



August 7, 2023



Certified Public Accountants & Consultants

Financial Results for the Year Ended June 30, 2022

Components of the Annual Comprehensive Financial Report (ACFR)



- Management's Discussion and Analysis
- Government-wide F/S
- Fund F/S
- Notes to the F/S
- Required supplemental financial data
- Other supplemental information
- Statistical data
- Compliance

CITY OF FAYETTEVILLE, NC

Types of Opinions



- Adverse
- Disclaim
- Qualified
- **Unmodified – “Clean” (Highest Level of Assurance)**

CITY OF FAYETTEVILLE, NC

General Fund Balance Presentation



Total Fund Balance - General Fund	\$ 95,165,893
Less:	
Nonspendable	
Inventories	105,670
Prepays	2,291,866
Leases	132,691
Restricted	
Stabilization by State Statute	42,146,935
For downtown	130,198
For county recreation	213,394
Economic and Community Development	8
Donations	25,355
Committed	
Law Enforcement Officer's Separation Allowance	8,530,243
Assigned	
Subsequent years expenditures	3,969,112
Specific purpose assignments	7,107,310
Capital funding plan	7,935,797
Unassigned	<u>22,577,314</u>
Working capital/fund balance policy	<u>18,472,293</u>
Remaining fund balance	<u>\$ 4,105,021</u>

Analysis of Debt of NC Municipalities As of June 30, 2022

(In thousands)



Municipalities (Population 100,000 and Over)	Legal Debt Limit (8% of Assessed Value)	Total Outstanding G.O.B and I.P Debt (Excluding Enterprise)	Outstanding Debt as a % of Legal Debt Limit
Cary	\$ 2,720,946	\$ 322,093	11.84%
Charlotte	12,088,238	1,660,174	13.73%
Concord	1,173,731	28,714	2.45%
Durham	3,105,699	241,594	7.78%
Fayetteville	1,154,709	53,479	4.63%
Greensboro	2,364,230	311,531	13.18%
High Point	826,518	115,250	13.94%
Raleigh	6,261,110	953,228	15.22%
Wilmington	1,714,911	164,161	9.57%
Wilmington	2,103,232	364,072	17.31%

Compliance Results for the Year Ended June 30, 2022

Reporting Requirements

- Government Auditing Standards
- Federal Single Audit Act / Uniform Guidance
- State Single Audit Implementation Act
- Passenger Facilities Charges

Major Programs Tested

- Major Federal Programs tested:
 - Coronavirus State and Local Fiscal Recovery Funds– Federal Assistance Listing #21.027
 - Emergency Rental Assistance- Federal Assistance Listing #21.023
 - Federal Transit Grant– Federal Assistance Listing #20.507/20.513
 - Airport Improvement Program- Federal Assistance Listing #20.106
 - Homeland Security Grant Program- Training- Federal Assistance Listing #97.083
- Major State Programs tested:
 - Nonstate System Street Aid Allocation (Powell Bill)
 - State Maintenance Assistance For Urban and Small Urban Program

- **Control Deficiency-** a control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis.
- **Significant Control Deficiency-** a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

- **Material Weakness-** a significant deficiency, or combination of significant deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis.

Government Auditing Standards- Report on Internal Control Over Financial Reporting and On Compliance and Other Matters (continued)



Finding: 2022-001: Material Compliance Violation and Material Weakness in Internal Control over Compliance- Timeliness of Audited Financial Statements Submission

Criteria: North Carolina General Statute 159-34 (NC G.S 159-34) requires the submission of the annual audit 4 months past the end of the fiscal year, with an extended due date at 5 months past the end of the fiscal year.

Condition and context: The June 30, 2022 financial statements were not submitted to the Local Government Commission until over 9 months past the original due date or 8 months past the extended due date.

Effect: The City has not complied with NC Statute G.S. 159-34.

Cause: High staff turnover and implementation of a new financial software package that resulted in significant delays in the ability accurately close the accounting period to prepare for audit.

Recommendation: We recommend the City hire sufficient staff in the Finance Department as well as complete more robust implementation testing prior to going live with a new software package to meet the financial reporting deadline outlined in NC G.S. 156-34

Government Auditing Standards- Report on Internal Control Over Financial Reporting and On Compliance and Other Matters (continued)



Finding: 2022-002: Material Weakness in Internal Control – FEMA Revenue and Receivable

Criteria: Revenue and corresponding receivable for non-exchange grant revenue transactions should only be recognized when all four revenue recognition criteria have been met.

Condition and context: The City recognized revenue from FEMA for Disaster Assistance in excess of amounts formally obligated by FEMA, which indicates an executed grant agreement is in place.

Effect: Restricted Intergovernmental revenues and accounts receivable were overstated by \$817,925 in the Federal & State Financial Assistance fund.

Cause: High staff turnover and a misunderstanding in the application of GASB GAAP as it relates to revenue recognition in non-exchange transactions.

Recommendation: We recommend the City hire sufficient staff in the Finance Department as well as adhere to GASB revenue recognition criteria when recording non-exchange grant revenue transactions.

Auditor's Required Communications- SAS AU-C-260



Area	Comments
Our Responsibilities With Regard to the Financial Statement Audit	Our responsibilities under auditing standards generally accepted in the United States of America, <i>Government Auditing Standards</i> issued by the Comptroller General of the United States, have been described to you in our arrangement letter dated April 19, 2022. Our audit of the financial statements does not relieve management or those charged with governance of their responsibilities, which are also described in that letter.
Overview of the Planned Scope and Timing of the Financial Statement Audit	We have issued a separate communication dated April 19, 2022 regarding the planned scope and timing of our audit and have discussed with you our identification of and planned audit response to significant risks of material misstatement.

Auditor's Required Communications- SAS AU-C-260



Area	Comments
Accounting Policies and Practices	<p>Preferability of Accounting Policies and Practices Under generally accepted accounting principles, in certain circumstances, management may select among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice.</p> <p>Adoption of, or Change in, Accounting Policies Management has the ultimate responsibility for the appropriateness of the accounting policies used by the City of Fayetteville. The City of Fayetteville adopted Government Accounting Standards Board (GASB) Statement No.87, Leases and Statement No. 96, Subscription-Based Information Technology Arrangements in current year. The adoption resulted in new right-to-use lease/subscription assets and lease/subscription liabilities being recorded on the Statement of Net Position in the current year.</p>

Auditor's Required Communications- SAS AU-C-260



Area	Comments
Accounting Policies and Practices (Continued)	Significant or Unusual Transactions We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus. Management's Judgments and Accounting Estimates Summary information about the process used by management in formulating particularly sensitive accounting estimates and about our conclusions regarding the reasonableness of those estimates is in the attached Summary of Significant Accounting Estimates.
Audit Adjustments	Audit adjustments made to the original trial balance presented to use are shown in the attached Summary of Recorded Audit Adjustments.
Uncorrected Misstatements	Uncorrected misstatements are summarized in the attached list of Uncorrected Misstatements.
Disagreements With Management	We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit or significant disclosures to be included in the financial statements.

Auditor's Required Communications- SAS AU-C-260



Area	Comments
Consultations With Other Accountants	We are aware that management contracted with another firm to assist in year-end close out in order to be ready for the June 30, 2022 audit.
Significant Issues Discussed With Management	No significant issues arising from the audit were discussed with or were the subject of correspondence with management.
Significant Difficulties Encountered in Performing the Audit	We did not encounter any significant difficulties in dealing with management during the audit.
Internal Control Matters	We have separately communicated deficiencies in internal control over financial reporting that we do not consider material weaknesses or significant deficiencies that we identified during our audit of the financial statements
Significant Written Communications Between Management and Our Firm	Copies of significant written communications between our firm and the management of the City of Fayetteville, including the representation letter provided to us by management, are attached as Exhibit B to the actual letter.

Auditor's Required Communications- SAS AU-C-260



The next several slides are titled “Performance Indicators” as defined by the Local Government Commission.

The North Carolina Local Government Commission (LGC) requires that certain key performance indicators be communicated to those charged with governance and these indicators will be shown on the next 6 slides. For the year ended June 30, 2022, the City had two performance indicators, for these the City Council will be responsible for responding directly to the LGC within 60 days of the formal presentation by the auditor to the City Council. These two indicators are marked “red” in the next 6 slides.

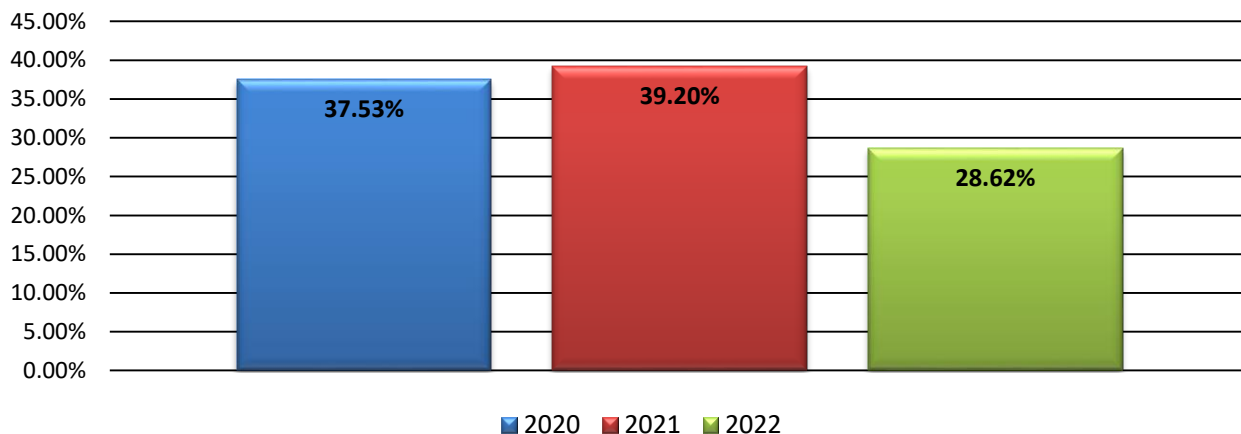
These performance indicators are derived from the Data Input form required to be submitted with the financial statements to the LGC.

Performance Indicators



General Fund

Fund Balance Available



Minimum Threshold	Unit Results
25% - Average of similar units is 46%	28.62%

Performance Indicators (continued)



General Fund	Minimum Threshold	Unit Results
There was appropriated fund balance for the General Fund in the 2022 budget AND your change in fund balance was negative. Please state if fund balance was used for operations or capital purposes.	Positive Change in Fund Balance	N/A
The General Fund had total fund balance less than zero - Fund Deficit	Positive Fund Balance	\$95,165,893

Performance Indicators (continued)



General Performance Indicators:	2022	Target	Unit Results
The 2022 Audit Report is expected to be submitted within 5 months plus one day from the fiscal year end per the auditor. (December 1 st for most units)	No	5 months plus one day after the fiscal year end	Late
The budgeted ad valorem tax (including motor vehicles) for the General Fund had more than 3% uncollected for the fiscal year audited. Decreases are shown by a negative percentage.	0.95%	Less than 3%	0.95%

Performance Indicators (continued)



General Performance Indicators:	2022	Target	Unit Results
<p>You indicated that you expect a decrease in property value for your next property revaluation. In your FPIC Response Letter please discuss the magnitude of the drop in valuation, the overall cause of the drop and how you plan to recover the lost revenues.</p>	No Change	Any estimated decrease	No Change
<p>Did your audit disclose as a finding any budget violations? (Yes or No)</p>	No	No over-expenditures	No

Performance Indicators (continued)



General Performance Indicators:	2022	Target	Unit Results
<p>If a unit has no performance indicators of concern that would require them to submit a Response to Audit Findings, Recommendations and Fiscal Matters, but they are currently on the Unit Assistance List, they must still submit an FPIC Response Letter. Their response should discuss the financial plan they have developed to address the issues that placed them on the Unit Assistance List and the progress they have made to date.</p>	<p>Unit is not on the Unit Assistance List at this time</p>		<p>Unit is not on the Unit Assistance List at this time</p>
<p>The Unit had material weaknesses, significant deficiencies, and/or statutory violations that should be addressed in the FPIC Response Letter.</p>	<p>Yes</p>		<p>Yes</p>
<p>The unit had a board-appointed finance officer the entire fiscal year.</p>	<p>Yes</p>		<p>Yes</p>

Performance Indicators (continued)



General Performance Indicators:	2022	Target	Unit Results
The unit had problems with debt service payments being late and/or did not comply with the bond covenants..	No		No
Electric transfers-out have exceeded the amounts described in GS 159B-39. If your unit is a member of the North Carolina Eastern Municipal Power Agency it appears you have violated the GS.	No		No
Are there additional issues the unit should address that affect the fiscal health or internal controls of the unit that were communicated to the unit during the audit presentation? Please include details of the issue in cell J44 to the right and in your FPIC Response.	No		No