year ended June 30, 2022, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Right to use assets				
Leased vehicles	\$ -	\$ 13,396	\$ -	\$ 13,396
Leased equipment	-	21,444	-	21,444
Total right to use assets	-	34,840	-	34,840
Less accumulated amortization for:				
Leased vehicles	-	4,465	-	4,465
Leased equipment	-	2,144	-	2,144
Total accumulated amortization	-	6,609	-	6,609
Right to use assets, net	\$ -	\$ 28,231	\$ -	\$ 28,231



- Include a subsection for Leases in the Long-Term Obligation note disclosure detail. A detailed description of each lease is provided along with a future minimum payment schedule.

**Long-Term Obligations/Leases**

The City has entered into agreements to lease certain equipment. The lease agreements qualify as other than short-term leases under GASB 87 and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception.

The first agreement was executed on July 1, 2021, to lease maintenance vehicles and requires 36 monthly payments of \$417. There are no variable payment components of the lease. The lease liability is measured at a discount rate of 8%, which is the stated rate in the lease agreement. As a result of the lease, the City has recorded a right to use asset with a net book value of \$8,931 at June 30, 2022. The right to use asset is discussed in more detail in the Intangible Asset section A.6. of this note.

The second agreement was executed on January 1, 2022, to lease a copy machine and requires 60 monthly payments of \$403. There are no variable payment components of the lease. The lease liability is measured at a discount rate of 5%, which is the stated rate in the lease agreement. As a result of the lease, the City has recorded a right to use asset with a net book value of \$19,300 at June 30, 2022. The right to use asset is discussed in more detail in the Intangible Asset section A.6. of this note.

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2022, were as follows:

Year Ending June 30	Principal Payments	Interest Payments	Total
2023	\$ 8,379	\$ 1,461	\$ 9,840
2024	8,949	891	9,840
2025	4,368	468	4,836
2026	4,592	244	4,836
2027	2,383	35	2,418
	<u>\$ 28,671</u>	<u>\$ 3,099</u>	<u>\$ 31,770</u>



- Finally, add a line for Lease Liabilities in the Changes in Long-Term Liabilities schedule.

	Beginning Balance, as restated	Increases	Decreases	Ending Balance	Current Portion of Balance
<b>Governmental activities:</b>					
Direct Placement					
Instalment purchase	\$ -	\$ 200,000	\$ -	\$ 200,000	\$ 10,000
General obligation bonds	70,000	-	10,000	60,000	10,000
Lease liabilities	-	34,840	6,169	28,671	8,379
Compensated absences	122,860	85,224	38,461	169,623	37,750
Total OPEB liability	719,849	4,530	-	724,379	-
Net pension liability (LGERS)	209,812	186,320	-	396,132	-
Total pension liability (LEO)	215,657	3,725	-	219,382	-
<b>Governmental activity long-term liabilities</b>	<b>\$ 1,338,178</b>	<b>\$ 514,639</b>	<b>\$ 54,630</b>	<b>\$ 1,798,187</b>	<b>\$ 66,129</b>
<b>Business-type activities:</b>					
<b>Water and Sewer Fund</b>					
General obligation bonds	\$ 3,288,713	\$ -	\$ 330,099	\$ 2,958,614	\$ 449,022
Revenue bonds	936,549	-	29,626	906,923	34,339
Bond anticipation notes	-	675,000	-	675,000	675,000
Net pension liability (LGERS)	109,588	97,319	-	206,907	-
Total OPEB liability	375,987	2,366	-	378,353	-
Compensated absences	48,550	17,625	15,275	50,900	9,000
<b>Water Sewer Fund long-term liabilities</b>	<b>\$ 4,759,387</b>	<b>\$ 792,310</b>	<b>\$ 375,000</b>	<b>\$ 5,176,697</b>	<b>\$ 1,167,361</b>



## G.S. §105-349(e): Dual Appointment Approval:

- A person with a County or Municipality serving as Finance Officer, in accordance with G.S. §159-24 cannot be appointed as tax collector, except by written approval by the Local Government Commission (LGC) (G.S. §105-349(e))
- The LGC will require a letter that includes: 1) justification of the request, 2) internal controls procedures over the position, 3) amount of surety bonds request for each office 4) copy of Board minutes or resolution giving approval for dual appointment.
- Must have a current audit report and response to FPICs noted in the previous audit report.
- Initial approvals are usually for one year
  - Three-year approvals are often granted for renewals



## Recent Business Process Changes:

- Unsustainable Cities Legislation – Session Law 2021-124
  - Provides a process for a city in financial distress to transition out of distress on its own or under the direction of the LGC.
  - LGC adopted criteria for evaluating a city for financial rehabilitation.
  - Eight criteria include five-year trends of declining populations; declining property tax valuations; and declining fund balance available amounts that are significantly below the peer group average.
  - Also, five-year pattern of submitting late audits; noncompliance with the NC Local Government Budget and Fiscal Control Act; and long-term vacancies or lack of declared candidates for governing board seats.
  - Finally, five-year trends of Water and Sewer Fund quick ratios that are less than 1 and operating losses.



## Recent Business Process Changes:

- Unsustainable Cities Legislation – Session Law 2021-124
  - Criteria were applied to the Town of East Laurinburg in November 2021.
  - Resolution was adopted by the LGC in December 2021 to dissolve Town to dissolve the Town effective June 30, 2022.
  - LGC staff working with Town and County to transfer and dispose of property and settle obligations of the Town.
  - The statute requires the LGC to apply these criteria to each city that the Commission has exercised 159-181 (c) authority and determine whether each City will be subject to financial rehabilitation.



## 2021 Legislation: Senate Bill 473

- Revises NC GS 147-64.6(c)(14) - If the State Auditor publishes an investigative report on a local government, the Auditor must notify the LGC of the report publication.
- Adds 159-34(d) - The LGC may require a local government that is subject to investigative report's audit process to select their independent auditor from a list provided by the LGC.
- The independent auditor will report the audit results directly to the Commission and the governing board for up to three years.

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## 2021 Legislation: Senate Bill 473 (cont)

- Revises NC GS 153A-28 and 160A-64.1 - Requires the finance officer to garnish a board member's compensation or allowances to collect funds the member owes to the government as if the unpaid funds were delinquent taxes and the finance officer is the tax collector, according to procedure in NC GS 105-368.
- Adds NC GS 14-234.2 - Creates a Class H felony offense for public officers and employees who solicit or receive personal gain from their position by means of intimidation, undue influence, or misuse of employees. Applies to offenses committed on or after January 1, 2022.
- Adds NC GS 14-234.3 - With some exceptions, prohibits public officials from participating in, making, or administering a contract with any nonprofit in which the official is associated.

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## Contact Information:

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