

**STATE CASHFLOW LOANS FOR DISASTER RESPONSE  
ACTIVITIES TO LOCAL GOVERNMENTS**

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**State Authorization:** Session Law-2024-51, Session Law-2024-53 as amended by Session Law-2024-57, G.S. 159G-33(a)(4) and G.S. 159G-34(a)(4)

**NC Department of State Treasurer**

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**Confirmation Report**

Listing of units that were wired Hurricane Helene Loans for FY2025 can be found at the following link:

[DST Hurricane Helene Loans FY2025](#)

Question concerning the report can be directed to:

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The auditor should not consider the Supplement to be “safe harbor” for identifying audit procedures to apply in a particular engagement, but the auditor should be prepared to justify departures from the suggested procedures. The auditor can consider the supplement a “safe harbor” for identification of compliance requirements to be tested if the auditor performs reasonable procedures to ensure that the requirements in the Supplement are current.

The grantor agency may elect to review audit working papers to determine that audit tests are adequate.

Auditors may request documentation of monitoring visits by the State Agencies.

**I. PROGRAM OBJECTIVES**

The State's cashflow loan program (“Program”) is intended to help local governments and public authorities with a funding source as they await funding from alternative sources (such as the federal government) to conduct disaster response activities in the wake of Hurricane Helene. Under applicable provisions of the Program’s enabling legislation (N.C. Session Law 2024, as amended by N.C. Session Law 2024-57) (hereinafter referred to at times as the “Enabling Legislation”), **the repayment of loan proceeds begins one year from the loan’s initiation date**, and the loan amounts, which were calculated based on damage assessments submitted to the N.C. Department of Emergency Management, **must be fully repaid by the earlier of the following two dates: (i) June 30, 2030, or (ii) the five-year anniversary of the loan origination date.** The local governments and public authorities that qualified for a cashflow loan were notified, although not all units accepted the funding. The units that accepted the funding are hereinafter referred to generally as “Recipients” or “Units.”

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## II. PROGRAM PROCEDURES

In connection with Program implementation, the North Carolina Department of State Treasurer (“DST”) worked with the North Carolina Department of Public Safety–Division of Emergency Management (“NCEM”), the N.C. Association of County Commissioners, and the N.C. League of Municipalities to formulate a working plan for the disbursement of cashflow loans. The first loans, also known as the “Round 1 Loans,” were calculated based on FEMA Public Assistance Project Worksheets submitted by Recipients to NCEM. Prior to the disbursement of loan proceeds, DST required each participating Unit to execute and deliver a Round 1 Loan Agreement, a Round 1 Promissory Note, approval from the governing body of the Unit, and a wire transfer form.

A sample of the Loan Agreement is on the [State and Local Government Finance Division’s](#) (“SLGFD”) website (the SLGFD is a division of DST). Please refer to the memo dated February 13, 2025. Users of the Loan Agreement, such as local auditors, should obtain a copy from the Recipient or contact DST.

All loans under the program are interest free. See N.C. Session Law 2024-53, Section 4E.5(a)(3) (as amended by Section 1F.1 of NC Session Law 2024-57).

A significant number of the Round 1 Loan Agreements were amended shortly following loan initiation, to address certain problematic language contained in the original loan terms. The language at issue operated to trigger an immediate (five-day) repayment obligation each time a Unit received disaster relief funding from another source (as reimbursement or otherwise)—“notwithstanding the repayment schedule recited on page 1” of each Loan Agreement (i.e., notwithstanding the repayment schedule that would otherwise apply in the absence of the problematic language).

In general, the purpose of amending the Loan Agreement was to eliminate the superseding repayment obligation otherwise triggered any time a Unit received alternative funding, so that the repayment schedule recited on page 1 of the Loan Agreement could become the actual repayment schedule to which the Units may adhere (generally, a “Corrective Amendment”). All Round 1 Recipients were offered an opportunity to execute some form of a Corrective Amendment, with certain limited exceptions.<sup>1</sup> Not all Recipients elected to execute a Corrective Amendment, and those Units are still operating under the terms of the original Round 1 Loan Agreement.

At the time DST commenced its efforts to amend the Round 1 Loan Agreement, it was not fully aware of the range of possible scenarios in which a Unit’s receipt of federal disaster relief funding might unintentionally trigger a repayment obligation under the Round 1 Loan Agreement. As a result, DST’s initial iteration of the Corrective Amendment was insufficient for certain Units’ purposes, prompting DST to develop a “modified” Corrective Amendment, which it likewise made available to all units (except for Units without a Round 1 Loan Agreement in place yet)—either in the form of a “second amendment” (for those Units that had already executed the initial Corrective Amendment) or as a true “first amendment” (for those Units that had not yet executed a Corrective Amendment, and could therefore execute the “modified” version of the Corrective Amendment in the first instance).

Given the nature and timing of DST’s rollout of Corrective Amendments as above-described, and considering the varied needs and elections of the individual units (and the timing of those elections), not all Round 1 Recipients are operating under the same

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<sup>1</sup> Round 1 Recipients that executed a Round 1 Loan Agreement late enough in time to have received a version of the document that omitted the problematic language were not offered a Corrective Amendment, since no amendment was necessary in those cases.

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repayment terms. But virtually all (if not all) Round 1 Recipients may be placed into one of three categories for purposes of determining the repayment terms that apply to each Unit. **Please see the addendum to this Supplement titled “Round 1 Cashflow Repayment Categories” for additional information.**

DST’s efforts to develop and issue Corrective Amendments as above-described was in collaboration with the NC League of Municipalities and the UNC School of Government.

As with the Round 1 Loan Agreement itself, any Unit that elected to execute a Corrective Amendment (in whatever form) was first required obtain a resolution from its governing body approving the Unit’s election to enter the amendment (or multiple resolutions in the case of those Units that executed the original Corrective Amendment as well as the “modified” Corrective Amendment).

Because the Enabling Legislation provides that the repayment of each cashflow loan “begins one year from that loan’s initiation,” and because the loan “initiation date” may be different from one Unit to the next, the repayment schedules recited in the collective Round 1 Loan Agreements are subject to slight variation, but all repayment schedules use the same repayment convention, as follows:

- \$1 on the first anniversary of the Loan Date
- 10% of the Round 1 Loan Amount by June 30, 2027
- 20% of the Round 1 Loan Amount by June 30, 2028
- 30% of the Round 1 Loan Amount by June 30, 2029
- 40% of the Round 1 Loan Amount (less \$1) on the earlier of the fifth anniversary of the Loan Date or June 30, 2030.

While all the Round 1 Loan Agreements contain the above-described repayment schedule (subject to slight variation based on the varying “Loan Dates”), **please note that the manner and extent to which the repayment schedule applies to a given Unit depends on which “Category” that Unit falls into under the “Round 1 Cashflow Repayment Categories” described in the addendum to this Supplement.**

In June 2025, DST notified Units of the second round of interest-free loans under the Cashflow Loan Program (please refer to memo dated May 12, 2025, on the SLGFD’s website) (the “Round 2 Loans”). Any Round 2 Loan proceeds received prior to June 30, 2025 are considered financial assistance for the fiscal year ending June 30, 2025, and are subject to State and federal single audit requirements, as set forth in N.C.G.S. 159-34 (this audit and its associated requirements hereinafter referred to generally as the “Single Audit”).

The Round 2 Loan Agreement (applicable to Round 2 cashflow loan funds) recites the same general repayment schedule established in the Round 1 Loan Agreement (hereinafter referred to generally (for purposes of both Round 1 and Round 2) as the “Repayment Schedule”), except the Round 2 Loan Agreement does not contain the problematic language that was triggering a premature, unintended repayment obligation for many Units under the original terms of the Round 1 Loan Agreement (thereby frustrating the intended purpose of the Repayment Schedule). Auditors should refer to Recipients’ Round 2 State Cashflow Loan Agreement approved by DST.

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A list of Units receiving loan funds under the Cashflow Loan Program as of June 30, 2025 (under Round 1 and Round 2)—and the amounts thereof—is posted for auditors to review on the NCDST website.

For more information, please refer to the DST's SLGFD website, "Hurricane Helene Response." Information on the Cashflow Loan Program administered by DST is available in the memos accessible on the SLGFD website.

### III. COMPLIANCE REQUIREMENTS

Except where otherwise noted, the provisions of this "Compliance Requirements" section apply both to the Round 1 Loan Agreements (and the associated loan funding) and to the Round 2 Loan Agreements (and the associated loan funding).

The matrix below identifies the types of compliance requirements that are applicable to the Program. These requirements are determined by NCDST, and the requirements applicable to the Cashflow Loan Program are noted by "Y."

Where the matrix indicates "Y" for a requirement, the auditor must determine if that requirement has a direct and material effect on the Program for the auditee.

1	2	3	4	5	6	7	8	9	10	12	13	14
Activities Allowed or Unallowed	Allowable Costs/Cost Principles	Cash Management	Conflict of Interest	Eligibility	Equipment/ Real Property Management	Matching, Level of Effort, Earmarking	Period Of Performance	Procurement Suspension & Debarment	Program Income	Reporting	Subrecipient Monitoring	Special Tests and Provisions
Y	Y	Y	N	N	N	N	N	N	N	Y	N	Y

#### 1. Activities Allowed or Unallowed

Recipients must use Program loan proceeds to cover expenditures incurred for disaster response activities necessitated by Hurricane Helene, as provided in subsection (a)(2) to Section 4E.5 of NC Session Law 2024-53, as amended by Section 1F.1 of NC Session Law 2024-57.

Under the Enabling Legislation, loan proceeds disbursed to Recipients are "in excess" of any disaster relief funding received from federal disaster assistance programs, or else from insurance proceeds or private donations (to the extent applicable), meaning Recipients are to repay to DST the equivalent amount of loan proceeds received from such alternative sources (generally, "Alternative Funding"). See Section 3.1(b) and (c) of N.C. Session Law 2024-53.

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Section 3.1(c) to N.C. Session Law 2024-53 does not establish a timeframe in which a Recipient must repay loan proceeds following its receipt of Alternative Funding. But Section 4E.5 to Session Law 2024-53 (as amended by Section 1F.1 of NC Session Law 2024-57) does establish that: (i) repayment under the Cashflow Loan Program begins one year after the loan's initiation, and (ii) loans must be repaid within five years of initiation or by June 30, 2030, whichever is earlier. See N.C. Session Law 2024-53, Section 4E.5(a)(4) and (5) (as amended by Section 1F.1 of NC Session Law 2024-57).

In the context of reimbursable expenditures, Recipients should be submitting reimbursement requests on the required Request for Reimbursement ("RFR") forms. Further, Recipients should be submitting the RFR forms to the relevant funding source in a timely fashion, 60 to 90 days after the disaster response activity in question has been completed, or else at the expiration of the applicable timeframe required by the relevant assistance program.

Recipients' disaster response activities will most likely be subject to Single Audit testing by the assistance programs whose proceeds are intended to "cover" the disaster response activities for which the State cashflow funds have been temporarily loaned. Accordingly, such testing may be limited to confirming that the funds in question were spent towards eligible disaster response activities necessitated by Hurricane Helene.

### **Audit Objective**

Determine if an activity is related to Hurricane Helene disaster response.

### **Suggested Audit Procedures**

Review and access the expenditures to determine if the activity is related to Hurricane Helene disaster response.

## **2. Allowable Costs/Cost Principles**

Section 3.b. to the Round 1 Loan Agreement, which was not modified by any Corrective Amendment, and which likewise appears at Section 3.b. to the Round 2 Loan Agreement, provides the following: "Before and during the term of this Agreement, RECIPIENT will use or has used loan proceeds to cover expenditures for disaster response activities, which may be expenditures that are eligible for reimbursement by the Federal Emergency Management Agency (FEMA) Public Assistance Program, National Flood Insurance Program, or other federal reimbursement program."

Disaster response activities subject to federal assistance should be evaluated based on those activities that are "deemed eligible" for such assistance by the FEMA Public Assistance Program, the National Flood Insurance Program, or other federal assistance program, as applicable. Recipients' disaster response activities may be subject to Single Audit testing by the assistance programs whose proceeds are intended to "cover" the disaster response activities for which the State cashflow funds have been temporarily loaned.

### **Audit Objective**

Determine if the loan proceeds in question were expended on disaster response activities "deemed eligible" by the relevant federal assistance program.

### **Suggested Audit Procedures**

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Review activities and costs incurred related to Hurricane Helene disaster relief and determine if these costs were: (i) for “eligible” disaster relief activities, (ii) reasonable under the circumstances, and (iii) properly documented.

### 3. Cash Management

Both the Enabling Legislation and the Round 1 and Round 2 Loan Agreements require all Recipients to use reasonable efforts and take all reasonable steps to obtain alternative funds that cover the losses or needs for which the cashflow loan funds have been disbursed under the Program, including federal assistance, insurance proceeds, and private donations (i.e., “Alternative Funding,” as defined in this Supplement).

#### (a) Round 1 Loan Agreements

As previously noted, the manner and extent to which the Repayment Schedule applies to a given Unit in receipt of Round 1 funding depends on which “Category” that Unit falls in to for purposes of the “Round 1 Cashflow Repayment Categories” described in the addendum to this Supplement. Please refer to the addendum for additional information regarding the cash management implications for each of the respective Round 1 repayment categories.

#### (b) Round 2 Loan Agreements

As previously noted, the Enabling Legislation requires any Unit that receives Alternative Funding to repay the equivalent amount of loan proceeds to DST, but without regard to a specific timeframe in which to make such repayment following that Unit’s receipt of the Alternative Funding in question. In the absence of such a timeframe, and to give that requirement of the Enabling Legislation practical effect as applied to the various Recipients,<sup>2</sup> NCDST’s Round 2 Loan Agreement provides that Units who receive Alternative Funding are to repay the equivalent amount of loan proceeds to DST “as soon as reasonably practicable thereafter” (see section 3.d. to the Round 2 Loan Agreement). But otherwise, the Round 2 Loan Agreement simply provides that: (i) Units must repay the Round 2 Loan proceeds in accordance with the Repayment Schedule recited on Page 1 of the Round 2 Loan Agreement; and (ii) in any event, all Round 2 Loan proceeds must be fully repaid by the five-year anniversary of the Round 2 Loan Date, or by June 30, 2030, whichever date is earlier.

### Audit Objective

Recipients are expected (required) to seek Alternative Funding to cover the losses or needs for which the cashflow loan funds have been disbursed under the Program, (inclusive of federal assistance, insurance proceeds, and private donations). In the context of federal assistance reimbursements, Recipients should be submitting the RFR forms to the relevant funding source in a timely fashion, 60 to 90 days after the disaster response activity in question has been completed, or else at the expiration of the applicable timeframe required by the relevant assistance program.

### Suggested Audit Procedures

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<sup>2</sup> Section 3.1(d) of N.C. Session Law 2024-53 requires any contract by which an entity receives State funding (pursuant to that session law, i.e., the Enabling Legislation) to include a provision obligating the entity in question: (i) to seek funding that is “alternative” to the State’s funding assistance, and, (ii) if the entity obtains any such “alternative” funding, to repay the equivalent amount of State assistance to the State agency from which the assistance was disbursed—but without regard to any timeframe in which to make such repayment.

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Review relevant documents and records to determine (i) if the Recipient is seeking Alternative Funding generally, and, in the context of federal assistance reimbursements, (ii) if the required RFR forms are being timely submitted to the assistance programs whose proceeds are intended to “cover” the disaster response activities for which the State cashflow funds have been temporarily loaned.

### **4. Conflict of Interest**

Not applicable

### **5. Eligibility**

Local governments and public authorities that incurred damages as a result of Hurricane Helene.

No testing required.

### **6. Equipment and Real Property Management**

Not applicable

### **7. Matching, Level of Effort, Earmarking**

Not applicable

### **8. Period of Performance**

No testing is required.

### **9. Procurement and Suspension and Debarment**

Not applicable

### **10. Program Income**

Not applicable

### **11. Reserved**

### **12. Reporting**

Recipients under the Program are subject to the reporting requirements of both NCDST and the North Carolina Office of Budget and Management, as mandated by those agencies from time to time, as applicable.

Currently there are no reporting requirements, and no testing is required.

### **13. Subrecipient Monitoring**

Not applicable

### **14. Special Tests and Provisions**

#### **Verification of Work Authorization.**

If the Round 1 and Round 2 Loan Agreements are subject to N.C.G.S. §143-133.3, then Recipients, as well as any contractors of Recipients who are paid with cashflow loan proceeds received from DST, must comply with the requirements of Article 2 of Chapter 64 of the North Carolina General Statutes.

Employers must verify the work authorization of employees through E-Verify (N.C.G.S. §64-26(a)). Verification may be obtained at the U.S. Department of Homeland Security E-Verify website: <https://www.e-verify.gov/>.

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Employers must retain the record of the verification of work authorization for the duration of the employee's employment, and for one year thereafter (N.C.G.S. §64-26(b)).

Any person with a good faith belief that a violation of N.C.G.S. § 64-26 or 143-133.3 has occurred may file a complaint with the N.C. Commissioner of Labor setting forth the basis for that belief (NC G.S. §64-27).

### **Audit Objective**

Verify that the Recipient and any contractor(s) of the Recipient are in compliance with the provisions of Article 2 of Chapter 64 of the North Carolina General Statutes.

### **Suggested Audit Procedure**

Determine if the Recipient requires its contractors, and any subcontractors of those contractors, to verify the work authorization of the contractors' and subcontractors' employees, including through use of E-Verify, if applicable. This may be accomplished by contract or through use of a system for oversight of the contractor's E-Verify practices.

## **IV. OTHER INFORMATION**

The State Cashflow Loans—both Round 1 and Round 2—are subject to the reporting requirements of Loans and Loan Guarantees found in sections of the Uniform Guidance (UG) §200.502(b) and §200.510(b) adopted by the State Single Audit Implementation Act. The basis for determining expenditures is the value of the loan, which is the loan proceeds received during the fiscal year, plus the beginning balance of the loan from the previous fiscal year (UG §200.502(b)).

In the initial year of the loan, only the value of the loan, which equals the loan proceeds, is to be reported on the Schedule of Expenditures of Federal and State Awards (SEFSA) as State Funding. This is the amount an auditor should use to determine a major program.

In subsequent years, if disaster response activities and expenditures are continuing to be incurred, the beginning loan balance from the prior year plus any new State Cashflow Loans received should be reported on the SEFSA. If there are no activities or expenditures for Hurricane Helene disaster response activities in subsequent years, then the State Cashflow Loan Program should not be reported on the SEFSA. It is no longer subject to State's Single Audit requirements since all that is required is the payment of principal and interest.

When the loan is presented on the SEFSA, such as the initial year, and any subsequent years, if required, a footnote to the SEFSA should be included stating the State Cashflow Loan balance as required by UG §200.510(b).

### **Round 1 Cashflow Repayment Categories**

The Cashflow Repayment Categories Addendum to this Supplement explains the different Round 1 "repayment categories" that the various Round 1 Units fall into as the result of the problematic language contained in the original terms of the Round 1 Loan Agreement—and more specifically, as the result of DST's efforts to address that language through use of Corrective Amendments (in one form or another). The manner and extent to which the Round 1 Repayment Schedule applies to a given Round 1 Unit depends on which "repayment category" that Unit falls into, which in turn depends on that Unit's elections with respect to the Corrective Amendment, as well as the timing of that election, as further explained in the Addendum.



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### ADDENDUM

#### Round 1 Cashflow Repayment Categories

For purposes of this Addendum, capitalized terms have the same meaning as the capitalized terms used in the Compliance Supplement itself.

**CATEGORY 1: Units that accepted the original Round 1 Loan Agreement but declined to accept any form of Corrective Amendment to the Round 1 Loan Agreement.**

Units operating under the original, un-amended Round 1 Loan Agreement are technically bound to the repayment terms as written, meaning they are still subject to the provision stating that upon receiving separate funding from the federal government, the Unit must repay the equivalent amount of loan proceeds to the DST within five business days—notwithstanding the repayment schedule recited on page 1 of the Round 1 Loan Agreement.

**CATEGORY 2: Units operating under the Round 1 Loan Agreement as amended by the FEMA Public Assistance Expedited Project Funding amendment (the “FEMA EPF Amendment”).**

NCDST first learned that the repayment terms reflected in original Round 1 Loan Agreement may be problematic when certain Units began notifying NCDST that they were receiving FEMA Public Assistance Expedited Project Funding, which are “up-front” funds that FEMA provides to entities without regard to amounts already expended (a category of FEMA funding of which NCDST was previously unaware). Even though this type of FEMA funding is not provided as “reimbursement,” the original terms of the Round 1 Loan Agreement made no distinction between federal funding received as reimbursement and federal funding received on a non-reimbursement basis. So, the FEMA EPF Amendment was intended to relieve Units of the obligation to repay loan proceeds within five business days of receiving FEMA Public Assistance Expedited Project Funding, by specifying that the five-business-day repayment obligation only applies to funds that Units receive in the form of “reimbursement.” At the time, NCDST’s understanding was that all other types of federal assistance would be provided on a reimbursement basis, and that Units would not begin receiving those reimbursements until much later in time.

Even though NCDST would subsequently offer a more general, all-encompassing “alternative funding” amendment to the Units that executed the FEMA EPF Amendment (see below), not all Units that executed the FEMA EPF Amendment elected to execute the “alternative funding” amendment. To date, these Units are operating under the terms of the Round 1 Loan Agreement as amended by the FEMA EPF Amendment (and are the Units falling into “Category 2”).

**CATEGORY 3: Units operating under the Round 1 Loan Agreement *with modified terms* causing the Repayment Schedule recited on page 1 of the Round 1 Loan Agreement to take precedence over any repayment obligation otherwise triggered by a Unit’s receipt of Alternative Funding—and thus the primary “repayment obligation” applicable to these Units.**

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Category 3 can be further broken down into three subcategories, with each subcategory representing one of three mechanisms by which the Category 3 Recipients obtained the “Category 3” repayment terms described above. While these “mechanisms” differ contractually, they operate to create the same repayment terms across all three subcategories.

***Category 3(a): Units operating under the Round 1 Loan Agreement as amended by the more general, all-encompassing “alternative funding” amendment (the “Alternative Funding Amendment”).***

Shortly following execution of the FEMA EPF Amendment by a small group of units, DST began learning that other Units were beginning to receive actual FEMA reimbursement funds, which NCDST did not anticipate happening until much later in time, and which had the unintended effect of triggering the five-business-day repayment obligation under the Round 1 Loan Agreement—regardless of whether a unit receiving those funds was operating under the FEMA EPF Amendment, since the FEMA EPF Amendment only operated to address federal funding provided on a non-reimbursement basis.

Ultimately, in light of the new information NCDST was receiving from Units regarding the “federal reimbursement landscape,” NCDST determined that the repayment schedule recited on page 1 of the Round 1 Loan Agreement more closely aligns with the spirit of the Cashflow Loan Program than does a requirement to repay loan proceeds immediately following a Unit’s receipt of alternative funding. Put differently, in light of this new information, NCDST recognized that the five-business-day repayment requirement had the potential to defeat the very purpose of the Cashflow Loan Program (i.e., establishing a source of liquidity for Units in western North Carolina who are in need immediate cashflow to pursue disaster response activities in a meaningful way). So, the Alternative Funding Amendment essentially made the repayment schedule recited on page 1 of the Round 1 Loan Agreement the repayment schedule applicable to Units, by eliminating the five-business-day repayment requirement otherwise triggered upon a Unit’s receipt of alternative funding.

***Category 3(b): Units operating under the Round 1 Loan Agreement as amended by (i) the FEMA EPF Amendment, and (ii) the Alternative Funding Amendment.***

A small number of Units executed both the FEMA EPF Amendment and the Alternative Amendment, but the Alternative Funding Amendment is the common denominator. In other words, the terms applicable to Units operating under the Round 1 Loan Agreement as amended by both amendments should be the same as the terms applicable to Units operating under the Round 1 Loan Agreement as amended by the Alternative Funding Amendment alone.

***Category 3(c): Units operating under a more recent, “corrected” version of the Round 1 Loan Agreement (with no amendment).***

A small number of Units did not request their Round 1 funding until after NCDST had begun addressing the problematic language of the original Round 1 Loan

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Agreement by offering the Alternative Funding Amendment. So, with respect to those Units that entered the Round 1 Loan Agreement much later in time, NCDST was able simply to update Round 1 Loan Agreement used with those Units, eliminating the problematic language at the outset and avoiding the need for any form of Corrective Amendment.